

**LABOR ECONOMIC POLICY 1972-1974 : A POLITICAL APPRAISAL**

**A thesis about Social-Democracy and Australian Capitalism  
in the 1970s**

**by**

**MELANIE BERESFORD B.A. (HONS.)**

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I certify that this thesis contains no material which has been accepted for the award of any other degree at any University and that, to the best of my knowledge and belief, this thesis contains no material previously published or written by another person except where due reference is made in the text.

Melanie Beresford.

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## PREFACE

The aim of this thesis is to analyse the economic policy of the Australian Labor Party government from 1972-74, in the hope that this will shed light on the problem of the state in modern Australian capitalism. By looking at the crucial area of economic policy, the thesis will give support to the argument that the state in Australia, whatever the political complexion of those holding office, is in fact what Marx termed "a committee for managing the common affairs of the whole bourgeoisie".\*

Chapter 1 sets the stage for this by looking at the economic situation faced by the government upon its election to office in late 1972 and by drawing out the central concerns of Labor policy makers in this context. Secondly, this chapter attempts to make a coherent interpretation of the Labor economic strategy - the policies with which the government tried to stabilise the rate of inflation and stimulate renewed growth of the economy.

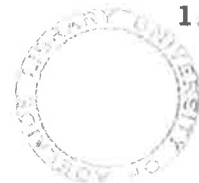
If any theme can be extracted from this strategy which differentiates it from the policies of the previous Liberal and Country Party coalition governments, this is in its approach to the problem of the relationship between productivity and economic growth. Chapter 2 differentiates between the approach of the previous government which relied on aggregative growth of output to stimulate productivity and thus real income per head, and the approach of certain important sections of the Labor Party which, commencing from the point of view that it is productivity which determines the level of output in the long run, advocated a more planned and selective method of allocating capital and labour.

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\* "Manifesto of the Communist Party" in K. Marx and F. Engels, Selected Works, (Moscow, Progress Publishers, 1970), p.37.

Chapters 3 and 4 are concerned with the policies implemented by the Labor government in relation to capital and labour. These policies are discussed in the context of capitalism in Australia in the 1970s and it is shown that rather than being 'socialist' policies, or policies aimed at the transformation of society, they were in fact a response to the demands of the capitalist economy in a developing crisis situation. Briefly, the strategy was to transfer resources out of the lower productivity areas of the economy to areas with high productivity levels and high growth potential. In so far as any elements of planning were involved these consisted of schemes to encourage this transfer, to compensate those adversely affected by it, and to stimulate growth by public expenditure in high productivity industries. The government's commitment to the 'mixed economy' and its aim to 'make market forces work better' were clearly stated. But the strategy failed, largely because of the failure of significant growth sectors to appear in the context of deepening world recession after mid 1974 and working class opposition to the rising rate of unemployment and calls for wage restraint. The failure of government policy is thus seen as a result of the deepening crisis of capitalism and its inability to be resolved by intervention within the framework of orthodox economic theory.

A more analytical explanation of the nature of the crisis and the Labor government's role in it, is provided in Chapter 5. The fault in the theoretical underpinnings of Labor policy lies in its failure to comprehend the 'social relations of production' under capitalism, and it will be shown in this chapter how this affects the understanding of the role of the State in capitalist societies. Finally, some recent literature on the ALP will be reviewed in the light of these conclusions. The "Technocratic Labor" thesis will be examined and, in spite of several important faults, it will be argued that the conclusion that the ALP is incapable of introducing socialism is basically correct.



## CHAPTER 1

### LABOR ECONOMIC POLICY 1972-74 : AN OVERVIEW

The long boom of the period after the second World War succeeded in convincing many people that capitalist crises of the severity experienced in the 1930's were no longer a serious threat to social stability. Economists argued that although the trade cycle was an immanent feature of capitalist economies, the violence of its fluctuations could be moderated, if not eliminated, by 'fine tuning' techniques, by the sharpening of economists' tools. In the early 1970's, however, policy makers in Australia, as in other advanced capitalist countries, were beset by problems of simultaneous inflation and recession which showed early signs of developing into a crisis of possibly the same magnitude as the Great Depression.

The Australian Labor Party's accession to office in December 1972 occurred at a time when the build up of inflationary pressures, both in the international and the domestic economies, was beginning to reach serious proportions. The average post-War rate of inflation in Australia had been one of the lowest in the world, but it had climbed from approximately 2-3 per cent per annum in 1968/69 to about 6-7 per cent in 1971/72<sup>1</sup> and was later to overtake inflationary acceleration in most other advanced capitalist countries to become one of the highest in the world.<sup>2</sup> At the same time, a significant downturn in 1971 of the rates of growth of several capitalist economies (particularly Japan) threatened to have important consequences for the rate of growth of the domestic Australian economy should the recession deepen. In addition, the Labor Party's

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1. Organisation for Economic Cooperation and Development (OECD), Australia, Economic Surveys, December, 1972, p.43, Table 18.
  2. National Economic Program 1975, Liberal-Country Party, (Feb. 1975).

electoral commitment to policies in the areas of health, welfare and education, but also in several other crucial areas of economic policy, entailed greatly increased public expenditure. Labor leaders argued that

Our program, particularly in education, welfare, hospitals and cities, can only work successfully within a framework of strong uninterrupted growth. 3

Yet the OECD had reported, in December 1972, that the Australian per capita growth rate lagged behind that of most other advanced capitalist economies.<sup>4</sup> Policies designed to stimulate renewed growth were therefore essential.

This thesis is about the response of the Labor government to the economic situation and social pressures which it faced upon accession to office. The election of the Labor Party was itself largely a response to the economic crisis.<sup>5</sup> The thesis will pursue the argument that the Labor Party, by contrast with the Liberal-Country Party coalition, initially responded to the situation with a fairly coherent strategy which laid particular emphasis upon the problem of increasing the productivity

3. Election speech by E.G. Whitlam, The Age, 14/11/72. See also speech by F. Crean to the Ministerial Council of the OECD on 7/6/73: "A better human environment is part, and perhaps the most important part of economic growth. A simple accumulation of material goods conflicting with environmental quality is already something which people themselves see quite clearly as unacceptable, they see it as much too narrow an interpretation of economic progress. However, a continuing increase in our capacity to produce and a continuing advance in technology are essential to our being able to build the sort of environment we want." Australian Foreign Affairs Record, vol.44, no.6, (June 1973), p.418; see also C. Hurford: "I make no apologies for the fact that the ALP is pledged to aim for economic growth. Only in this way can we achieve that 'bringing something better to the people' ... in economic and materialist terms without being negative and merely confiscating from one section to give to another", in J. McLaren (ed.) Towards a New Australia, (Melbourne, Cheshire, 1972), p.43.
4. See below p.8
5. As in many other capitalist countries, a resurgence of working class industrial activity occurred as inflation accelerated, thus making the integration of that class into the system (in such a way as to prevent it from seizing political initiative from the situation) a problem of renewed importance. Social-Democratic and Labor Party type governments, because of their hegemony of the organised labour movement, would appear to be best suited to carry out such a strategy.

of industry. Achievement of this program was to be realised through indicative planning,<sup>6</sup> the reallocation of capital and resources towards more economically efficient uses, manpower policies designed to mobilise labour more efficiently and, especially, the encouragement of technological progress in the manufacturing sector.

## I THE ECONOMIC SITUATION IN 1972

### World Inflation

The post-World War II international economy, up to the breakdown of the Bretton Woods agreement, was characterised, according to Warren, by

Trade liberalization, (relatively) fixed exchange rates, international payments deficit financing and high demand levels corresponding to high employment [which] brought about an even more rapid expansion of trade flows than of domestic products after 1945. 7

Throughout the 1960's, however, the consequences of this were that an international liquidity crisis began to accumulate depth. Chronic U.S. balance of payments deficits since the late 1950s had led to a situation where American liabilities abroad exceeded its assets. This was exacerbated in the 1965-71 period by American financing of the Vietnam War.

The Smithsonian Agreement of 1971 set a new level of exchange rates which would "hopefully, in time, effect a marked reversal in the payments position of the U.S.A."<sup>8</sup> Other measures, such as a ten per cent

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6. Indicative planning has been defined as "the establishment of major objectives of economic policy and their relative priorities, followed by their translation into a complex of explicit and consistent quantitative targets, coefficients of investment effectiveness and estimates of national economic cost ... for exploring, in systematic fashion, the range of possible economic policies and strategies ... that the government and the private sector may simultaneously wish to pursue". B. McFarlane, Economic Policy in Australia, (Melbourne, Cheshire, 1968), p.83. In other words, the setting of government targets without any compulsion attached.
  7. Bill Warren, "Capitalist Planning and the State", New Left Review, no. 72, (March-April, 1972), p.4.
  8. Moscow Narodny Bank, Quarterly Review, vol.XV, no.2, 1974, p.3.



import surcharge, were introduced by the American Government in an effort to stimulate exports and redress the balance against imports. But these measures were not successful<sup>9</sup> and in June and July 1972 West Germany, Japan, the Netherlands and Switzerland were forced to implement exchange controls in order to counter unwanted inflows of American dollars. In Australia in 1971 and 1972 there had been net capital inflows of \$1,470 million and \$1,858 million respectively<sup>10</sup> and the McMahon government had introduced some measures, which were later to be taken up and expanded by the Labor government, to stem the tide.<sup>11</sup> Much of this inflow consisted of "volatile portfolio and loan capital attracted mainly by easier credit terms abroad and by speculation on an appreciation of the Australian dollar".<sup>12</sup> At the time that the A.L.P. assumed office, these greatly increased capital inflows had undoubtedly contributed to the inflationary pressures on the economy by contributing to the increased money supply.

In addition, the effects of world inflation were felt in Australia through the medium of import and export prices. Import prices contribute to domestic price rises directly. Rising export prices affect domestic inflation in two ways: firstly through the increased demand caused by rising incomes of farmers and other major exporters and, secondly because higher prices abroad for Australian commodities can lead to greater quantities of production being exported and consequent scarcity and rising prices in the domestic market.

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9. *Ibid.*, pp.3-4.

10. *OECD Economic Surveys, Australia*, April 1974, p.72. Compare this with figures for surrounding years:

Year:	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
\$Am.:	508	490	947	537	1222	1174	797	1470	1858	305

11. For example, the establishment of the Foreign Takeovers Committee, the embargo on overseas borrowing, and the encouragement of portfolio investment overseas by Australians.

12. *OECD, Australia*, 1972, p.60.

### Domestic Inflation

Throughout the 1950's and 1960's economic growth in Australia proceeded and was encouraged according to the principle that the rate of growth of productivity (output per head) and hence a rising real standard of living for the population at large was a function of the overall growth of GNP.<sup>13</sup> Thus the growth and diversification of industry was aided and abetted through the use of tariff protection, bounties and subsidies, investment incentives (e.g. by tax concessions) and other ad hoc measures.<sup>14</sup> This was done in the belief that any economic growth was better than none.

By the 1970's, however, it was increasingly felt in official circles that this way of proceeding was aggravating inflationary tendencies in the economy by encouraging industries with relatively high wage rates and inefficient use of resources. This resulted in high overall cost structure, caused prices to be higher than they would otherwise have been and threatened Australia's international balance of trade.

Although the overall rate of growth of the Australian economy was high and the investment ratio one of the highest among OECD member countries,<sup>15</sup> there was at the same time a comparatively low rate of per capita growth. Explanations for the effect of this lack of productivity growth on the rate of inflation can be sought in several factors.

Firstly, the type of productivity and growth policies of the Liberal-Country Party governments were based largely on increasing output by increasing the level of employment. This entailed, in the absence of

13. The economic principle embodied here is commonly known as the Verdoorn Law.

14. See for example, Industries Assistance Commission (IAC), Annual Report 1973-74, (Canberra, AGPS, 1974) pp.3-13 where the diversity and ad hoc nature of government assistance to industry is outlined in detail.

15. OECD, Australia, 1972, pp.22-23.

any surplus population (Marx's "reserve army of labour") to draw upon, a fairly large immigration program, which in turn involved a high level of expenditure on 'capital-widening' investment as well as infrastructural capital (housing, schools, etc.) in order to maintain the standard of living of the expanded population. By thus diverting expenditure from 'capital deepening' investment which might increase productivity, immigration is thought to have contributed to the high cost structure of Australian industry.<sup>16</sup>

Secondly, the Liberal-Country Party's emphasis on decentralisation and Northern Development (which were pushed partly for growth reasons, partly defence thinking) led to the bringing into production of resources which, because of their distance from markets and the necessity of offering high wages in order to attract labour, came to be regarded as 'economically inefficient'. The Ord River Scheme is a good example of government policy of this nature; i.e., where a huge investment outlay has resulted in a negative or relatively low return on capital.

Thirdly, the tariff protection afforded to many industries in the manufacturing sector succeeded in sheltering them from the vicissitudes of international trade to such an extent that they were able to raise prices and wages higher than would otherwise have been the case. These industries too were able to bring into use expensive resources and equipment which rendered them economically inefficient, in terms of international competition, and raised prices in the domestic market. A similar point could be made about many of the industries which depended upon other forms of government assistance (e.g. subsidies, price support systems, grants, special depreciation rates) for their survival.<sup>17</sup>

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16. Ibid., p.38. It is also pointed out here that there are several offsetting tendencies: for example, technical progress is likely to be 'embodied' in capital-widening investment, economies of scale may become available, and there may be increased mobility of labour resulting from immigration.

17. The IAC, op.cit., argues that "the industries which have the largest comparative disadvantage, relative to industries overseas, tend to have received the highest levels of assistance." p.11.

Fourthly, the increasing cost of maintaining and expanding the state sector of the economy, in face of the labour-intensive nature of services like education, health and welfare and the ad hoc, overlapping and unco-ordinated nature of government aid to industry and the rural sector<sup>18</sup> were important factors in exacerbating inflation. The OECD Report on the Australian economy (April 1974) shows that

the rate of increase in the cost of providing public services in Australia has outstripped that for most other sectors over the period 1959/60-1965/66. While average annual deflators for total GDP amounted to 2.5 per cent, the cost of providing public services increased by 5.5 per cent, or at over twice the rate. 19

This higher cost structure of public services is attributed to the relatively labour-intensive nature of "service" industries.<sup>20</sup> Moreover, wages and salaries in the public sector were higher than in the private sector.<sup>21</sup> It is also likely that these higher wages and salaries paid to public servants acted as a pacesetter for wages and salaries in the private sector.<sup>22</sup>

### Growth

The OECD Report on the Australian economy, issued in December 1972, made the following observations on the Australian rate of growth:

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18. Ibid., p.3, "the fact that the [Tariff] Board has been conducting unrelated inquiries into particular areas of industry has contributed to the present overall structure of protection being fortuitous and, in some areas, anomalous."
  19. OECD, Australia, 1974, p.35.
  20. Ibid., pp.35-36. The category of 'wages, salaries and supplements' is said to account for 75.3 per cent of the costs of health, education and welfare services, and 58.1 per cent of public administration and defence, and all 'public services' have 66.3 per cent of their costs in this category.
  21. Ibid., p.36.
  22. The Liberal and Country Parties complain that this pace-setter effect is one of the major causes of the economic crisis. National Economic Program 1975, p.4.

- (1) "In contrast to the experience of the majority of the other [OECD] countries...Australia's rate of growth continued to accelerate in the second half of the 1960's...it was exceeded during 1965-70 only by Japan, Italy and France." 23
- (2) "On a per capita basis, Australia's performance appears much less impressive. Its growth rate for the whole period was well below the OECD average and barely above that of the slowest growing countries. The high growth rate of total real GDP was thus more a reflection of relatively rapid growth of population rather than of output per head." 24
- (3) "Throughout the period 1950-1970 Australia had one of the highest investment ratios of all OECD countries. ... Much of the capital becoming available has been required to meet the needs of the rapidly growing population for housing and other social infrastructure and to equip the growing workforce, leaving less for productivity-raising deepening investment." 25

But the report goes on to point out that this is insufficient explanation for a low return on investment, since one would expect much of the new capital equipment to embody technological progress and increase productivity. Other major reasons are therefore presumed to be firstly, a lack of ability to take advantage of economies of scale because of the high cost of transport and the effect of tariffs in the manufacturing sector and, secondly, that the relative decline in the share of agriculture tended, because agricultural productivity was already high, to reduce productivity in that sector (rather than raise it as was the case in other OECD countries). Australia, it is argued, benefitted little from structural factors affecting the rate of growth.<sup>26</sup>

Less significant factors, but nevertheless entering into the consideration of the OECD Report, were a relatively low level of expenditure on research and development, a relatively high incidence of restrictive

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23. OECD, Australia, 1972, p.22.

24. loc.cit..

25. Ibid., p.23.

26. Ibid., p.25.

trade practices inhibiting technical progress and an additional factor:

Australians, though no more consistent in their demands on life than other people, have for long leaned towards the view which has recently found increasing favour also in other countries that economic growth is not everything. 27

At the time of the Labor Party's election, there was therefore some official concern about the per capita rate of growth of the Australian economy and the rate of productivity increase. Such a view was especially of concern to the ALP since a vocal part of its electoral support was drawn from the anti-growth ecology and conservation movements.

If at this time there had been some dissatisfaction with the per capita rate of growth, in the economic situation from 1971-75, there was cause for concern over the rate of growth of the economy as a whole. In 1971, during a world wide recession, the Japanese growth rate slackened from an average annual rate of 11.3 per cent for the period 1966-71 to 6.3 per cent in 1971.<sup>28</sup> Similarly, the annual growth rate in Australia fell from five percent to three percent for the same periods.<sup>29</sup> If the recession were to deepen then there was considerable cause for concern on the part of a Labor government committed to large social service programs which it expected to pay for from increased income and tax revenues generated by economic growth. In fact by late 1974 the growth rates for OECD member countries had fallen much lower than the 1971 levels.<sup>30</sup>

The falling-off in the Japanese growth-rate was of particular concern to an Australian government because a large portion of the increased growth rate of the Australian economy in the 1960's was due to the mineral boom - the rapid expansion of mineral exports after the lifting

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27. Ibid., p.28.

28. OECD, Australia, 1974, Table following p.73.

29. Loc.cit.

30. National Economic Program 1975 of the Liberal and Country Parties, p.35.

of the strategic materials export embargo and opening up of the West Australian iron ore reserves. Since most of these exports were to the Japanese industrial centres, their value was adversely affected by the slowing down of the Japanese growth rate.<sup>31</sup>

## II ECONOMIC STRATEGY

There were, as we have seen, two fundamental economic problems facing the ALP government upon assumption of office - firstly, the inflationary pressures which had built up throughout most of the post-Second World War period had begun to assume intolerable proportions and, secondly, the disappointment over Australian performance in the area of growth was of particular concern to a government electorally committed to the implementation of new and costly social services programs.

Several methods presented themselves in 1973 - all tried before by other governments of advanced capitalist nations - for dealing with the first of these problems: inflation. Most European countries and the United States had, for example, implemented "managed recession" policies in the post-War period, and most had also tried wages and prices policies.<sup>32</sup> Some countries, notably Sweden, had concentrated from the mid-1960's on the question of productivity increases and the beneficial effects of these in reducing or containing inflation.<sup>33</sup>

All three types of policies recognised that the only way in which an individual nation state could ameliorate inflationary pressures was to lower costs - and this, in practical terms, meant wages. Inflation is

31. There was a slowing down of the rate of growth of mineral exports in 1970/71 - 1971/72, although the effects of this on the balance of payments were offset by a rise in manufactured exports. OECD, Australia, 1972, pp.50-51.

32. Warren, op.cit., pp.4-5.

33. See E. Lundberg, "Productivity and Structural Change - A Policy Issue in Sweden", Economic Journal, (March 1972) Supplement.

not caused by wage and other cost increases. These are merely the manifestations of inflationary processes, the cause of which lie deeper in the capitalist production process. But higher raw materials costs and higher wage demands by workers are the medium through which capitalists experience the effect of inflation on their rate of profit. It is therefore natural that they should see that the one way in which they are able to restore their profit margin is through trying to prevent increases in the only costs over which they exercise some control - wages.

The "managed recession", which involved the implementation of policies designed to reduce demand, thereby creating production cut-backs, unemployment and lower wages, had previously been tried and found wanting in most parts of the world (although this is not to suggest that it had been abandoned entirely as an anti-inflationary weapon). The reasons for this were several. Firstly, the experience of the Depression of the 1930's had led to extreme reluctance on the part of the working class in Europe and in Australia to accept policies which created unemployment. Trade union opposition to such policies has therefore been strong wherever trade unions are strong. Secondly, post-War experience had shown that there is no necessary relationship between unemployment and falling wages. On the contrary, throughout the 1960's wage increases continued to accelerate in spite of rising unemployment levels.<sup>34</sup>

Some other problems were associated with the "managed recession" which added to its unsatisfactory nature. These were the effects on productivity of demand-reduction policies and the effects of increased government expenditure (unemployment benefits and other social welfare expenses). In the former case, O'Connor argues,<sup>35</sup> the effect of deflationary policies is to create underutilization of capacity, raising unit costs and thus reducing productivity and increasing inflation. This effect has also been noted by Warren.<sup>36</sup> Its size, however, does depend

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34. James O'Connor, The Fiscal Crisis of the State, (New York, St. Martins Press, 1973), p.48.

35. Loc.cit.

36. Warren. op.cit... p.4.



upon the effectivity of the labour employed in the first instance. If considerable underemployment had existed in an industry prior to the impact of deflationary policies, then the effect might be to increase productivity.

In the case of increased government expenditure, O'Connor argues that the effect of deflationary policies is to increase the demand for government expenditure at the very time when reduced profits and wages have shrunk the tax base of society and decreased the government's ability to pay without resorting to further inflationary currency issue. Against this it could be argued that the government expenses will at least partly pay for themselves since the multiplier effect of income subsidies will cause an upturn of the economy. Either way, the policy is uncertain to produce the 'desired' effect, although the size of the recession produced will depend on the size of the multiplier.

A variation of the "managed recession" response to inflation can be seen in the National Economic Program 1975 of the joint Australian Liberal and Country Parties, published in February 1975. The main thrust of this plan is towards a relative reduction in government expenditure as the chief means of resolving the problem of inflation. The premise underlying this policy is the notion that there is a limited national cake divided into private and public sector. Expenditure in the public sector is viewed as a compensatory alternative to expenditure by the private sector. In the words of the Liberal-Country Party document:

The total economy cannot expand at a sufficient rate to accommodate the necessary resurgence in private sector activity and the Labor Government's proposed growth in the public sector.<sup>37</sup>

There is no recognition here of the multiplier effect of government expenditure, or of the role of government in socialising losses which the private sector cannot sustain, or of its role in socialising the costs of,

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37. National Economic Program 1975, p.24.

for example infrastructural construction programs which might enable business to take advantage of economies of scale, or of its role in socialising the costs of maintaining and reproducing the workforce by, e.g., taking over the function of education and vocational training which relieves the pressure on profits in the private sector. Nor is there any mention of the essential role of state expenditure in the maintenance of social harmony (for example, the payment of unemployment benefits and other welfare payments have an important function in curbing unrest during crisis periods). In other words, the strategy of reviving the private sector by reducing government expenditure suffers from a basic misconception of the role of government economic intervention. This leads the Liberal Party statement to advocate, in rather simplistic terms, what amounts to the deflation of the economy as a means of combatting inflation and recession simultaneously. But it is precisely increasing government expenditure which has been used since the Great Depression in order to revive an ailing private sector; and it is deflationary policy which has proven so unsatisfactory in recent years in overcoming inflation.

Moreover, the means by which the Liberal-Country Party document proposes to stimulate the private sector production (i.e. moderation of wage and salary demands through the establishment of guidelines, the re-establishment of investment incentives through taxation concessions, the disestablishment of the Prices Justification Tribunal, abandonment of the "present Government's announced plans to increase private company tax rates", abandonment of all notions of capital gains tax), amount to a reversion to the very type of aggregative economic policy which, as has been seen already, had contributed to the lack of a satisfactory per capita growth rate and hence to the inflationary tendencies in the latter half of the 1960's.

As the fallibility of the "managed recession" as an anti-inflationary weapon became apparent, governments were forced to turn to

more direct methods of holding costs down and, in most industrialised countries, these initially took the form of prices and incomes policies. These policies too proved to be unsatisfactory for dealing with inflation. Once more strong trade union resistance prevented their effective implementation because unionists felt that wages policies presented a threat to their share of the national income.

The third alternative open to capitalist states is to intervene in the economy in such a way as to encourage increasing productivity, i.e. greater output per man.<sup>38</sup> This type of policy has the great advantage as far as capitalists are concerned of not attacking wages directly, and hence avoids the problems encountered by the measures outlined above. It does, however, involve a degree of planning on the part of governments and in this context it is interesting to note that in nearly all cases, when it has become necessary to introduce this sort of policy approach, social-democratic or Labor Party governments have been elected to do the job. Such parties have undoubted advantages over conservative parties in this area. Because of their working class following they can be expected more easily to win the co-operation of trade unions, although their actual success in such matters is varied. Secondly, social-democratic parties are more ideologically prepared for a dirigiste role in government. Thirdly, in times of crisis, conflicts arise between different sectors of capital. Unlike the Liberal and Country Parties,

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38. See for example, F. Gruen: "I cannot see award restraint leading to any reduction in the real wage in the present recessionary period. I think the best we can hope for is to hold the rate of wage increases at par or perhaps one per cent above the increase in the Consumer Price Index. This would still allow some pretty substantial improvements in profits without real wages falling - because I think we can expect substantial productivity increases once output starts rising against a background of less rapidly rising employment" The National Times, April 14-19, 1975 p.11.

the ALP is not tied directly to any of the sectional interests among these factions and may, consequently, be better suited to arbitrate between them and to preside over the introduction of policies which would benefit the class as a whole.

In the Australian context, the problem of the rate of growth is linked by many economists and government advisers to the problem of productivity and hence is also linked with the problem of inflation. As shown earlier, inflation eventually begins to make serious erosions of the profit rate. High interest rates lower the availability of credit and force cut backs in production and pressure by trade unions to maintain real wage levels combined with the pressure of domestic and international competition to keep prices low tends to squeeze profits and slow down the rate of new investments. This eventually forces the capitalist economy into recession and lowers the growth rate, as was already happening in 1971 in several capitalist countries, notably Japan. With the prospects of deepening world recession the problem of growth in the Australian economy became especially important. In order to be able to pay for the ambitious health, superannuation and compensation schemes, the higher pension and other benefit rates, the greatly expanded tertiary education system, the regional development and community welfare programs to which it was electorally committed, the Government needed to stimulate the rate of growth. But it was no longer the case that growth could be expected to take off by the application of the kind of aggregative and ad hoc expansionary measures which had been employed by governments throughout the post-War period. It was precisely this kind of unplanned development which had aggravated the inflationary pressures on the economy to such a great extent in the first place.

There were some sectors of manufacturing industry which were at the root of the trouble. These were the labour-intensive industries, the plants using old technological processes. In these sectors the high

labour costs per unit of output combined with inflation and the pressure of international competition were squeezing profits and causing the rate of growth to slacken. In order to provide a stronger base upon which renewed economic growth could take place, the Labor government proposed to eliminate these weak sectors by selective measures designed to close down the economically inefficient plants and to promote increased productivity in those sectors where Australia's greatest advantages lay; i.e., those sectors which utilize the resources and skills of which Australia has the greatest endowment or the greatest relative cost advantage.<sup>39</sup>

The remainder of this chapter will be devoted to the discussion of attempts by the Labor government in Australia to stimulate the rate of growth and ameliorate inflation by introducing policies based upon the "productivity principle".<sup>40</sup>

#### Rationalisation of the Capital Stock

In order to increase the overall productivity of industry and yet avoid a rapid increase in new investment which is inflationary, a re-allocation of capital and resources from areas of low productivity to areas of high productivity is necessary. As shown above, one of the chief causes of the comparatively low rate of productivity increases in Australia has been the protection afforded to industry by the tariff:

the greatest assistance has been given to those industries for which the Australian environment

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39. See for example, IAC, Annual Report 1973-74, p.18.

40. It is important to note, however, that domination of government policy by this principle in no way precludes the introduction of other types of measures. Indeed government policy has actually been a mixture of all three - traditional Keynesian deflationary (and expansionary) measures, attempted prices and incomes policies plus measures designed to raise productivity. There has been some conflict, within the government itself, over what is the most appropriate type of policy.

and endowment of resources are least suited. These industries tend to be labour intensive and to have relatively low output per worker.<sup>41</sup>

In the opinion of the Industries Assistance Commission then, and if the government's objective of improving "the efficiency with which the community's productive resources are used"<sup>42</sup> is to be effected, the aim of economic policy must be the movement of resources into areas and activities which require only low levels of assistance or none at all. This view was already expressed by the Tariff Board (predecessor to the IAC) in its 1966-67 report:

tariff pressures on existing high cost industries should induce a more economic and efficient use of production resources currently employed in these areas.<sup>43</sup>

However, the Labor government was, in general, in favour of selective means of achieving its aims. Cairns wrote, in 1972

we will not support the proposition that merely because a tariff is more than 50 per cent it is excessive. The ALP will not accept general approaches of this kind. No 'across the board' changes are acceptable. We want to know the facts and we will judge every industry on its merits.<sup>44</sup>

In other areas of industry and agriculture too, many of the recommendations of the Coombs Report<sup>45</sup> to reduce government expenditure on assistance to industries which failed to show a satisfactory rate of return on investment were implemented in the early days of the government.

The major role of government instrumentalities such as the

41. IAC, Annual Report 1973-74, p.16.

42. Ibid., p.2 cites Industries Assistance Commission Act, Sect. 22 (1).

43. Paragraph 79, cited in IAC Annual Report 1973-74, p.11

44. J. McLaren (ed.), Towards A New Australia, (Melbourne, Cheshire, 1972) p.91. In fact 'across the board' tariff cuts were made in 1973, but as part of a short-term anti-inflationary strategy to which Cairns only reluctantly agreed.

45. Review of the Continuing Expenditure Policies of the Previous Government, June 1973. Report of the Task Force appointed by the Prime Minister. (Canberra; AGPS, 1973).

Australian Industries Development Corporation (AIDC)<sup>46</sup> is not to 'buy back the farm' as is popularly believed, but rather to co-ordinate the control of Australian industry and resources and to reconcile the interests of the government and the private sector. Sir Alan Westerman, director of the AIDC, has, for example, set out the conditions under which foreign investment will be welcome in the country:

- (a) if an overseas company genuinely wants a reasonable return from a resource development into which it has put much investment at risk,
- (b) if the company is looking for a secure source of raw materials,
- (c) where the company wants to employ its special technical and management expertise for a reasonable recompense.<sup>47</sup>

Westerman indicated that a high degree of Australian control of these industries is desirable, but was not prepared to interfere with foreign owned companies' rights to repatriate their profits. The most important point, however, concerns the active encouragement by the government of foreign investment where it is technologically progressive or will otherwise contribute to increased productivity of Australian resources and industry. This emphasis is born out by the statements of various ministers including, for example, J.F. Cairns:

Foreign capital which merely takes over what is in operation can hardly expect to be welcome; yet it has real value if it advances technology, increases scale or provides new markets...<sup>48</sup>

Organisations such as the AIDC, the Petroleum and Minerals Authority

- 46. Although established by the Liberal-Country Party government, it was expanded and promoted in importance by the Labor Government.
- 47. Australian Financial Review, 16/8/73.
- 48. Speech to Australian Industries Development Association, 9/7/73 Australian Government Digest, vol. 1, no. 3 (1973) p.1198. See also F. Crean's speech to the British Trade Association 16/4/73: "Overseas investment has not only augmented our national savings but it has brought with it new technology, skills and managerial 'know-how'." Australian Government Digest, vol. 1, no. 2, p.809. And R.F.X. Connor's speech to Parliament on 7/8/74: "We are not unmindful of the contributions of overseas companies by development in particular cases, by the provision of capital, technology and commercial opportunities". The Australian, 8/8/74.

and the Government Purchasing Commission were specifically set up to influence the business sector so that economic development would in future follow guidelines set down by the government. The Industries Assistance Commission is one of the most important of these public authorities since it is vested with the responsibility of advice on overall planning of the capital rationalisation process.<sup>49</sup>

Finally, to complete the picture of capital stock rationalisation, the government aimed to encourage Australian capitalists to invest overseas. Other countries already export their lower productivity (labour-intensive) industries to the South East Asian region where labour is comparatively cheap. Such a policy, which has recently been advocated by Neil McInnes,<sup>50</sup> has also been endorsed by Cairns. Perhaps the best statement of what the government hopes to achieve by these policies is contained in the latter's remarks on the future of the vehicle industry:

It's possible that there will be arrangements reached between a couple of producers and the Government out of this that will produce a more economic arrangement, that will produce a situation where certain things are made in Australia and will be exported to the area and things will come from the area into Australia. I think this can come about as a result of the entry of one or more Japanese producers into Australia and this would be consistent with the restructuring, with the development of an automotive industry that would be (a) more economic and, (b) operating more rationally in the region.<sup>51</sup>

Although this particular statement concerns the future of an industry which is at present controlled by foreign interests, it nevertheless

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49. E.G. Whitlam argued that one of the major reasons "why the Commission can contribute to a better use of the nation's resources stems from its status as an independent statutory authority. The Commission will be able to develop and pursue a long term program of inquiries, free from day to day political pressures." IAC, Annual Report 1973-74, p.2.
50. Australian Institute of Political Science, Big Business in Australia (Sydney, Angus and Robertson, 1971), pp.79-80.
51. Monday Conference, Transcript (Australian Broadcasting Commission, 24/2/75), pp.6-7.



conveys the meaning of the government's intentions for Australian based investment in the region. Also enshrined in the policy is the notion that Australia should become technologically independent in order to escape the vulnerability of its position in the world economic network.<sup>52</sup> However, this presumes a technologically determinist framework which leads to the erroneous view that technological independence equals economic independence. The most modern technological advance in steel making, the liquid oxygen converter method, was first developed in Austria, but this is by no means evidence of Austrian leadership in the steel industry.

### Science Policy

Science policy has assumed greater importance under the ALP Government than under previous regimes because it is fully integrated into the program of 'rationalisation' of capital and labour:

... economic growth is still of great importance. What I would call quality economic growth - economic growth that will bring about a radical improvement in the quality of our social life - is still of little less importance than when three-quarters of our people lived in poverty. The policy of the Australian Labor Party...is to bring about quality economic growth in Australia. This involves the application of modern scientific and technological discoveries to everyday production. 53

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52. See for example, Cairns' speech to the South Australian Division of the Australian Institute of Export, 15/6/73: "Australia must become an investor abroad to play a fuller role in its geographic area and to build on its assets - its skilled population and its natural resources. Mr. Carnegie [managing director of Conzinc Riotinto of Australia] provided four main reasons for investing overseas:

- \* to secure markets for processed products
- \* to provide a larger base on which to build Australian technology and management skills
- \* to strengthen Australia's political position in the Pacific Basin
- \* to enable Australian companies to gain a better perspective of the world.

I agree with all these reasons..." Australian Government Digest, vol. 1, no. 2, p.668.

53. Australian Government Digest, vol. 1, no. 3, p.1083.

The federal platform of the ALP states that "Science is not a compartment separate from other aspects of life" and

recognises that science policies must be conceived in the broadest sense, including a close relationship between technological opportunities and social goals, each being considered in the light of the other.<sup>54</sup>

It goes on to list the objectives of a science policy constructed along these lines: to promote high technology industries, to protect science based industries, to co-ordinate the effect on high technology industries of the activities of government as consumer and financier, to promote research into scientific and technical manpower requirements, to encourage research in Australia using the resources of the multinational corporations. In particular, science policy is to be concerned with the achievement of government objectives in the reallocation and greater productivity of capital and resources. For example, research is to be promoted into areas where Australia is deemed to have the greatest natural advantages; e.g. in the fields of oceanography, solar energy, earth sciences. Other fields of research to be encouraged concern transport, regional settlement, environmental problems and the problem of the production and distribution of energy.<sup>55</sup> In other words science policy is no longer to be confined to a narrow specialist department, but is to involve interdisciplinary studies<sup>56</sup> and come under the umbrella of several government departments.

### Labour

Manpower policies are designed to assist in the reallocation of labour from the pockets of unemployment created by the closing down of

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54. Australian Labor Party, Platform Constitution and Rules, (1973) p.17.

55. Ibid., pp.18-19.

56. E.g., the Botany Bay Environmental Study. The previous government's Advisory Council on Science and Technology has been replaced by the Science Council with wider membership (including social scientists). The CSIRO has also been instructed to encourage more interdisciplinary research.

plants in the capital rationalisation process to the high productivity sectors of the economy. Cameron made the following statement about the purpose of his Regional Employment Development and National Employment and Training (RED and NEAT) schemes in March 1973:

Where tariff changes cause displacement, we will be there to retrain the displaced worker. Where technological change makes a skill obsolescent, we will be there to teach another skill. Where a mine closes or an inefficient port is shut, we will be there to advise on employment elsewhere and to offer relocation assistance. Ultimately, all our programs come down to one thing. We will facilitate desirable change. We will not allow a single person to be needlessly unemployed as a result of change, or to have his lifestyle and aims in life prejudiced. But change will take place because we will be there to cope with its consequences. Change will result in greater productivity, higher wages, more leisure and less of the inflationary consequences of a big social welfare programme. for the Labor Government that's the pay off.<sup>57</sup>

The regulation of the internal migration of the reserve army of labour is thus intended to improve the investment and productivity opportunities for capital relocated under the program outlined above. These plans are linked with other key Labor policy programs such as housing, education and welfare.

In the education field, for example, the government planned a heavy emphasis on tertiary and other post-secondary education, especially in technical and vocational training. In these two areas the government announced the establishment of a Committee on Technical and Further Education (later to become a commission) for the purpose of advising on the needs of industry as it adjusts to technological, economic and social change, overall manpower policy and national and local occupational requirements, the optimum use of resources, and community attitudes and individual needs of those undertaking technical and advanced education.<sup>58</sup>

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57. Australian Financial Review, 30/3/73.

58. Australian Government Digest, vol. 1, no. 2 (1973), p.572.

The manpower program has a second, equally important, aspect which stems from the politically undesirable side-effects of the capital rationalisation program. In country areas and in cities such as Adelaide which are heavily dependent on one or more industries whose continuation is threatened by tariff cuts or sudden changes in technology, the manpower relocation and retraining programs are designed also to alleviate discontent among retrenched workers.

This political aspect of the ALP's labour policies has been supplemented by the government's attempts to whip up enthusiasm for 'worker participation' and 'job enrichment' schemes. Cameron described work on a vehicle assembly line as "rotten, soul-destroying, dehumanising"<sup>59</sup> and pleaded for innovations to take the "drudgery" out of process work. Cairns goes even further and advocates worker participation in the planning process itself.<sup>60</sup> These schemes are thus dressed up in terms of an end to alienation and dehumanisation, but in reality there is a strong connection between job enrichment and worker participation and the need to increase productivity. The link was pointed out by the OECD, for example, in its report on Australia which showed that approximately 60 per cent of industrial disputes were attributed to 'physical working conditions and questions of managerial policy', while in the period 1950-68 38.2 per cent of total man-days lost could be attributed to this cause. The advantage to employers in productivity terms of a reduction in these figures alone is clear.<sup>61</sup>

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59. The Australian, 23/3/74.

60. Australian Financial Review, 1/2/73.

61. OECD, 1972, p.85 Table D.1.

The connection between productivity and worker participation schemes was made more explicit by two visiting Scandinavian experts who argued that Australia must have workers' participation soon or face falling profits and productivity.

The Australian 28/5/74.

The importance of the connection between manpower, education, job enrichment and worker participation and social welfare policies on the one hand, and incomes policies, on the other, has already been pointed out by Catley and McFarlane.<sup>62</sup> Income policies have been tried in several forms by the Labor Government and are connected in an essential way with the 'productivity principle' since by holding or reducing the share of wages to its pre-1972 level it was hoped that profits would be restored and the rate of growth increased. With the defeat of the government's referendum on the subject of power to control incomes, reliance was placed on the tactic of persuasion in an effort to induce voluntary wage restraint on the part of trade unions. In 1974, however, a scheme for wage indexation was officially advocated. Two proposals were put forward in government circles - the proposal of the Government for percentage indexation of wages up to average weekly earnings and thereafter a flat rate of increase, and the proposal of some government advisers (Gruen and Coombs) for a flat rate of increase on all wages and salaries based on a percentage of the minimum wage. Both these indexation methods were designed to have the effect of redistributing income within the working class by squeezing relativities. At the same time, by proportionally reducing the wage increases of those earning more than average weekly earnings, they would have the effect of reducing the share of real wages in the national income. Moreover, since the wages would be indexed to the consumer price index, and productivity increases would not necessarily be taken into account, this second effect would have been further enhanced. These wage indexation proposals had the additional advantage from the point of view of the government that the workers in the public service sector, who are generally higher paid than those in the private sector, would no longer have been in the position of pacesetters in wage claims.

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62. R. Catley and B. McFarlane, From Tweedledum to Tweedledee, (Sydney, ANZ Books, 1974), ch.3.

### Small Business

Government policy faces something of a dilemma in the case of small businesses which (because of their labour-intensive and competitive nature) are likely to be squeezed out of business by the policy of closing down the less economically efficient plants. In order to cope with the politically undesirable effects of this process and also in order that small businessmen driven out of business in this way might be mobilised in the same way as is planned for labour, the government planned the establishment of a small business administration (the National Small Business Bureau). The principal goal of this body was to be the retraining and relocation of small businessmen; farmers, retailers etc., affected by the rationalisation process.

A second major goal of the National Small Business Bureau stems from the recognition by the government of the importance of small firms and backyard inventors in the process of advancing the technological frontiers.<sup>63</sup> The Inventions Development Corporation is also designed to assist in this process. In addition, where it is advantageous to maintain small businesses in the manufacturing, for example, of component parts, they must be adequately protected from collapse.

Insofar as small business promotes the high technology growth of Australian industry, therefore, the Labor government is willing to assist and protect it, but insofar as it remains in the low productivity sector of the economy, the government policy towards it is one of elimination.

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63. It is important to note here the distinction between invention and innovation. Inventions only become innovations in certain circumstances; e.g. refrigeration was introduced into the Australian meat industry more than 10 years after its invention, during the depression of the 1890's no doubt in an attempt to offset the lower rate of profit experienced in a period of economic decline. Some inventions never become innovations; e.g. if during the time needed to capitalise old stock an invention is superseded by another. The function of innovation is regarded by the government as a matter for big business, as "essentially managerial". Australian Government Digest, vol. 1, no. 3, p.1084.

There would appear to be some difficulty in resolving these paradoxical aspects of small business.

### The Public Sector

In a capitalist society the public sector plays an essential role in the process of expanded reproduction\* and in the containment of class conflict which is not generally recognised by economists and political scientists.<sup>64</sup> State intervention in the economy is usually regarded as compensatory for flaws in the market system, or for lack of entrepreneurial initiative. On the contrary, massive state intervention has always been a feature of capitalist economies.<sup>65</sup> Moreover, since the Great Depression, the fear of political repercussions of high unemployment, as well as economic forces, have led to greatly increased state activity. The economic reasons for this growth include

short-term control of demand to regulate unemployment, the balance of payments and/or inflation, naturally suggested the greater rationality of longer-term planning of government expenditure. The increasing size of firms with the associated lengthier pay-off period of investments increased the advantages to the private sector of longer-term certainty and fuller capacity utilization; and post-war reconstruction efforts enforced various kinds of centralized resource allocation by sectors.<sup>66</sup>

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- \* Capital accumulation and increased employment of labour over time.
64. Consider, for example, S. Encel's conclusion that the functions of the state are "administrative rather than executive, and segmental rather than comprehensive. Only in times of acute social crisis does an analysis in terms of class conflict become plausible." Encel's view of the State is as a body arbitrating between segmental interests in the interest of the expressed demands of "the community". 'The Concept of the State in Australian Politics', Australian Journal of Politics and History, vol. 6, no. 1 (May 1960), p.75. Similarly economists regard the state as a neutral 'decision making unit' responding to the 'demands' of the population. (See, for example, A. Lindbeck, 'The Changing Role of the National State', Kyklos, vol. 23, 1975, Fasc. 1.)
65. See, for example, N.G. Butlin's evidence that "government intervention was responsible for about one half of all capital formation (in Australia) in the latter part of the nineteenth century". Encel, op.cit., p.69. Encel also cites British references to the "unbroken growth of state action since the early years of industrialization." ibid., p.68.
66. Bill Warren, "Capitalist Planning and the State", New Left Review, no. 72, (March-April 1972), pp.5-6.

According to the OECD, public expenditure in Australia has expanded at a rate 21 per cent faster than the growth of Gross Domestic Product since the mid-1950's.<sup>67</sup> Since 1971, this rate has increased even more. Part of the problem faced by the Labor government has been the contribution of public expenditure to inflation.

Since its assumption of office, therefore, the Labor Party has been concerned to find ways of reducing the inflationary gap between the growing costs of state expenditure (particularly in view of the promises of new health, education and welfare programs, and the expensive intentions for urban and regional development) and the tendency of the private sector and the public in general to resist attempts to raise revenue by increasing taxation. In the early days of the Australian Labor government, it was planned to overcome this problem by reducing expenditure in areas where there did not appear to be sufficient justification for it in terms of financial returns; in other words, by applying the 'productivity principle' to public expenditure. Other methods included increasing use of a "taxpayers' money-illusion"<sup>68</sup> and the attempt to shift the burden of payment for the new programs away from profits onto the working class by use of contributory taxes rather than consolidated revenue as a fund for health, superannuation etc.<sup>69</sup>

In practical terms this meant implementation of the recommendations of the Coombs Report to reduce price-support measures; cancel fertiliser bounties and subsidies; modify tax concessions to Pitt Street farmers;

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67. OECD, Australia 1974, p.28.

68. Lower income groups come to pay a greater portion of the tax burden because as incomes rise the tax scale is not altered. Accordingly working class people move into tax brackets designed for middle and upper income groups. The use of the 'taxpayers' money illusion is, however, limited by the fact that people gradually become aware that tax is eating into a greater and greater proportion of their real income.

69. For the non-progressive nature of the original plans to raise funds to pay for these schemes see M. McQueen, "The End of Equality", Arena no. 30, 1972, pp. 10-11.



cancel the petroleum price subsidy to rural areas and other zone allowances; increase charges for rural services; abolish rural tax concessions on succession duties and accelerated depreciation; cut investment allowances; cut export incentives; defer major construction projects which do not have adequate financial justification (e.g. Dartmouth Dam); charge the full cost of public services (e.g. postal charges) to the public; cut unemployment relief to the states; cut aid to road construction programs; cut expenditure on the public service. In the field of social services, the report recommended reduction or cancellation of government contributions to free school milk, TB campaigns, servicemen's benefits.

Many of these recommendations were in fact implemented, but the rapid growth of the public sector nevertheless went unchecked. After 1974 increasing attacks by the government on public service wages and salaries coincided with the even greater levels of government expenditure. So the problem of aggravation of inflation by public finance continued to be a serious one for the government.

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By late 1974 it was becoming apparent that attempts to implement the strategy outlined above were meeting with little success. From 1973 onwards, inflation continued to rise and so did unemployment while investment began to slow down due to the profits squeeze. The growth rate of GNP was reduced to miniscule proportions and there appeared to be little prospect of early recovery. Cameron's manpower policies, a vital element of the government's program, took too long to get off the ground. When the RED and NEAT schemes were finally launched they were quite inadequate to the task of coping with the then rapidly deteriorating employment situation. A strategy designed to eliminate pockets of unemployment as part of a long-term restructuring process clearly could not hope to make significant inroads into an unemployment rate of 4-5 per cent. Working class resistance to the unemployment caused by the

government's tariff cuts (especially in view of the inadequacy of the manpower schemes) led to their effective reversal. Moreover, conflicts broke out within the A.L.P. itself over the priorities of government policy. Trade unions, in particular, showed considerable resentment of the academics, journalists and other 'technocratic' advisers with their interest in combatting unemployment taking second place to their concern about inflation.

In spite of these and other obstacles, however, it remains true to say that there was a consistent theme running through government policy from 1972. The purpose of this chapter has been to elucidate that theme and to show that A.L.P. economic strategy was not a rag-bag snatched out of thin air, nor a policy-package dictated by the OECD or some other external body (as has been suggested by some commentators on Catley and McFarlane's From Tweedledum to Tweedledee), but is a coherent and sensible approach in response to the concrete economic and political problems facing Australian capitalism in the 1970's.

CHAPTER 2PRODUCTIVITY AND ECONOMIC GROWTH

If any theme can be extracted from Labor economic policy which differentiates it from its predecessors, it lies in the approach to the problem of economic growth. Government policy and argument about economic growth within Australia's ruling circles in recent years have centred on differing views about the role of technological progress and productivity in the growth process. It is proposed, in this chapter, to outline the two main strands of debate which have been broadly classified into the 'Verdoorn Law' or aggregative approach to economic growth, on the one hand, and the 'Swedish model', followed by important sections of the Labor Cabinet and emphasising a more selective policy approach to productivity increases and their effects upon the rate of economic growth, on the other. It should be made clear from the beginning that it is not intended to represent these two views as diametrically opposed except in so far as they result in somewhat different policy emphasis with implications for the level of intervention and planning undertaken by the state and for attempts at price stabilization under the long-term inflationary tendencies of the post-War international economy. On the contrary, it will be contended at a later stage of this thesis, that both types of explanation of the rate of growth inhabit similar epistemological terrain which, because it ignores the social relations of production in a capitalist society like Australia, is incapable of providing adequate insight into the problem. It is not, however, the specific concern of this chapter to demonstrate the internal contradictions of orthodox economic theories, but rather to indicate the consequences of the use of particular theoretical concepts for economic practice.

It will be shown that the different emphases engendered by the two

approaches have corresponded to the different theoretical bases for economic policy making by Liberal-Country Party coalition governments and by the present Australian Labor Party government respectively. An exposition and critique of the formulation and implementation of policy by the latter, in contrast with the legacy of previous governments, constitutes the main body of the thesis. But in order to set the stage for this, the present chapter will examine the two growth "models" in a theoretical light, in order to comprehend better their policy ramifications.

J.M. Keynes, in a famous conclusion to his General Theory of Employment, Interest and Money, argued that

the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. (1)

While it is not necessary to agree with Keynes' attitude, that vested interests have very little power over ideas, it would be appropriate at this stage to include a consideration of some of the ideas which, as will be shown, have influenced recent changes in Australian government policy. Hence, although this chapter will be concerned with economic debates which are not necessarily directly related to the Australian context, their reflection in changing attitudes towards productivity and growth in Australian policy making circles will gradually become apparent.

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1. J.M. Keynes, The General Theory of Employment, Interest and Money (London, Macmillan, 1961), p.383. See also an endorsement by J.F. Cairns in The Quiet Revolution, (Melbourne, Gold Star, 1972), p.55.

## I

A common feature of many theories of economic growth has been the division of the economy into three sectors: primary (agriculture and sometimes including mining), secondary (mainly manufacturing) and tertiary (variously including construction and transport which, however, are also sometimes consigned to the secondary sector<sup>2</sup>, and other services). This is in accordance with the observation that

fast rates of economic growth are almost invariably associated with the fast rate of growth of the secondary sector, mainly manufacturing, and that this is an attribute of an intermediate stage of development; it is a characteristic of the transition from "immaturity" to "maturity". (3)

Kaldor has pointed out that an explanation offered for the statistical correlation between high rates of growth (e.g., over 3 per cent per annum) and even higher rates of growth in manufacturing<sup>4</sup> is that the level of productivity is higher in manufacturing than in the rest of the economy (also that the level of technical progress as measured by productivity increases is higher in manufacturing). In this approach it is assumed that the transfer of labour from lower to the higher productivity areas of manufacturing industry will result in an overall increase of the economy's productivity growth rate. But as Kaldor points out,<sup>5</sup> Beckerman has shown that such a transfer can account for only a small part of productivity increase. Nor is it true, for example, that productivity growth in agriculture and mining is necessarily lower than that

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2. E.g. by Colin Clark, see Y. Olsevich 'Colin Clark's Theory of Economic Development of Capitalism' in S. Dalin, A. Anikin and Y. Olsevich, Economic Theories and Reality, (Moscow, Progress Publishers, 1967), p.224 fn.
  3. N. Kaldor, Strategic Factors in Economic Development, (Ithaca, New York State School of Industrial and Labor Relations, 1967), p.7.
  4. Ibid., pp. 9 (Table 1) and 11. See also C. Clark, The Conditions of Economic Progress, (London, Macmillan, 1957), p.375.
  5. Kaldor, op.cit., p.12.

in manufacturing. The Vernon Report in Australia argued that productivity growth in the primary sector was in fact higher than in secondary industry.<sup>6</sup> Productivity in tertiary industry also presents a problem for this kind of view since it is particularly difficult to measure. Kaldor argued that in some service industries productivity could not be measured at all since 'outputs' were indistinguishable from inputs.<sup>7</sup>

But a more fundamental objection to this line of thought, i.e., that increased productivity induces, via its effects on relative costs and prices, a faster growth of demand and hence of total output of goods and services, lies in the failure of exponents of the theory to provide an adequate explanation of changes in productivity itself.

The reply to this is usually that the rate of progress in science and technology is the main factor (along with other less tangible factors). Solow, for example, argued that whereas only 15 per cent of growth can be accounted for by simply increasing capital stock, 85 per cent must be ascribed to technological change.<sup>8</sup> Although the figures cited by Colin Clark show a narrower divergence,<sup>9</sup> they nonetheless attribute a rather large proportion of growth to this "as yet unexplained residual".<sup>10</sup> A more extreme form of this unsatisfying and unsatisfactory causation is put forward by Easterlin who argues that

Modern economic growth is the manifestation in production of the growth and diffusion of the stock of knowledge stemming from the scientific revolution or, more generally from the intellectual revolution, which began with the Renaissance. (11)

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6. Commonwealth of Australia, Report of the Committee of Economic Enquiry (Vernon Report ) vol. 1, May 1965, para. 5.11.
  7. Kaldor op.cit., p.21.
  8. G. Ranis, "Economic Growth: Theory" in D.L. Sills (ed.) International Encyclopedia of the Social Sciences vol. 4, (New York, Macmillan and The Free Press, 1968), p.413.
  9. C. Clark, op.cit., p.580, 20-30% and 25-50% respectively.
  10. Ranis, loc.cit.
  11. R.A. Easterlin, "Economic Growth: Overview" in D.L. Sills (ed.), op.cit., p.407.

This sort of explanation, however, cannot explain the large differences, not only between the growth rates of different countries, but also of the same industries within the same time span in different countries. Thus Kaldor gives the example of the vehicle industries in West Germany, which experienced a productivity growth rate of 7 per cent in the period 1954-60, and England - 2.7 per cent in the same period.

Since the same United States firms (Ford and General Motors) controlled large segments of the industry in both countries, it would be difficult to explain such differences in terms of different access to new knowledge or 'know-how'. (12)

#### The Verdoorn Law

An alternative to the theory outlined above reverses the order of causality. Instead of the level of productivity determining the rate of growth, the Verdoorn Law argues that "increasing real product per man hour is a function of aggregate real product";<sup>13</sup> that is, productivity is said to increase in response to increases in total output because of economies of scale or the "law of increasing returns".<sup>14</sup>

Kaldor and Clark agree that the Verdoorn Law cannot be applied to primary or tertiary industries with the same success as in manufacturing industry. In agriculture and mining Kaldor found that productivity

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12. Kaldor, op.cit., p.18.

13. Clark, op.cit., p.356.

14. For details see P.J. Verdoorn, "Complementarity and Long-range projections", Econometrica, vol. 24, no. 4, 1956, p.434. F.H. Hahn & R.C.O. Matthews, ("The Theory of Economic Growth: A Survey", Economic Journal, vol. LXXIV, December 1964, p.833) have pointed out that neglect by neo-classical economists of the discovery made as early as Adam Smith, that the greater the market, the greater the differentiation and specialisation and the higher the 'return' per unit of input, is no doubt due to the "difficulty of fitting increasing returns into the prevailing framework of perfect competition and marginal productivity factor pricing." A second criticism of neo-classical economists, implicit in Kaldor's argument, pertains to the concern of the Verdoorn Law with a dynamic relationship - with the rates of change of productivity and output - rather than a static relationship relating the level of productivity to the scale of output. See Kaldor, op.cit., p.15.

growth had been far in excess of growth of output.<sup>15</sup> This, he argued, is because they are "diminishing returns" industries, and although technological progress and increasing capital investment may disguise this fact it does not remove its significance. In the tertiary sector, apart from the difficulty of measuring productivity mentioned above, there are many service industries which do not benefit from economies of scale and, of those that do, e.g. retail and other distributive industries, productivity in many is not directly related to the growth in total output of the primary and secondary sectors.<sup>16</sup> Hence it is not at all clear which "laws" the tertiary industries follow. A good deal of the apparently inexplicable nature of production in this sector probably stems from the fallacy committed by most orthodox economists in attempting to include services in the production of the national income. These industries are more properly considered as in the sphere of appropriation and consumption of the national income and not part of the productive life of society at all. As Olsevich has pointed out in his essay on Clark,<sup>17</sup> the economists put on the same level

the branches of material production which really create the national income and branches of the services sphere which exist at the expense of redistribution of the income.

The "laws of diminishing or increasing returns" will be discussed in a critical light later. In the meantime it seems appropriate to dwell briefly on the economists' notion of economies of scale and "increasing returns" in manufacturing as embodied in the empirical laws of Verdoorn, Kaldor and Clark, the way in which they arise and the application of these and similar concepts by Australian economists and government advisers.

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15. Ibid., p.21.

16. Loc.cit.

17. Olsevich, op.cit., p.229. The same point is made by P.A. Baran in The Political Economy of Growth, (New York, Monthly Review Press, 1957), Chapter 1.



Arndt enumerates four variables contributing to the existence of increasing returns to scale in manufacturing industry. These are a) the organisation of industry, b) supplies of complementary factors, c) the structure of demand, and d) changes in technical knowledge. The first of these is the well-known derivation of economies from increasing specialisation and division of labour, from utilisation of indivisible factors and from time and motion studies. The second concerns changes in the quality and supply of complementary factors. Following Allyn Young's use of the concept 'external economies', Arndt makes the distinction between increasing returns due to fuller utilization of existing equipment on the one hand, and those due to the construction of new equipment not hitherto economical. Furthermore,

In all cases where increasing returns are due to the creation of complementary capital equipment, the realization of increasing returns requires not merely that investment in such capital equipment shall be economical (profitable) but also that an adequate supply of capital both as real saving and as investable funds is in fact available. (18)

He thus includes under the rubric of 'external economies' cases where an increase in aggregate output reduces obstacles to investment on the part of the financial sector. Growth of per capita income itself makes capital accumulation easier by facilitating saving.<sup>19</sup>

The third variable, the structure of demand, focuses on the fact that the scope for division of labour, and hence of important economies of scale, is limited by the extent of the market. But Arndt regards extension of demand not merely

as in Allyn Young's case, as a source of cost reducing economies of scale, but as a source of new investment opportunities. For a widening of the market creates opportunities for a new ("widening") investment, whether or not it also creates

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18. H.W. Arndt, "External Economies in Economic Growth", Economic Record, vol. 31, November 1955, p.203.

19. Ibid., p.204.

opportunities for cost-reducing ("deepening") investment based on economies of scale. (20)

He agrees with Rosenstein-Rodan that such investment can be included under "external economies" because all new investment involves risk cost and risk is reduced by market widening. In fact he argues that Young's assumption about the relationship between market widening and increased productivity, is not valid if there already exists underutilization of productive resources.<sup>21</sup>

The fourth variable, changes in technical knowledge, Arndt regards as a function of the level of output of the economy as a whole.<sup>22</sup> Rising per capita income is said to lead to technical improvement via increased expenditure on education and research, the creation of new demand is presumed to give rise to organised research efforts which often bear fruit, and the increased economic application of existing techniques is said to generate, via improving skills and entrepreneurial imagination, further refinements as well as new inventions.<sup>23</sup>

#### The Vernon Report and the Treasury's Defence

With the above brief outline of economic growth theories as a background, it is now possible to look at some of the debates which took place in Australia in the period preceding the Labor government's election, particularly in regard to the crucial role of technological progress and changes in productivity. In this way, some of the confusion among Australian policy advisors of the time concerning the actual causes of

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20. Ibid., p.205.

21. Loc,cit.

22. He contrasts this view with that of D.H. Robertson (in the Marshallian tradition) who regarded technical improvement as independent of the size of the industry. This view is valid if technical change is regarded as exogenous, e.g. in a single industry, but does not hold for the economy as a whole. Indeed the main point of Arndt's exercise is to demonstrate the applicability of Young's wider concept of external economies in the economy as a whole.

23. Arndt, op.cit., pp.207-208.

economic growth will become apparent.

The Report of the Committee of Economic Enquiry which was published in 1965 and is commonly known as the Vernon Report (after the chairman of the Committee, Sir James Vernon)<sup>24</sup> provides a good starting point for such a discussion, partly because of its unequivocal rejection by the Menzies government and partly because this rejection provoked widespread discussion of the issues raised therein.

The Vernon Report isolates five key variables in the economic growth process. These are the aggregate level of spending (effective demand - the rate of growth is directly related to the rate of growth of spending), the level of wages (since high wages are presumed to reduce productive efficiency by raising unit costs of production), the relation between internal and external prices (which affects the level of export earnings and the availability of imports), the rate of capital accumulation (which, if it is high, means that a relatively large proportion of new capital equipment will embody new techniques or methods or organisation), and the rate of net immigration. This last factor is a two-edged sword because on the one hand the growth of population creates larger markets, with concomitant advantages of larger scale production, and at the same time enables additions to the workforce to be channelled into faster growing sectors - a process which is controlled by the price mechanism. On the other hand, however, increased population is also deemed to be a constraint on growth because of the demand created for social capital (housing, education etc.) which diverts resources from more productive uses.

It is clear then, from this short account, that the framework of the Vernon Report implicitly assumes the Verdoorn approach to the deter-

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24. This Committee was appointed by Menzies in 1963. Its membership included two academic economists, J.G. Crawford and P.H. Karmel, plus three businessmen, Vernon, D.G. Molesworth and K.B. Myer. It is interesting to note that the last named gave support to the Australian Labor Party at the 1972 election.

mination of productivity. Differences between the rates of growth of productivity in Australia and other countries<sup>25</sup> are explained by two major features. Firstly population growth, by requiring a large proportion of capital expenditure for "capital widening" just to maintain the existing level of output per worker, limits growth by reducing the availability of funds for capital intensive investment, although this effect is, the Report admits, mitigated by providing a broader base for further long run growth. This argument is also further weakened by the Committee's own earlier stated point that the distinction between capital-widening and capital deepening is a somewhat artificial one, since much capital "widening" expenditure will also embody latest techniques and organisational methods.<sup>26</sup>

Secondly, and the Vernon Committee regarded this as the most important factor, an explanation of different growth rates lies in the variation between countries in the structure of industry between the three sectors. In Australia a high proportion of GNP comes from the tertiary sector which the Vernon Report argues is a sector of slow productivity growth. If Australia was to achieve a higher rate of growth, the Vernon Report recommended that investment must be attracted away from the tertiary sector into the manufacturing sector where rapid productivity increases may occur. Whereas agricultural productivity is high and rising,

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25. Productivity as measured in terms of GNP per person employed in the period 1953-4 to 1962-3 (9 years) rose at a rate of 2.0% to 2.3% per annum (using different base years) in Australia. Australia is, on these figures, put in a bracket with Belgium, Denmark, USA, Canada and the UK. - all with rates of productivity increase ranging from 1.9% to 2.5% pa. But it is lower than Sweden (2.7%), Norway (3.2%), Netherlands (3.7%), France (3.9%), Italy (4.1%), West Germany (5.3%) and Japan (6.7%).

Figures cited by the Vernon report are from A. Maddison, Economic Growth in the West, (New York, Twentieth Century Fund, 1964) or from the same author's "Facts and Observations of Labour Productivity in Western Europe, North America and Japan", Productivity Measurement Review, (O.E.C.D., May 1963).

Long term rates of growth in real product per capita per decade (over 50-100 years) are given in S. Kuznets, Modern Economic Growth: rate, structure and spread, (New Haven, Yale University Press, 1966) cited by Easterlin, op.cit. They show Australia as having a markedly lower rate of productivity growth than other capitalist economies.

26. Vernon Report, para. 2.15.

It would be useless to seek to retain labour on farms...unless its additional product could be sold at favourable prices. Structural changes more favourable to the rate of national productivity increase can only come about as the result of market factors which favour them. If exports of manufactures should grow substantially, the resulting expansion of the manufacturing industry could create a new structure of industry more favourable to the increase of national productivity. It is difficult to see any other structural change occurring which would have this effect. (27)

Contained in this passage is the essence of the Vernon Committee's approach to the question of productivity and growth. The key variables are the rate of expansion of demand and the resulting rates of capital accumulation and growth of workforce. These factors determine the rise in productivity of the manufacturing sector and thus of the economy as a whole. Rejected explicitly is the notion that the level of productivity in a given sector is the determining factor. The Vernon Report agrees here with the view of the Department of the Treasury in its "Meaning and Measurement of Economic Growth" White Paper. The Treasury argued in this document that average product per worker will not necessarily increase by the shift of labour into industries in which physical output per worker is growing fastest.

Since product per head is measured in value terms, much will depend on the level of demand for the products of the industry concerned. In many of the industrial economies of Western Europe, for example, average physical output per worker in agriculture has been rising very fast in the post-war period but, for reasons chiefly associated with the level and pattern of demand, the value of product per worker (in effect, wage rates) has remained lower than in most other sectors of the economy. In these circumstances, in a growing economy, labour tends to shift from the sectors where the value of its product is lower to those where it is higher, thereby increasing the average value of product per worker over the whole economy. If, meanwhile, these changes encourage the adoption of labour-saving techniques in the sectors losing labour (as is generally the case), the average gain is so much the greater. (28)

In other words, although actual output per worker in agriculture might be high and rising, the only way in which value-productivity, or value of

output per worker, can rise rapidly is by shifting resources into the sectors which have the greatest market growth potential. In Australia, agricultural productivity is very high, but since the export market for rural produce has limited growth potential, the transfer of resources into agriculture would merely serve to lower value-productivity. Productivity in manufacturing, on the other hand, tends to be lower and could be increased by an inflow of labour and resources and raising of overall production through growth of export markets.

Moreover, implicit in this statement and, more explicitly in sections of the Vernon Report, is the assumption that structural balance between sectors is maintained through the operation of market forces,<sup>29</sup> acting through prices and profits. This is a crucial premise since reliance on a laissez-faire attitude towards the market as an allocator of resources is one of the chief points of distinction between the policies of the Liberal and Country Parties and those which the Labor Party attempted to implement.

The points of similarity between the Vernon Report and the Treasury document are thus the common, if not explicit, assumption of the Verdoorn Law and the adoption of a model which pre-supposes a competitive market regulating the allocation of productive resources (an uneasy blend of the neo-classical theory and the empirical laws of some of its critics). The main differences between the Treasury, which was concerned to defend existing policies and growth rates, and the Vernon Report, lay in the direction of policy conclusions.

The Treasury document attempts to blend the neo-classical theory

27. Ibid., para. 5.7 (emphasis added).

28. Commonwealth of Australia "The Meaning and Measurement of Economic Growth", Supplement to the Treasury Information Bulletin, (November 1964) p.16. Greater efficiency measured in output per worker is assumed to take place in agriculture through "reduction in under-employment and in other ways".

29. Vernon Report, para. 2.17.

that productivity and growth depend on the level of scientific and technological knowledge, with the alternative posed by Kaldor; that productivity depends on growth in total output. Thus in the Treasury model, the rate of growth depends on extending the frontiers of knowledge on the one hand,<sup>30</sup> and ensuring the spread of existing technical knowledge or 'best practice' throughout the economy on the other. Australia, falling well behind the technological frontier, is presumed to have a high potential for rapid economic growth of the second type which is, however, qualified by one crucial limitation - the availability of capital. The rate of growth of productivity is reduced by the rapidly growing population with its concomitant requirement for capital widening expenditure.

A second limitation on economic growth in Australia according to the Treasury economists, is the "choice of objectives" between a high rate of growth of overall productivity as measured in terms of GNP per head, or the alternative policy of increasing the proportion of national expenditure on education, health, arts and other 'quality of life' goals.<sup>31</sup> The age structure of the population and number of married women in the workforce are also listed as limitations on growth as though there were some immanent qualities of 'youth' and 'femininity' which gave a person a less productive character. A more adequate explanation of unproductiveness amongst these sections of the population would focus on the structure of industries and changes in skill requirements and the problem of expanding the workforce rapidly. Some institutional 'flaws' such as restrictive business practices, and trade union practices are also

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30. Cf. D. Morris, "The Technological Revolution - A Myth?", Australian Left Review, No. 1, 1968, which argues that this occurs at a very slow rate and that most productivity increases come from economies of scale.

31. There is implicit recognition here that expenditure on education, health, arts and other services is unproductive expenditure which does not contribute to the creation of national income and in fact detracts from it. Yet in so far as these services are in the private sector the Treasury as well as other orthodox economists blithely include them in their measurements of income and productivity.

included in this category of limits to growth. Defence spending too, is regarded as a diversion of output which might slow down the rate of growth and result in lower living standards through its effect on private investment and consumption.

Aside from these limitations on growth the Treasury regards the role of governments in promoting growth to be confined to the maintenance of a steady but not excessive expansion of the level of demand by means of fiscal and monetary policy.<sup>32</sup> Thus, all other things being equal,

So long as total demand in the economy is maintained at a level sufficient to provide employment for a growing workforce in a context of improving technology and hence output per worker, it seems reasonable to think that economic growth is likely to occur as fast as it can. (33)

In other words, implicit satisfaction is expressed with the rate of growth in Australia by comparison with that of other countries, given Australia's level of technical and scientific knowledge, population size and structure, desired 'quality of life', institutional set up, efficient working of the market system of resource allocation and government policy of Keynesian type price stabilisation and demand expansion.

The Vernon Report, on the other hand, expresses grave doubts about Australian performance in the growth area. In particular, fears that the Verdoorn Law might fail to operate in a satisfactory manner, is hinted at in the suggestion that highly concentrated or monopolistic sectors of Australian industry might turn out to be less vigorous and progressive than competitive industries, less receptive to change and innovation, and therefore in the long run less efficient.<sup>34</sup> The authors point to the studies of Brunt and Karmel and others who have shown that Australian industry is indeed highly concentrated by comparison with American,

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32. "The Meaning and Measurement of Economic Growth", p.18.

33. Ibid., p.20.

34. Vernon Report, para. 8.85.



British and Canadian industry, suggesting that this may be the outcome of the small size of the Australian market. In industries with a minimum economic size of plant, particularly those of a capital-intensive type, a small number of firms supplying such a small market is virtually inevitable. It is important to note, however, that the Verdoorn analysis employed by the Treasury and also by the Vernon Report, in its discussion of the growth process, relies on the model of a competitive market economy for the most efficient allocation of resources between sectors and for ensuring that the latest techniques are embodied in capital investment. Sweezy, following Steindl, has shown, on the other hand, the restrictive effect of monopolistic organization of industry on the rate of introduction of technical innovations. In his view, the diminishing marginal rate of profit on additional investment in the monopoly sector and the necessity of capitalising old investment acts to slow down the rate of investment and hence the rate of technological change. Additional investment embodying new techniques may not be undertaken if it endangers the capitalisation of existing plant and equipment. This proposition will be spelled out in more detail in Chapter 5. But in the meantime it will suffice to say that such a tendency would call into question the effectiveness of a policy for sustained economic growth based on the efficient operation of the market system.

As a result of its doubt, the Vernon Report urges the replacement of the policy encouraging diversification of Australian industry through import substitution under the protection of the tariff by a policy aimed at increased specialisation and hence greater productivity and international competitiveness. Attention is drawn, in particular, to the chronic underutilisation of capacity which arose from the practice of installing plant in anticipation of demand for new products which never eventuated, and the effects of this on overhead costs. Consequently the Report advocates the removal of the tariff barrier to imports.

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While this aspect of the Vernon Report's policy recommendations is not substantially different from those of the Treasury (which regards the availability of imports, in order to preserve competition and prevent bottlenecks within the domestic market, as necessary), the latter in particular recommends the retention of the tariff barrier for reasons of national security in strategic industries and to protect infant industries.

Apart from the rather drastic intervention by government which is implied in the recommendation for the reduction or removal of tariffs in a country like Australia where many sheltered industries have grown up, the Vernon Report advocates further intervention in the form of abolition of subsidies to inefficient sectors, e.g. the dairy industry, to allow transfer of labour to more productive enterprises. Manpower policies in order to ensure that labour is employed as productively as possible<sup>35</sup> would, and indeed have, become necessary following tariff cuts if people made redundant by structural changes in the economy are to be gainfully employed elsewhere. The recommendations for greater emphasis on vocational and technical training are also vital in this respect.

These suggestions, that governments intervene to a greater extent and in a systematic way to stimulate productivity growth, are ill at ease with the model outlined above, and which the Vernon Committee inferred, of productivity growing in response to overall economic growth. The apparent failure of the Verdoorn Law to operate in Australia in recent years has contributed to a change in emphasis by economic advisers, and in particular in the economic thinking of the Labor Party, away from this approach and a reversal back towards the notion that the main factor determining productivity growth is the rate of advance of science and technology and thus that it is the level of productivity which determines the rate of overall growth. It is interesting to note in this context the finding of Cripps and Tarling that

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35. Ibid., para. 5.7.

In the periods up to 1965 the Verdoorn Law holds good. In 32 observations there is a definite positive correlation of productivity growth...and employment growth...But in the last period, 1965-70, the Verdoorn Law has apparently ceased to be effective. Productivity and employment growth in manufacturing are no longer correlated. (36)

The authors of the Vernon Report (1965) seem to have stumbled unwittingly upon a similar process taking place in Australia.

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36. T.F. Cripps and R.J. Tarling, Growth in Advanced Capitalist Economies 1950-1970, (University of Cambridge, Department of Applied Economics Occasional Paper 40; Cambridge University Press, 1973), pp.22-23. 12 countries: Japan, Canada, U.K., Germany, Norway, Belgium, Austria, Netherlands, France, Italy, Denmark, U.S.A., are cited.

## II

The summary rejection by the Menzies government of the findings of the Vernon Committee only succeeded in highlighting and bringing out into the open air the growing doubts of economists about the long term ability of the Australian economy to maintain and increase its rate of growth. Some theoretical differences arose. If the publication of the Vernon Report had heralded a period of confusion and doubt as to the efficacy of the Verdoorn Law in producing the desired rate of economic growth, a new explanation was required. A theory was needed which would provide governments with a guide to policy measures which might boost the rate of increase in productivity and help reduce the inflationary pressures from which the economy had suffered throughout the 1960s. The Labor Party became the natural focus of those opposing the attitudes of the ruling Liberal and Country Party regime which essentially favoured ad hoc measures to shore up the existing state of affairs.

Two strands of thought offered themselves to those seeking a new explanation of the relation between productivity and economic growth. In both cases technological progress and the rate of productivity growth are restored to a central role in the determination of the long term growth and stability of the economy as a whole. Both strands have more appeal to social-democratic thinkers than to the conservatives of the Liberal and Country Parties; in the case of one of them, primarily because of its compatibility with social-democratic notions of peaceful change within the capitalist framework, and <sup>in</sup> the case of the other, partly because of its appeal to Labor Party advocates of greater governmental planning, and partly because many of the ideas had already been put into practice by European social-democratic parties. But apart from the common stress on productivity and technical progress as the driving forces of economic growth and the common appeal for social-democratic thinkers

(though for different reasons), they stem from quite different traditions - the one from quasi-marxist and institutionalist influences in America and the other from within the neo-classical tradition itself.

#### Technological Progress and the Theory of Entrepreneurial Obsolescence

The problem of the impact of technological change on society has long been of interest to orthodox social scientists. Many of them, while accusing Marx of economic determinism in his theory of the dynamics of capitalist society, have themselves fallen into a technologically deterministic explanation. Schumpeter has been one who, borrowing heavily from Marxist concepts, has come to essentially conservative conclusions regarding the nature of technology's impact on society and does so at the cost of elevating technology to an almost monistic causal factor.

Schumpeter argued,<sup>37</sup> against the economists of the neo-classical school, that the static, or equilibrium theory of how prices, outputs and profits are determined in a 'free' market society must be discarded because once the equilibrium has been disturbed

the process of establishing a new one is not so sure and prompt and economical as the old theory of perfect competition made it out to be; and...the very struggle for adjustment might lead such a system farther away from instead of nearer to a new equilibrium. (38)

In Schumpeter's view, the equilibrium of a perfectly competitive economy will naturally be disturbed when one firm, through technical innovation, gains a competitive advantage over others. Rather than a return to equilibrium being effected by all the other competitors following the market leader, Schumpeter argued that the firm which gains the advantage will strive to preserve the higher profits thus achieved through mono-

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37. J.A. Schumpeter, Capitalism, Socialism and Democracy, (London, George Allen and Unwin, 1961).

38. Ibid., p.103.

polistic practices, such as patents, tariff barriers and the use of super-profits to invest in economies of scale: all of these activities are aimed at restricting the entry of others into its newly gained markets. The growth of monopoly is therefore seen as a natural result of competition under capitalism and an evolutionary analysis as more appropriate than the approach adopted in the neo-classical models.

Schumpeter's analysis rests on the central role played by technology in capitalist competition. He accepts the Marxian assumption that the prime motive of capitalism is the accumulation of more and more capital, but he argues that the central factor in this process, the prime mover of capitalism, is technological innovation. The theory of the superiority of price competition can no longer be adhered to because the standard of living of the masses has risen at a greater rate in the period of unfettered big business. Nor, says Schumpeter, can we turn to arguments about population growth or the effects of wars to explain economic growth. The fundamental impulse instead comes from 'innovation' defined as the introduction of new consumer goods, new methods of production or transport, new forms of industrial organisation, new resources: the

process of industrial mutation...that incessantly revolutionises the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. (39)

Most economists, Schumpeter points out, merely look at "how capitalism administers existing structures, whereas the relevant problem is how it creates and destroys them".<sup>40</sup>

The conclusion which Schumpeter draws from this kind of dialectic however, is very different from the conclusions of Marx. Capitalism will

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39. Ibid., p.83.

40. Ibid., p.84.

be destroyed by its own virtues. The rationalism of capitalist development requires that decisions depend largely on the intellectually trained and this undermines the authority of the governing class - authority inherited from feudal times and without which it cannot control the masses. The rising standard of living and concomitant spread of education will create a class of dissident intellectuals who will articulate the discontent of the masses about capitalist inequality.<sup>41</sup> This point of view was echoed almost verbatim by J.F. Cairns, a future Australian Labor minister, in 1972 when he wrote that developing capitalism has changed ways of thinking and that

The most important way it has done so is that it has made more people more rational. Because capitalism is a technical process in which more people have to think about technical processes the unquestionable assumption type of thinking is seen to be unsatisfactory and it loses its standing and authority. There are no unquestionable assumptions about capitalism and a good deal more actual thinking has to be done by more people in capitalism than in any other system...Relativity rather than absoluteness will tend to prevail. In this sense capitalism has revolutionised life far more than have its radical critics. Further revolutionising of capitalism will probably depend upon the spread of technical education and experience than upon any other factor. (42)

But more important than the loss of capitalist moral and intellectual authority is that technical development leads, according to Schumpeter, to the obsolescence of the entrepreneurial function:

the function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganising an industry and so on. (43)

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41. Schumpeter, despite terminological differences, basically accepts the Marxian notion of surplus value and the view that capitalism depends upon inequality for its growth: since the profit share is the basis for accumulation and the future economic development of capitalism,  
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The role of the entrepreneur was a form of individual leadership acting by virtue of personal force and personal responsibility for success. But in an environment in which we have become accustomed to an incessant stream of new products, personality and will power are increasingly irrelevant. Economic progress becomes increasingly "depersonalised and automatized". As innovation itself is reduced to a routine, the entrepreneur becomes a mere bureaucrat;

the economic basis of the industrial bourgeoisie will be reduced eventually to wages such as are paid for current administrative work... The perfectly bureaucratized giant industrial unit not only ousts the small or medium-sized firm and "expropriates" its owners, but in the end it also ousts the entrepreneur and expropriates the bourgeoisie as a class which in the process, stands to lose not only its income but also what is infinitely more important, its function. (44)

The bourgeoisie, once they are reduced to salaried workers and lose their function as entrepreneurs, says Schumpeter, will no longer act merely in the interests of stockholders. Indeed the very notion of private property will disappear ("The capitalist process, by substituting a mere parcel of shares for the walls of and the machines in a factory, takes the life out of the idea of property.")<sup>45</sup> and capitalism by breaking down its own institutions, will give way to socialism.

These arguments are the logical conclusion of a technological determinism which is employed by many social scientists; but this technological determinism disguises a mistaken notion of the nature of 'capital and 'technology'. Although Schumpeter has borrowed Marxist concepts in his analysis, he has in fact left out the very essence of Marx's approach. For Marx and Marxists the crucial element of capitalism lies in the social

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any eating into it, e.g., by high wages or egalitarian policies, threatens the process.
42. J.F. Cairns, The Quiet Revolution, (Melbourne, Gold Star, 1972), pp. 144-145.
43. Schumpeter, op.cit., p.132.
44. Ibid., p.134.
45. Ibid., p.142.



relations of production; that is, in the confrontation between wage labour and capital which manifests itself as a confrontation between the commodity labour-power, on the one hand, and capital, on the other. The class of wage labourers produce value over and above that which is required to buy their own means of subsistence (wages) and this surplus-value belongs to the class of capitalists. Schumpeter, however, has separated the entrepreneurial function from the ownership of property and designated the manipulation of technology as the most important element of capitalism. By ignoring Marx's social relations of production he has thus allied himself with those writers who equate 'capitalism' with the existence of industrial society, and capital itself with the existence of machinery. Without Marx's social relations and with the technical management of industry as capitalism's chief characteristic, it becomes possible to conceive of the ownership of property becoming an insignificant and meaningless concept and to see the possibility of the humanisation and rationalisation of capitalism.<sup>46</sup>

The legacy of Schumpeter's ideas in modern economic thought has, however, been most persistent. Schumpeter (1942), together with Burnham, author of The Managerial Revolution (1941), is one of the early proponents of the idea that the separation of ownership and control has fundamental consequences for the economic and political development of society who have had the most influence on later writers like Crosland and Gaitskell

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46. Another version of this is the neo-Ricardian or neo-Keynesian view of Joan Robinson according to which the "euthanasia of the rentiers" is a desirable end: "If the capitalists fully lived up to Marx's description and really invested the whole surplus there would be no need for socialism. It is the rentier aspect of profit, as a source of private wealth, which Marshall emphasizes, that makes the strongest case for socialism". Collected Economic Papers, vol.2, (Oxford, Basil Blackwell, 1960), pp.10-11. A similarly mistaken interpretation of Marx's work appeared in the same author's essay on "Marx and Keynes" where she describes Keynes' statement that "I see the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work", as being "close" to Marx's own argument. Collected Economic Papers, vol. 1, (Oxford, Basil Blackwell 1951), pp.133-134.

in Britain and the Fabians in the 1950s in Australia. Galbraith has been one of the strongest proponents of the same kind of technological determinism in his analysis of modern 'industrial society', and these ideas have also gained popularity in social-democratic thought, mainly because of the adaptability of the idea of entrepreneurial obsolescence to social-democratic practice.<sup>47</sup> Galbraith's contribution will therefore be worth considering briefly.

Like Schumpeter, Galbraith identifies 'capital' with machinery and his somewhat superficial criticism of Marxism is based on this. He takes up the "Marxian" notion that "the change from ownership to management control is superficial, that capital retains a deeper and more functional control",<sup>48</sup> and proceeds to argue that this is wrong because the "rule of capital" is a comparatively recent phenomenon when compared with the previous "rule of land". Furthermore, according to Galbraith, the change to the rule of capital occurred when the supply of capital became scarce compared with the demand set off by technological progress. "Power", says Galbraith, "goes to the factor which is hardest to obtain or hardest to replace".<sup>49</sup> But the entrepreneur, "the individual who once used his access to capital to bring it into combination with the other factors of production"<sup>50</sup> is now a diminishing figure. It is to organisations that power has passed in a society where large corporations are dominant. The particular type of organisation to which Galbraith refers is the "technostructure".

The need for such a group personality begins with the circumstance that in modern industry a large number of decisions, and all that are important, draw upon information possessed by more than one man! (51)

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47. Especially the notion of a peaceful transition to socialism.

48. J.K. Galbraith, The New Industrial State, (Harmondsworth, Penguin, 1969), p.59.

49. Ibid., p.65.

50. Ibid., p.67.

51. Ibid., p.70.

The modern corporation, according to Galbraith, is large because of the necessity to plan inputs, outputs and markets and because modern technology demands large scale production. While this seems to consist of putting the cart before the horse ( in terms of the previous discussion) it forms the foundation upon which all of Galbraith's subsequent analysis is built.

It enables him to argue, for example, that since the giant corporation is no longer so subject to market forces (through its ability to plan, to restrict entry into its field and to predict and control consumer demand) it no longer necessarily has profit maximisation as its chief goal. Although profits must remain high for reasons of growth, the technostructure is increasingly able to impose its own needs on corporate policy. The most important of these goals, Galbraith suggests, is growth - the continuation of technical progress and hence the power of the technostructure. Others might be social responsibility (a "sound corporate image")<sup>52</sup> or corporate autonomy.

There are essentially two points which need to be made about this. The first is that Galbraith is dealing with profit maximisation only in the short run. His argument that growth and autonomy are more important seems nonsense in view of the fact that they are both reducible ultimately to the single common denominator of profitability. Profits provide internal funds for expansion, and it is these internal funds which provide freedom from external control. Profits are also the measure of

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52. Ibid., p.182. As an illustration of this kind of thinking Ralph Miliband quotes C.A.R. Crosland in The Conservative Enemy: "now perhaps most typical amongst very large firms, is the company which pursues rapid growth and high profits - but subject to its sense of social responsibility and its desire for good labour and public relations... Its goals are 'fair' rather than maximum profit, reasonably rapid growth and the warm glow which comes from a sense of public duty".  
The Socialist Register, 1968, p.221.

a firm's access to outside funds if and when they are needed. A similar confusion on this point led to a private investment slump in Australia in 1974, caused by a government squeeze on the internal funds of companies.<sup>53</sup>

"Social responsibility" may indeed be an aspect of corporate behaviour, but this can just as easily be seen to be in the interests of long-run profit maximisation of the firm. Galbraith's treatment of trade unions is indicative of his confusion about this. He argues that the decline in membership which American trade unions have suffered recently is not cyclical, nor temporary pending better organisation of white collar workers, but permanently resulting from the interests of workers and management being "more nearly in harmony".<sup>54</sup>

But while the task of the union is much easier, the union is also much less essential for the worker, What the technostructure gives to the union, it can also give without a union... A fighting lawyer is a figure of great majesty before a hanging judge. His stature is less before one who places everyone on probation. (55)

This assumption of corporate magnanimity appears to correspond less with reality once we have seen the extent to which corporate behaviour and the rate of profit depend on the level of class conflict in society.<sup>56</sup>

Like Schumpeter, Galbraith has instead chosen to treat corporate behaviour as the dynamic force in society, leaving to the working class only a

53. Australian Financial Review, 5th December 1974.

54. Galbraith, op.cit., p.267.

55. Ibid., p.269.

56. One way in which corporations attempt to keep the rate of profit rising is by cajoling workers with small concessions which produce a constantly rising standard of living. Australian Labor governments have recently been engaged in such attempts - e.g. by trying to hold down demands for increased wages as far as possible and at the same time introducing workers' participation schemes and job enrichment schemes which, while they provide obvious benefits to the working class, are primarily designed to protect the profit rate of the capitalists.

passive and residual role.<sup>57</sup>

Finally, there is a practical reason for this examination of the ideas of these two American economists and this is that their theories can be seen as one ideological response to technological change and its relation to the crisis of economic growth policy which has influenced the ruling strata in Australia, as elsewhere. The ideas of Schumpeter and Galbraith have a close parallel in social-democratic parties because the notions of steady technical progress and the obsolescence of the entrepreneurial function lend themselves easily to the social-democratic theory that capitalism progresses naturally, through parliamentary reforms, towards socialism. An interesting example of the sanguine attitude of social democrats to corporate behaviour, consequent upon the permeation of Labour Party thinking by the managerial revolution concept was the 1957 Policy Document of the British Labour Party which proclaimed that "under increasingly professional management, large firms are as a whole serving the nation well."<sup>58</sup> These ideas are also reflected in policies of the Australian Labor Government; for example, in the practice of the Australian Industries Development Corporation of buying shares in private enterprise with a view to making those companies more 'socially responsible' through the presence of government appointed directors.

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57. One example in this genre is the statement by the social democrat Adler-Karlsson in Functional Socialism (Stockholm; 1967) that "In all fairness it should be said that [the so-called capitalist] group in Sweden has been the main dynamic driving agent towards the excellent growth in our economy. The capitalists have been greatly helped by the peaceful and well organised labour union group. But the labour movement has been more active in dividing the gross national product than in making it grow. The growth has been regarded as the function of the leaders and entrepreneurs in the private sector." p.27.

58. Miliband, op.cit., p.221.

An Economic Policy for the Technostructure - The "Swedish Model"

The second strand of thought which has influenced Labor Party thinking in Australia derives largely from the experience of the Swedish Social Democratic Party which is, in terms of electoral success, undoubtedly the most successful social-democratic party in the advanced capitalist world. Over the period of more than forty years of its time in office the Swedish economists have evolved theories of economic growth and stability which have influenced policy in several other European countries, although by no means all of the policies deriving from those theories have an exclusively Swedish origin. Accordingly, in this section, some brief mention of policies adopted by other European social-democratic parties will be included.

One of the most distinctive features of the Swedish economy is perhaps the large proportion of its GNP which is produced by export manufacturers and import competing industries. Yet without the tariff barriers which might have protected it from the fluctuations of world prices in the post-War inflationary situation, Sweden has managed to maintain a relatively low rate of price rises. In 1974 the rate of inflation was only 10 per cent, still considerably below the rates for most other capitalist countries. As Lundberg has pointed out,<sup>59</sup> the experience of lower price rises has been combined with rapidly rising wage levels in recent years. In the 1960s wages rose at a quicker rate than in the 1950s yet the rate of inflation remained stable.<sup>60</sup> In accordance with conventional economic theory, an explanation for this phenomenon is found in comparatively greater increases in productivity.

The 'Swedish model', according to Lundberg's summary of the work

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59. E. Lundberg, "Productivity and Structural Change - A Policy Issue in Sweden", Economic Journal, (March 1972) Supplement.

60. Ibid., p.466.

of a number of Swedish economists,<sup>61</sup> divides the economy into two sectors showing marked differences in productivity growth and price determination. These are, firstly, the sector comprising export manufacturers and those facing competition from imports - the competitive sector - whose prices are determined by international competition, and secondly, the sheltered sector - accounting for two thirds of Gross National Product - comprising mainly service industries, building and retail etc. In the first sector productivity has been found to have developed at two and a half times the rate of the second.<sup>62</sup>

The main conclusion drawn is that the rate of increase in productivity is determined by the structure of production. A similar conclusion is reached in the O.E.C.D. publication The Growth of Output 1960-1980<sup>63</sup> where it is argued that differences in productivity growth between different countries are accounted for by the spread between 'average plant' and 'best practice' plants, (i.e., those incorporating the latest technological advances) and the rate at which this divergence is being narrowed. The suggestion here is that whereas the rate of advance of the technological frontier is approximately the same in all countries, the rate of increase of productivity can be increased by structural adjustments between lower and higher productivity sectors. The Swedish economists argue that productivity can be gained by a process of closing down the plants with the least productive labour; that is, by reducing labour input while maintaining overall volume of production.

Implicit in such measures is opposition to the aggregative type of analysis outlined in Part I of this chapter. In particular, the type of expansionary policy relying on Keynesian fiscal and monetary policies

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61. E.g., one paper he refers to is the joint work of 3 economists from 2 employees associations and the Swedish Employers' Federation.

62. Ibid., p.467. Although he concedes that measures of productivity in tertiary industries are "partly fictitious".

63. The Growth of Output 1960-1980, (OECD, Paris, 1970), pp.50-54.

(advocated by the Australian Treasury, for example) is not recommended except for a major recession, since the two sectors would be affected differently and the creation of excess demand, and therefore inflationary pressures, in the more exposed sectors might result:

Overall fiscal and monetary policy should be kept sufficiently restrictive to prevent excess demand and profit inflation conditions in the most exposed sectors and regions. The lowering of general demand pressure will mean that there will appear 'islands of unemployment' in the weaker sectors and regions of the economy. These unemployment problems should not be solved by again inflating the economy but by selective measures designed either to create jobs on the spot or to move manpower (after vocational training) to expanding sectors and firms. (64)

The Swedish experience of orthodox fiscal and monetary policies concerns mainly the economically depressed northern region where it was found that to follow full employment policies tended to aggravate inflation and 'wage drift' elsewhere.<sup>65</sup>

Several policy recommendations emerged from this analysis, revolving around the thesis that "real product per man hour is a function of the re-distribution of labour and capital from low productivity to high productivity sectors"<sup>66</sup> of the economy.

64. Lundberg, op.cit., p.470-71. The link between short-run demand management policies and the longer term growth theories with which this chapter has been primarily concerned becomes clear from the observation that demand management has experienced difficulties in the 1960s because it has been expected to remove sources of disequilibrium which were essentially structural - differences in capacity utilization, and employment opportunities in different sectors and regions. For example, wide divergences in the rates of inflation experienced in export sectors from those of the general price level were observed in many countries and these were attributed primarily to differences in productivity between sectors (OECD, op.cit., pp.112-114). On the other side of the coin, longer term structural adjustments brought about by manpower policies, education policies, measures to liberalise trade etc. are not expected to attain their objectives if demand pressure is not kept sufficiently high to generate employment opportunities in expanding sectors and regions and to absorb unemployment from the declining ones (ibid., p.165).
65. G. Ohlin, "Sweden", in R. Vernon (ed.), Big Business and the State, (London, MacMillan, 1974), p.131.
66. R. Catley and B. McFarlane, "The Limits of Technocratic Laborism", Arena, no.36, 1974, p.54.



In Sweden to begin with, the concept of manpower policies was developed in the 1950s. The initial impetus for these was provided by the problem of the incompatibility of high employment in the whole country encouraged by expansionary Keynesian policies with price stabilisation. Rather than introduce incomes policies, the Swedish economists devised a policy which would facilitate a high level of labour mobility and thus assure an adequate supply of labour to the fast growing high productivity areas of the economy. As Lindbeck has put it, the goals lying behind the labour market policies were firstly, to make it possible to keep a high level of employment without increasing aggregate demand so much that excess demand emerges in the full employment sectors; secondly, to facilitate structural change and to retrain workers in new skills needed in the growth sectors; finally, the welfare objectives of speeding the process of finding work for the unemployed and compensating them financially for losses suffered during the adjustment process.<sup>67</sup>

An important lesson from the Swedish manpower activities from the Australian point of view can be learned from the fact that these policies were first operational in the mid 1950s,<sup>68</sup> and that they have been gradually built up from a situation where, in the early 1960s about half a per cent of the workforce was engaged under its program, to the 1970s where 1.5 to 2 per cent has been engaged (1 per cent on the retraining scheme and another 1 per cent in job creating activities - chiefly for handicapped people).<sup>69</sup> In spite of this long experience, Lindbeck argues that the policy had failed to remove excess demand for labour during boom periods,<sup>70</sup> and Ohlin argues that it had failed to remove the excess of labour from the depressed regions with sufficient rapidity.<sup>71</sup>

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67. A. Lindbeck, Swedish Economic Policy, (London, Macmillan, 1975), p.107

68. Ohlin, op.cit., p.132.

69. Lindbeck, op.cit., p.105.

70. Ibid., p.157.

71. Ohlin, op.cit., p.134.

Other policies to encourage the transfer of resources from low to high productivity sectors have been tried in Sweden. They include:

1. A profit squeeze by indirect taxation. This might lead to some reduction of wage increases as the wage paying capacity of marginal firms is lessened and resistance to wage increases is strengthened, thus mitigating "cost push" effects at the same time. The main effect of this profit squeeze is added incentive to firms to raise productivity and efficiency. This Lundberg describes as Schumpeter's process of "creative destruction" - weak plants are squeezed out and new ones embodying the latest labour-saving techniques and economies of scale come into being. One example of this attempt to increase productivity by discriminating against certain less productive sectors is the use of a 25 per cent tax on investment in office buildings in the service sector in 1967/68 and 1970/71.<sup>72</sup>

2. Abolition of tariff barriers. In this context Professor H  k points out that Sweden has one of the lowest tariff levels in the world.<sup>73</sup> The advantage of this, he argues, is that

The concentration and specialisation associated with unrestricted foreign trade generate a continuous process of industrial change and rationalisation. The appearance of new products and new techniques on world markets obliges firms, via stiffer competition, to seek more effective ways of solving their problems of employment and profitability. An industrial policy which accepts and presupposes free competition both from inside and abroad must be designed to facilitate and support continuous adjustment.<sup>74</sup>

3. Research and Development, H  k points out, has become costly and large corporations are favoured in this respect through their ability

72. Lindbeck, *op.cit.*, p.184.

73. Erik H  k, "Industrial Policies for Small Economies" in Australian Institute of Political Science, *Industrial Australia 1975-2000*, (Sydney, ANZ Books, 1974), p.83.

74. *Ibid.*, p.84.

to find sufficient resources. However, smaller companies have the advantage of greater flexibility and adaptability and are often also the source of greater creativity and unconventionality.<sup>75</sup> Hence R. and D. policies should be directed towards achieving a balance between the need to support indigenous technical and scientific advances exploiting existing comparative advantage in skills and research facilities, on the one hand, and the greater number of innovations finding their way into local use via multinational corporations, manufacturing licences from overseas etc. The new emphasis on research and development in Sweden in the late 1960s is reflected in the setting up of the Technological Development Board (STU) and the Swedish Development Corporation (SUAB) in 1968. These two bodies were to be concerned with the promotion of invention and product innovation.<sup>76</sup>

4. While wage pressure is one of the means by which it is hoped that less efficient plants will be forced to shut down, Sweden also faces the problem that, given external price determination in the competitive sector, wages must be restricted. Although there have been no incomes policies of the type favoured by most Western European nations<sup>77</sup> there have, however, been attempts to limit wage rises through the use of demand policy, and the manpower policy is also designed to prevent labour shortages. Combined with this are found many other policies favoured by Social-Democratic parties in Western Europe, as well as the O.E.C.D.,<sup>78</sup> such as increased social security benefits, worker participation schemes and trade union education:

Even though the trade unions stand to benefit collectively from persistent efforts to improve productivity, the threat to individual security

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75. See also A. Lindbeck, "The Efficiency of Competition and Planning", in M. Kaser and R. Portes (eds.), Planning and Market Relations, (London, Macmillan, 1971).

76. Ohlin, op.cit., p.136.

77. Höök, op.cit., p.90.

78. The West German experience is particularly relevant here.

may nevertheless result in a negative attitude. A strong trade union movement that is able to resolve such tensions and create a feeling of solidarity that can support a positive attitude to technical innovation is therefore of crucial importance for the process of change. It is, however, questionable whether this is possible at all without a proper role being played by income distribution and social security policies.<sup>79</sup>

5. In view of the failure of the manpower program to remove the unemployment problem in the northern region, the Manpower Board, in the 1960s was given a new role which involved it in creating job opportunities. Huge financial resources were given to it for the purpose of development grants, and the location of industry became one of its major activities.<sup>80</sup> In 1969 a special corporation was set up to acquire and start industries in depressed regions as well.<sup>81</sup> These new activities were introduced essentially because of political pressure from the north where rationalization of industry and the contraction and rationalisation of farming had proceeded rapidly without concomitant rapid reduction in population. But it was also felt that the industrial environment of the area could be improved by the creation of infrastructure (harbours, communications) which would enable firms to make use of external economies and thus increase the viability of industry in the region.<sup>82</sup>
6. One of the most important vehicles of government policy in most of the European nations has been the establishment of state run enterprises through which it is hoped that capital and labour movements may be influenced in accordance with government policy. The Swedish version of this came in the form of the Supplementary Pension Fund (ATP) which in the course of the 1960s came "to overshadow all other sources of long-term finance in Sweden".<sup>83</sup> In 1973 the government proposed to empower

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79. Höök, *op.cit.*, p.91.

80. Ohlin, *op.cit.*, p.134.

81. *Ibid.*, p.136.

82. Ländbeck, *op.cit.*, p.185.

83. G. Ohlin, "Sweden", in R. Vernon (ed.), Big Business and the State, (London, Macmillan, 1974), p.132.

the ATP to buy corporate stock, in order to increase its effectivity in influencing the rationalising process.<sup>84</sup> Similar enterprises in other European nations included, for example, the British Industrial Reorganisation Corporation whose purpose was to

cajole, coerce or bribe weak enterprises to join in larger units so that employment could be ensured, efficiency increased, or innovation stimulated. (85)

and the ENI (Enze Nazionale Idrocarburi) in Italy.

7. Finally, it should be pointed out that, despite the difference in emphasis in other respects, the 'Swedish model', like the Verdoorn Law, relies ultimately upon the operation of market forces. In other words, it is not a model for a centrally planned economy, but relies on indicative planning or more ad hoc types of government intervention. Lindbeck has suggested that even the term 'indicative planning' involves too strong an impression of the elements of planning in Swedish practice,<sup>86</sup> and implied that attempts by governments to impose direct controls on capital movements and prices had been tried and rejected as contributing to inflation in the immediate post-Second World War period.<sup>87</sup> H $\ddot{o}$ ök argued that "the promotion of a properly functioning market is...a principal task."<sup>88</sup>

In Australia, in the mid 1960s, the Vernon Report showed that it was no longer certain that the operation of the Verdoorn Law would bring about the desired rate of productivity growth. Previous governments had pursued a relatively laissez-faire approach to economic policy and in consequence there had grown up behind the protection of the high

84. Ibid., p.139.

85. R. Vernon, "Enterprise and Government in Western Europe" in Vernon (ed.), op.cit., pp.11-12.

86. A. Lindbeck, Swedish Economic Policy, (London, Macmillan, 1975), p.182.

87. Ibid., Chapter 2.

88. H $\ddot{o}$ ök, op.cit., p.84.

tariff barrier what Lundberg would have referred to as "an accumulation of inefficiencies". In Sweden, Lundberg argued, this was caused by profit inflation during the 1950s which led to a high degree of self-financing and a proliferation of wasted resources such as luxurious office buildings and preservation of inefficient plants. He argued that these accumulated inefficiencies provided "reserves of potential productivity gains for the '60s so that when the squeeze occurred and the incentives to reduce costs and raise productivity grew strong, there was an unusual accumulated reserve of opportunities."<sup>89</sup>

The concept of "an accumulated reserve of opportunities" implies, however, that the "Swedish model" cannot work except as a short term spur to economic growth because without the investment boom like that which preceded these policies both in Sweden and in Australia, the prospects for a continued high rate of productivity growth would not be good. Furthermore, as Lundberg pointed out, the implementation of these policies in Sweden resulted in an overall decline in the growth of total production, probably as a result of the profit-squeeze.

Plants were shut down and the labour saved in existing plants exceeded the rate of capacity expansion so that total employment (in hours) declined at the rate of 2% per year. (90)

This also had an adverse effect on Swedish balance of payments because from the middle of the 1960s expansion of export industries did not occur

89. E. Lundberg, "Productivity and Structural Change - A Policy Issue in Sweden", Economic Journal, (March 1972) Supplement, p.480.

90. Ibid., p.481. See also the September 1974 quarterly Survey of Capel Court Ltd:

"the threat lies in the distortions and barriers which inflation is putting upon the mobilization of funds for business expansion in Australia. Unless the front of inflation can be turned in Australia, business capital is going to be withheld and less business projects are going to go ahead. This would mean the economy slipping into a more profound and prolonged inflation than anything produced by short-term anti-inflation policies. In the period ahead one of the most important tasks facing Australian private enterprise will be to re-establish its capital market in such a way as to allow the momentum of productive investment to be maintained."

Cited in Catley and McFarlane "The Limits of Technocratic Laborism", Arena, no.36, 1974, p.59-60 fn. Also the Australian Financial Review, 5/12/74.

at a sufficient rate to offset a rising deficit. The "Swedish model" should, therefore, have appeal only as a short run, once and for all measure to ameliorate inflationary pressures which had arisen in the decade before the Australian Labor Party came to power. In other words, it should be seen as a short-run supplement to the operation of the Verdoorn Law and not a genuine alternative theory of economic growth. It remains to be seen whether in fact the A.L.P. views it in this light.

Ohlin commented that the rapidity of the industrial contraction brought on by Swedish rationalisation policies "wrecked many communities and threatened many more in an already sparsely populated country",<sup>91</sup> and Castles has pointed out that in 1969-70 and thereafter, a rash of wild cat strikes broke out in that normally industrially placid land.<sup>92</sup> This occurred at the height of the process and suggests considerable resistance to these policies among people affected. The more militant trade union tradition in Australia might prove a greater stumbling block.

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91. Ohlin, op.cit., p.139.

92. F. Castles, "Policy Innovation and Institutional Inertia in Sweden" (Paper presented to British Sociologists Association Conference, March 1975, unpublished). See pp. 8 and 11.

### CHAPTER 3

#### THE RATIONALIZATION OF THE CAPITAL STOCK

In the first two chapters it has been argued that the economic and political conditions applying in Australia in 1972 gave rise to the demand for an economic policy based on the need to combat inflationary tendencies and stimulate renewed growth by encouraging greater productivity of industry. In so far as the policies designed to achieve this end have arisen from a theoretical conception of the capitalist economy, it has been shown that the chief difference between the ALP and previous Liberal and Country Party governments has been in the area of the relationship between productivity and growth. The ALP, deriving much of its inspiration from Galbraith and other social scientists of similar mould, adopted a stance which gave technological progress and growth of productivity the status of motor force of the capitalist system. This technocratic view of the production process harmonised very well with social-democratic conceptions of progress towards a more rational and humane society. It led logically to a policy position which laid emphasis on increasing the overall productivity and hence the long term growth prospects of the economy by eliminating the less productive sectors of industry and transferring resources to those areas where productivity is high and rising.

The present chapter, as well as the next one, will be devoted to a more detailed discussion of the policies which the ALP tried to implement. In the course of this discussion it should become apparent that neither the theory of the capitalist dynamic, nor the policy prescriptions which are based on it accord with the realities of the economic crisis which they attempt to explain and resolve. In the final chapter the threads will be drawn together in an attempt to provide a more adequate



basis of understanding.

### Tariff Policy and Assistance to Industry

Over the greater part of the period since the Depression the Australian tariff has been regarded as one of the major policy instruments for ensuring full employment in manufacturing industry. In the latter half of the 1960s, however, the use of monetary and fiscal policies seemed sufficient for this purpose and instead attention had turned increasingly towards the effects of the long term inflationary trend and fears concerning the ability of the economy to sustain its post-War growth rate in the face of these pressures.

In 1965 the Vernon Committee lent semi-official support to criticism of the level of tariff protection for the first time. The Committee concluded that

Although, on the whole, we believe that the Tariff has not unduly impaired the ability of primary industries and, more recently, secondary industries to expand their export activities, we are satisfied that there is no case for the indiscriminate application of Tariff protection. (1)

In particular the Vernon Report suggested that, for the purposes of tariff making, the concepts of 'economic' and 'efficient' industries should be developed more and that greater effort should be made to ascertain the likelihood of, for example, greater economies of scale arising from increased protection of certain industries<sup>2</sup>. It also pointed out that excessively high tariffs would impose unnecessary cost burdens upon consumers, especially (via higher exchange rates) those export industries within the manufacturing sector on which future Australian industrial growth would rely.<sup>3</sup> The Vernon Committee was

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1. Commonwealth of Australia, Report of the Committee of Economic Enquiry, Vol. 1, (May 1965), para. 13.78.
  2. Ibid., para. 14.122.
  3. Ibid., para. 14.123.

especially critical of

the attitude, somewhat too prevalent, that once an industry exists it should receive all the protection it needs. We suggest that the [Tariff] Board should feel free to recommend that structural adjustments be undertaken when an industry has ceased to be, or shows no promise of becoming, economic and efficient.<sup>4</sup>

The Tariff Board itself took the matter up in its Annual Report of 1966-67 when it proposed that more consideration be given to

encouraging the development of, and the flow of new investment into, the more - rather than the less - economic activities within the protected sector. (5)

This criticism of the Australian tariff did not, however, receive much attention from the ruling Liberal-Country Party coalition. The ALP spokesman on tariffs was, on the other hand, more receptive to the idea of a reduction in the level of tariffs. Dr. Cairns at first couched the argument in terms of the benefit to "developing" countries which would follow from the importation by Australia of greater quantities of textiles and other consumer articles.

But to achieve these results, some areas of Australian industry will have to be cut back at least relatively and we will have to specialize on what suits us more than we have done. (6)

He was careful at that time, however, to rule out sweeping 'across the board' changes in the tariff level and argued instead that every industry would be judged "on its merits".<sup>7</sup>

ALP policy in this regard was given a more crucial role in the domestic economic sphere with the setting up of the Industries Assistance Commission which replaced the Tariff Board and expanded its function to

4. Ibid., para. 14.124

5. Tariff Board, Annual Report 1966-67, para. 63, cited in Industries Assistance Commission, Annual Report 1973-74, (Canberra, A.G.P.S., 1974), p.11.

6. J. McLaren (ed.), Towards a New Australia, (Melbourne, Cheshire, 1972) p.82.

7. Ibid., p.91.

cover all sectors of the economy. Among the functions of the new body, the legislation included the consideration of the desire of the Labor government to

- a) improve the efficiency with which the community's productive resources are used;
- b) encourage those economic activities in Australia, and the producers of the goods and services concerned, which contribute to improving the efficiency with which the community's resources are used;
- c) facilitate adjustment to changes in the economic environment by industries and persons affected by those changes... (8)

The IAC's Annual Report went on to describe the existing structure of assistance to Australian industry as the fortuitous result of a series of ad hoc decisions, the reasons for which often no longer applied and which seemed to the Commission to have little remaining justification. For example, the Report claims that while the subsidy paid to producers of milk for butter and cheese was introduced in 1942 in order to prevent prices from rising, the principle benefit from the subsidy had shifted to the producers and had served chiefly to subsidize farmers' incomes.<sup>9</sup> The tariff itself had been introduced as a revenue raising measure and had been used primarily to maintain full employment, a purpose for which the Commission argued there was no longer any real justification.<sup>10</sup>

Furthermore, the Report concluded that

the industries which have the largest comparative disadvantage, relative to industries overseas, tend to have received the highest levels of assistance. (11)

These are the industries to which the "Australian environment and endowment of resources are least suited" and which tend to be labour intensive

- 8. Industries Assistance Commission Act, Section 22(1), cited in Industries Assistance Commission, Annual Report 1973-74, p.2, para.11.
- 9. Ibid., p.7, para.49.
- 10. Ibid., p.7, para.52.
- 11. Ibid., p.11, para.76.

and to have a relatively low output per worker.<sup>12</sup> In the interests of efficient use of the community's resources, the Report advocates that these should not be encouraged to move into industries which require high levels of assistance, but instead "must be encouraged to move into activities which require low levels of assistance or none at all".<sup>13</sup> In making these recommendations the Commission echoes the sentiments of the Brigidon Committee which enquired into the Australian tariff in 1929, when it commented that

The most disquieting effect of the tariff has been the stimulus it has given to demands for Government assistance of all kinds, with a consequent demoralising effect upon self-reliant efficiency throughout all forms of production. (14)

The views of the Industries Assistance Commission have been accorded some attention here partly because its chairman, G.A.Rattigan, was chairman of the committee which, in July 1973, unanimously recommended to the Government a 25 per cent 'across the board' tariff cut<sup>15</sup> and partly because it sets out clearly the rationale behind this sweeping measure.

At the time of this tariff cut the Australian economy was in the midst of a world boom characterised chiefly by high commodity prices and thus a high level of Australian exporting. At the same time the Consumer Price Index for the preceding June quarter had shown a rise of 3.3 per cent (compared with a rise for the March quarter of 2.1 per cent and December 1972 quarter rise of 1.2 per cent).<sup>16</sup> The immediate justi-

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12. Ibid., p.16, para. 111.

13. Ibid., p.18, para. 121.

14. The Australian Tariff. An Economic Enquiry, (Melbourne, Melbourne University Press, 1929) cited in ibid., p.13, para. 89.

15. Other members of the committee were F.H. Gruen and B. Brogan (government advisers), S.F. Harris (Department of Overseas Trade), J.C. Taylor (Prime Minister's Department) and F.A. Bennett (Department of Secondary Industry). Statement issued by Whitlam and Cairns, 18/7/73.

16. Treasury Information Bulletin, no.75, July 1974, (Canberra, A.G.P.S., 1974), p.18.

fication for the tariff cut was thus an attempt to restrain price increases by helping to meet demand pressure through increased imports. But it is apparent that although the tariff cut was part of the government's short-term counter-cyclical policy, it should be seen at the same time as part of a longer term strategy to erase the inflationary pressures which had built up in the economy over the period of the post-War boom. In other words, it was intended to be a testing ground for the government (and IAC) structural adjustment policies and an attempt to shift resources out of sectors such as clothing and textiles, footwear, motor vehicles, electronics, white goods and chemicals, which relied on high levels of protection for their continued existence.

Simultaneously, a tribunal was to be set up to report on requests for relief from industries which suffered from import competition as a direct result of the tariff cut. Structural adjustment assistance was envisioned, for example, for the facilitation of changes in the number of firms operating in a particular sector, where investment in new equipment was required to raise productivity in the industry, and where changes in location of plant to more suitable areas became necessary. It was also hoped that the Australian Industries Development Corporation might play a role in assisting mergers so that economies of scale could be utilized. Finally, the plan for structural assistance was to include compensation for firms forced to close down.<sup>17</sup>

Cairns expected that approximately 29,000 people would become unemployed as a direct result of structural change induced by this measure<sup>18</sup>, but it was expected also that these would be readily re-absorbed in the prevailing conditions of high employment and economic boom, and that hardship incurred by those retrenched would be mitigated by the introduction of an incomes maintenance scheme and the planned manpower retraining scheme (through which it was hoped to reduce employ-

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17. The Australian Financial Review, 19/7/73.

18. The Australian, 16/8/73.

ment bottlenecks caused by changing technical requirements of industry).<sup>19</sup>

At the same time as the decisions to cut tariffs were being taken<sup>20</sup> the government was considering the problem of the rationalization of the vehicle industry and had set up a Commission of Inquiry into the Maritime Industry whose terms of reference included the rationalization of port facilities, the development of modern technology and the application of efficient manpower policies.<sup>21</sup> Also, in the last month of 1973 the Minister for Transport announced that the shipbuilding subsidy would be cut from 45 per cent to 25 per cent in the new year.<sup>22</sup>

By mid-1974 the effects of the July 1973 tariff cut had begun to manifest themselves in the economy. The balance of trade began to move towards a deficit as imports began to rise at a faster rate than the growth of exports.<sup>23</sup> In June the Minister for Manufacturing Industry admitted that the tariff cut had failed to cause a reduction in import prices<sup>24</sup> and the Attorney-General accused the retail stores of failing to pass on to consumers the price reductions they received and of reaping super profits.<sup>25</sup> But at the same time the former implied that price reductions had not been the chief aim of the measure. Instead the government was more concerned to outline a policy for weeding out the "slack industries" and fortifying those which had succeeded in overseas markets and had good growth potential.

In July, however, the effects of the tariff cut on employment in the industries affected began to become apparent. By this time general

19. The existence of boom conditions at the time should help to explain Cairns' change of heart about the usefulness of 'across the board' measures and his acceptance of the tariff cut as an anti-inflationary weapon.
20. A further slight reduction of the tariff level available to the electronics industry had also been announced. Australian Financial Review, 20/11/73.
21. Australian Financial Review, 12/12/73.
22. Australian Financial Review, 18/12/73.
23. Australian Financial Review, 11/3/74 and 10/5/74.
24. Australian Financial Review, 21/6/74.
25. The Australian, 11/7/74.

unemployment was beginning to rise sharply as the expected recession following the 1973 boom had set in. Unemployment figures (unadjusted) for June stood at 1.34 per cent, but rose to 2.52 per cent (3.18 per cent seasonally adjusted) in October and over 4 per cent by December.<sup>26</sup> In addition to this general unemployment brought on by the government's credit squeeze among other causes, the unemployment directly attributable to the tariff cuts was accelerating throughout this period. By January 1975 the official number thrown out of work as a result of structural change policies had reached a peak of over 23,000.<sup>27</sup> Both the Textile Workers' Union<sup>28</sup> and the Textile Council<sup>29</sup>, however, claimed that this figure was greatly exceeded by the unemployment in that industry alone.

There can be little doubt that the government contributed to the difficulties in which it found itself in mid-1974. Although the tariff cut was introduced at a time of economic boom, its effects could not be expected to be felt until approximately a year later. This meant that the contribution of the tariff cut to unemployment and closure of plants would be exacerbated by the effects of the currency revaluation of December 1972 which began to influence the trade figures towards the end of 1973 and particularly by the credit squeeze which had been applied in 1973 in an attempt to control inflation. Furthermore, the mini-Budget introduced by the Treasurer in July 1974 continued the emphasis of government policy on controlling inflation rather than on stemming an imminent recession.<sup>30</sup> Through demand restriction policies such as reduction or deferment of expenditure on the immigration program, child

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26. Department of Labor, Monthly Review of the Employment Situation, June 1974, October 1974 and December 1974.
27. Department of Labor, Monthly Review of the Employment Situation, January 1975.
28. The Australian, 16/9/74.
29. Australian Financial Review, 16/9/74.
30. The Consumer Price Index for the June quarter of 1974 showed a record 4.1 per cent increase. Treasury Information Bulletin, no. 75, July 1974 (Canberra, A.G.P.S., 1974), p.18.

care and abolition of the means test on social service benefits and the raising of indirect taxes, it was clear that as late as July 1974 the government was still prepared to countenance control of inflation by creation of unemployment.

Also in July 1974 the Industries Assistance Commission issued its report on the Australian vehicle industry which, in short, recommended the wholesale restructuring of the industry. In particular the IAC criticized the existing local content schemes for their effect in fragmenting automobile production and providing assistance to inefficient producers. The recommendations, if carried out, would, according to the report, have resulted in the closure of one of the four major car manufacturers.<sup>31</sup> This report was received quite favourably by the government at the time of its publication. The Minister for Labour reassured anxious trade unionists that the government's manpower schemes could easily absorb the net 2,000 workers who would be displaced by the provisions of the report. He argued that difficulties would be minimized since most unemployment would occur in the Sydney and Melbourne areas where alternative employment was more readily available than would be the case in South Australia (the main centre of vehicle production).<sup>32</sup> It seems that at this stage then the plan to restructure Australian industry was still fairly high on the government agenda.

In fact the course of events in the next few months caused the effective reversal by the government of many of the economic consequences of the tariff cuts. These reversals were largely a response to pressure from unions and employers in the industries threatened by the increase in imports. At the end of July 1974 the Ministers for Overseas Trade and Manufacturing Industry foreshadowed restrictions on imports in addition to those already imposed on women's dresses and coats unless

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31. The Australian, 12/7/74.

32. Australian Financial Review, 12/7/74.



the importers themselves adhered to a system of voluntary restraint.<sup>33</sup> Two days after the announcement of the impending closure of Phillips' plant at Adelaide the government agreed to subsidize the company's operations in order to avoid retrenchments.<sup>34</sup> In the footwear industry the threat of unemployment resulted in the imposition of import restrictions by October 1974.<sup>35</sup> A reduction in the level of exporting by the vehicle industry accompanied by a large increase in the level of imports, particularly from Japan, resulted in strong pressure from the trade unions for a ban on car imports. In October the Federated Clerks' Union refused to handle imported cars in protest at the closure of the Leylands plant in Sydney.<sup>36</sup> Continuing pressure from the ACTU and from the South Australian Labor government<sup>37</sup> eventually forced the Federal government to announce an increase in the tariff on cars by 10 per cent subject to the condition that if imports fell below 20 per cent of total sales this would be reduced.<sup>38</sup> This assistance to Australian car producers was later augmented by a temporary reduction in sales tax. A more general measure aimed at reducing the level of imports and thus maintaining production in these affected industries was the devaluation of the Australian dollar in September by 12 per cent.

Alongside these substantial reversals of the earlier program for restructuring the economy, divisions were becoming apparent within the

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33. Australian Financial Review, 13/7/74. Hong Kong, India and China later accepted voluntary restrictions (Australian Financial Review, 5/9/74.)
34. The Australian, 12/7/74.
35. The Australian, 19/10/74.
36. The Australian, 18/10/74.
37. See The Australian Financial Review, 28/10/74. The South Australian Premier argued that the proposal of the I.A.C. for restructuring the car industry would result in far greater unemployment than was at first predicted and would affect South Australian industry particularly since in "considering the disruption to the S.A. economy the loss of jobs in the motor vehicle industry would need to be considered, of course, in conjunction with expected falls in the electronics and domestic appliance industries." His predictions were supported by another report commissioned by the federal government from a firm of management consultants. (The Australian, 24/10/74)
38. The Australian, 29/11/74.

government on the question of plans for further tariff reductions and encouragement of structural change. In early September 1974 the Minister for Overseas Trade, Dr. Cairns, argued that

Action by the Government to slow inflation will produce unemployment and that is a fact, however unpalatable, that must be faced by the Government and by the people.<sup>39</sup>

But before the end of the month he had said that the economic conditions which had justified the tariff cut in 1973 now no longer applied and that protection must be restored in order to ease the unemployment situation.<sup>40</sup> This change of view clearly put him into conflict with the Prime Minister who two days after Cairns' statement confirmed his own commitment to tariff reform.<sup>41</sup> In October Cairns continued to support the deferment of any general review of the tariff, but the Caucus Economic Committee showed that many members of the government still regarded structural adjustment as an important priority with its decision to advocate rationalization of the vehicle industry through the development of a specialized and more efficient sector which would provide the basis for exports of cars and components, in particular by creating opportunities for economies of scale and indigenous technological capabilities.<sup>42</sup> In November the Minister for Manufacturing Industry denied that more than 10 per cent of the total unemployment could be attributed to the restructuring program of the government.<sup>43</sup> But only a week later the Prime Minister instructed that no further tariff reductions would be made if they were likely to cause any social dislocation or unemployment.<sup>44</sup>

An important factor in the Labor Party's eventual and reluctant

39. The Australian, 10/9/74.

40. The Australian Financial Review, 23/9/74.

41. The Australian, 25/9/74.

42. The Australian, 26/10/74.

43. The Australian Financial Review, 20/11/74.

44. The Australian, 25/11/74.

retreat from the rationalization plan was the failure, through the tariff policy and other structural adjustment policies, to achieve a solution to the pressing problems of inflation and its effects on the growth rate. High on the list of barriers to its successful implementation was the onset of a relatively severe recession after July 1974. The recession itself was characterized by a contraction in world trade following the collapse of commodity prices and the consequent contraction in domestic production coinciding with the effects of the government's credit squeeze of the previous year. Thus one of the chief elements of this failure was the fact that rationalization of this type is a strategy for a period of economic growth. It was pointed out in Chapter 2 that the process of restructuring in Sweden had resulted in a slowing down of the growth rate. For structural adjustment to be successful there must be no lack of industries growing at a sufficient rate to absorb the pockets of unemployment created by the closure of firms. Without such growth industries, the policy requires an active government policy of industrial development such as that pursued by the Swedish government in the northern region of that country. In Australia, the effects of the tariff cuts were beginning to be felt just at the time when a generalized recession of the international economy was commencing. At such a time there were few, if any, growth industries capable of re-absorbing the unemployed so that the consequence of the tariff cut was merely to reinforce and aggravate the effects of recession.

Moreover, as was pointed out by the new Minister for Manufacturing Industry in May 1975, one of the problems faced in the application of structural adjustment was the failure to begin the National Employment and Training scheme and the Regional Employment Development scheme in time, the failure of the incomes maintenance scheme to soften criticisms of the high unemployment rate and the failure to establish the proposed Structural Adjustment Board to provide assistance to businessmen affected

by the policy. Nor could it be hoped that the essentially long term plans to establish growth regions and provide funds to high technology industries through the Australian Industries Development Corporation would be ready in time, especially since the attempts to provide the latter with working capital had been obstructed by the Parliamentary Opposition.

Without these measures to maintain the buoyancy of the economy as the rationalization measures took effect, the whole policy ran into strong opposition from several quarters. The structural adjustment scheme was held, particularly by unionists, to be responsible for much of the unemployment resulting from the contraction of the economy. At the ACTU meeting in September, the trade unions accepted the concept of a 'social contract' whereby they would agree to support wage restraint as an alternative to, among other things, the unemployment caused by the increased import competition in those industries affected by the tariff cuts. They demanded import restrictions in those industries as part of the contract.<sup>45</sup>

Moreover, the squeeze on profits in the manufacturing sector which had been deliberately exacerbated by the tariff cuts earned the increasing opposition, not only of small businessmen and workers, but of the huge financial institutions who, faced with the growing debt of manufacturers and their diminishing ability to pay, began to urge alternative policies.

The oft repeated threat of having to face another election in the near future may thus have influenced the Labor Party's decision to reverse its policy in late 1974.

The main conclusion which can be drawn so far, however, is not that the policies were defeated by the opposition of vested interests, but that they had failed to resolve the crisis of capitalism in Australia which they had originally been called upon to do. They had been intro-

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45. The Australian Financial Review, 25/9/74.

duced in order to overcome the problem of the detrimental effects of inflation on the rate of growth, but had in fact contributed to the contraction of the economy and they had not only failed to reduce the level of industrial disharmony, but had exacerbated it. Instead of the much vaunted rational and planned approach, the new measures had led only to a continuation of the ad hoc responses to political pressure practised by the previous government.

There was, however, no intention of abandoning the rationalization program on a permanent basis and this became clear early in 1975. Cairns argued in a television interview in February<sup>46</sup> that a restructuring policy was

quite unrealistic unless you've got a high level of employment. When the economy is containing 300,000 unemployed, when it's in recession, when it possibly may go further into recession, then restructuring is an unrealistic objective.

He continued, however, to argue that

it's possible that there will be arrangements reached between a couple of [vehicle] producers and the Government out of this that will produce a more economic arrangement, that will produce a situation where certain things are made in Australia and will be exported to the area and things will come from the area into Australia. I think this can come about as a result of the entry of one or more Japanese producers into Australia and this would be consistent with the restructuring, with the development of an automotive industry that would be (a) more economic and, (b) operating more rationally in the region.

Later in the same interview he commented that tariffs were an alternative strategy for economic growth to the sort of planning with which, he argued, a more rational result could be achieved.

The new Minister for Manufacturing Industry also reasserted the validity of the restructuring approach in May when he said:

Assuming economic circumstances permit we will

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46. Monday Conference, transcript, (Australian Broadcasting Commission, 1975).

no doubt again wish to adopt the broad thrust of the IAC recommendations on tariff levels because of the fundamental importance of inducing a more competitive environment for Australian industry through greater exposure to international competition. (47)

### Rural Policy

The response of most rural producers to the government's July 1973 tariff cut was favourable. One of the continuing justifications for the high level of tariffs to manufacturing industry had been the encouragement of the transfer of resources away from the primary industries in order to diversify the Australian export base and render the economy a little less vulnerable to the fluctuations of world prices in farm products. This not only meant a redistribution of income away from the rural sector<sup>48</sup> but has probably contributed to the costs faced by farmers through higher prices of equipment and diversion of resources away from rural production.<sup>49</sup> In addition, the primary producers concurred with the use of the tariff cut as an anti-inflationary weapon in preference to revaluation which the government had used before and which served, as far as the industry was concerned, only to raise prices of its exports.

On the other hand, the broad contours of government policy within the rural sector in the post-War period had been determined not, as in the case of tariff policy, by the need to transfer resources towards manufacturing, but rather by the effects on Australian agriculture of the Depression and by the physical shortages of the Second World War

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47. Australian Financial Review, 8/5/75.

48. Australian Government, Rural Policy in Australia: Report to the Prime Minister by a Working Group, May, 1974. This paper points out that there has been a long term decline in average real income per farm family (excluding the boom of 1972/3 and 1973/4), para. 2.36.

49. The Australian Woolgrowers' and Graziers' Council asserted that the cost of the tariff to the rural industry in the 1973/4 financial year would be \$465 million. The Australian, 13/3/74.

period.<sup>50</sup> The emphasis was thus on the need to restore productive capacity and efficiency and to increase output.

Areas of government intervention in the rural industry prior to the Labor Party's accession to office included expenditure on measures to improve efficiency - research, disease control, overseas promotion, reconstruction - concessions compensating for disabilities (tax averaging, drought relief, devaluation compensation), stabilization funds, bounties on butter, cheese, cotton, and input subsidies such as that on fertilizers, tax concessions such as the investment allowance, accelerating depreciation allowance, estate duty concessions and deductability of certain types of capital expenditure.<sup>51</sup>

The result of this emphasis has been that while the bulk of Australian agricultural industries display a very high degree of productivity relative to their overseas counterparts, there are pockets which have developed in a way which involves less efficient use of resources:

By world standards, Australian agriculture as a whole is very efficient. The technical performance of the major industries such as wool, wheat, beef and sugar has been very impressive; in other industries, sectors of highly efficient production are present although other parts of the industry lag - sometimes badly. Its economic efficiency vis-a-vis other parts of the economy is demonstrated by its general competitiveness on world markets. (52)

It is these pockets of inefficient production which were the main areas of concern for the policies of the Labor government. Indeed the previous government had already introduced several measures aimed at restructuring the rural sector in a way that would increase the overall productivity with which resources were used. In particular, the Liberal-Country Party coalition had introduced three measures, the Rural Recon-

50. Rural Policy in Australia, para. 1.22.

51. Ibid., paras. 2.54-2.63.

52. Ibid., para. 5.1.

struction Scheme (1971), the Marginal Dairy Farms Reconstruction Scheme (1970) and the Horticulture Reconstruction Scheme (1972). The objectives of these schemes are firstly, to assist farmers, deemed to have long run prospects of becoming economically viable, to re-arrange their debts to have longer time for repayment and more funds available for investment; secondly to assist the build up of farm size into more economically productive units; and thirdly, to provide rehabilitation assistance to farmers leaving the industry because they are not eligible for either of these first two forms of assistance.

Soon after the ALP Government came into office, the Task Force appointed to review continuing expenditure argued that

In broad terms there are three general grounds on which assistance to the agricultural sector can validly be predicated: to provide temporary assistance against the effects of abnormally adverse seasonal conditions or market disruptions; to promote or provide time for structural adjustment (including, given the rigidities of resource management in agriculture, assistance in sustaining income levels); and, in a situation where substantial tariff reductions are not practicable, to offset the effects of industrial protection in reducing relative farm incomes and the relative attractiveness of farm resource use. (53)

In the light of this assessment, the report went on to attack several of the measures by which previous governments had supported the rural sector. In view of the substantial expenditure being outlaid on rural reconstruction and the increased concentration and productivity of the more efficient southern dairy farms, the report argued that there was little remaining justification for continued price support measures.<sup>54</sup> Similarly, it argued that the subsidies and bounties on fertilisers had

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53. Review of the Continuing Expenditure Policies of the Previous Government, June 1973, Report of the Task Force appointed by the Prime Minister (Coombs Report) (Canberra, A.G.P.S., 1973), p.15.

54. Ibid., p.16.



achieved their purpose.<sup>55</sup> Also, quite apart from the equity considerations involved in the taxation concessions to 'Pitt Street farmers', the report argued that the encouragement given to the transfer of resources into rural sector by such measures seemed to be in conflict with other government policies in the sector.<sup>56</sup> In addition to these reductions in government expenditure, the Coombs Report urged that as a consequence of the changing attitude in government towards decentralisation, many of the costly and ineffective piecemeal measures aimed at promoting decentralisation into rural areas should be discontinued.<sup>57</sup>

Under the Liberal-Country Party coalition a price stabilization plan for the dairy industry had operated in the form of bounty payments distributed amongst producers of butter, cheese and related butterfat products<sup>58</sup> and in April 1974 the Labor government announced that this scheme would be replaced by a system of subsidies. It was argued that the old bounty system had merely added to the incomes of the wealthier farmers and affected the price of land and other dairy inputs. The new scheme, on the other hand, was aimed at encouraging adjustment so that eventually no support would be necessary.<sup>59</sup> In consequence of the decision to phase out the bounty on butter and cheese production, it was halved in the September 1974 Budget. Also in the same Budget, it was announced that the Phosphate Fertilisers Bounty Act would be allowed to lapse when it expired on December 31st of that year.<sup>60</sup>

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55. Loc.cit.

56. Loc.cit. See also: OECD Agricultural Policy Reports, Agricultural Policy in Australia (Paris, 1973) which argues that "There is little doubt that the existence of these concessions has attracted capital into agriculture from people whose main source of income is outside the agricultural sector as well as promoting investment by farmers themselves. Many of these concessions encourage investment designed to open up new land; in this way, they would appear to be somewhat in conflict with recent policies designed to cope with problems of over-supply of certain agricultural products and falling incomes in the agricultural sector." p.97.

57. Coombs Report, p.19.

58. OECD, Agricultural Policy in Australia, p.67.

59. The Australian Financial Review, 9/4/74.

60. Budget Speech 1974/75, The Australian Financial Review, 18/9/74.

In addition to the continuing attempt to restructure the agricultural industry, the Labor government introduced a new Northern Development policy. This had been an important aspect of the Liberal-Country Parties' platform, inspired partly by growth considerations, but very largely by a rather ancient Australian prejudice that called for population of the vast northern areas in order to prevent their alienation by the "Asian hordes". The Coombs Report, however, recommended that some of the projects associated with this policy - for example, the Ord River Scheme - be assessed in future in terms of their economic viability, in other words according to the size of the expected return in relation to government outlay on the project. On this basis the report advocated the deferment or cancellation of this project, along with several other National Water Resources Development Programs such as the Dartmouth Dam. In November 1973 Whitlam made a statement on Northern Development in which he argued that the criteria of economic justification would in future be applied. Local considerations were no longer sufficient and northern development projects would have to comply with the needs of national policy, he said.<sup>61</sup>

From these few points, then, it is clear that the Labor Government's attitude towards the rural sector was a selective one aimed at increasing the productivity and hence the growth of the industry while enabling resources to be transferred away to the manufacturing sector. In this aim they received some support from the stronger sections of the industry. For example, Mr. J. Darling, chairman of a large pastoral firm argued that structural adjustment was vital to maintain the rate of productivity increase in the rural industry and supported a more active government approach to long term restructuring, especially in view of the fact that the current boom in agriculture being experienced in 1972-74 would discourage initiatives towards this end within the industry

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61. The Australian Financial Review, 27/11/73.

itself.<sup>62</sup> Similarly the production of a Green Paper by a group of government advisers in June 1974 recommending restructuring of the rural industry was received favourably by the Graziers Association of New South Wales and the Australian Woolgrowers' and Graziers' Council<sup>63</sup> although it was attacked by other sections of the industry, principally on the grounds that it recommended the end of margarine quotas. It hardly needs to be pointed out that this support came almost exclusively from the more productive elements of the rural industry and hence from those most favoured by the policy.

This favourable attitude of the rural industry towards the rationalization proposals was, however, partly conditioned by the expectation, arising from the Green Paper report and from Government pronouncements<sup>64</sup> that regional development projects would be undertaken by the government in selected growth areas (as opposed to the previous government's policy of indiscriminate decentralization measures) in order to take up the unemployment slack which would be created by the rationalization process.<sup>65</sup> In the event, the unemployment created by the process of restructuring in rural industries has been augmented by that resulting from the 1973 tariff cuts and by the general decline in employment accompanying the deepening recession in the economy as a whole. The Regional Employment Development scheme, as will be seen in the next chapter, became little more than an unemployment relief scheme and little headway was made in the growth of the selected areas of regional development such as Albury-Wodonga. As in the case of the

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62. The Australian Financial Review, 18/12/73.

63. The Australian Financial Review, 8/7/74.

64. See, for example, government publications such as the Department of Urban and Regional Development's Regions, (Canberra, A.G.P.S., 1973).

65. Rural Policy in Australia points out that the drift of the rural population towards the cities is a relatively insignificant process and that persons unemployed in country areas tend to gravitate towards country towns where unemployment rates are significantly higher than in metropolitan areas. See paras. 9.136 and 8.92.

tariff cuts, the government was caught in a situation where partly through the lack of adequate planning, partly through the worsening economic situation, it had contributed to the creation of unemployment in one section of the economy without having ready any machinery which could absorb the extra labour force into new industries.

#### Economic Policy and International Links

The high rates of inflation prevailing in the world economy in the early 1970s could be said to have a dual effect on the domestic Australian economic policy. In the first place, if the rate of growth of the economy is dependent upon a measure of stability being obtained through cyclical management, then one of the chief problems facing governments - Liberal or Labor - in the period after 1971 was the effect on the domestic economy of the spectacular increase in capital inflows, partly as a consequence of increased world liquidity and partly because of undervaluation of the Australian currency leading to speculation. In a paper on overseas investment in Australia in May 1972, the Treasury raised the "possibility that capital inflow, in some of its manifestations, may seriously aggravate the difficulties of domestic economic management".<sup>66</sup> This paper pointed out some of the difficulties of controlling capital inflows and their effects on the money supply.

In the second place, the developing crisis in the domestic economy itself will have certain effects on the rate of capital outflow from Australia. One of the chief aspects of inflation is, of course, the rising prices of capital equipment, raw materials and labour experienced by all sectors of the economy. In the monopolistic sector these rising costs to the firm can be passed on to a certain extent in higher prices to the consumer, but in the more competitive sector of the economy, especially among the firms competing internationally the problem of

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66. Overseas Investment in Australia, Treasury Economic Paper, no. 1, May 1972, (Canberra, A.G.P.S., 1972), p.1.

rising prices and rising interest rates becomes a profit squeeze. In the monopolistic sector, as a result of the ability of the monopolist to pass on cost increases, trade union pressure is able to maintain the level of real wages. But in the competitive sector there will be a tendency for wages to lag behind. The inability of firms and workers in the competitive sector to keep up with the pace of inflation leads to a limit being placed on the capacity of the monopoly sector to pass on cost increases in higher market prices - that limit being determined by the capacity of the market. In such a situation, with high wages and interests rates squeezing profits in the manufacturing sector, capital is forced to find new outlets of investment in order to increase its rate of profit. It is not surprising then that the early 1970s saw an increasing interest by Australian firms in the possibility of expanding into the South East Asian region. Already, by 1972, several large firms such as the Broken Hill Proprietary Co. Ltd. had established subsidiaries in Indonesia, Malaysia, Taiwan and Papua New Guinea. And at the same time some of the multinational corporations with operations in Australia had begun to use Australia as a base from which to extend operations into the region as a whole.<sup>67</sup> This tendency, and the Australian government's response to it, will be discussed in more detail below.

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One of the most prominent features of ALP policy statements in 1972 was the emphasis on the economic nationalism which had been espoused by certain sections of the population on a growing scale in recent times. Many members of the trade union movement, for example, had been influenced by the obvious strength of the multinationals and their ability to respond to industrial activity by shifting resources from one part of the

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67. R. Catley and B. McFarlane, From Tweedledum to Tweedledee, (Sydney, ANZ Books, 1974) pp.58 and 65.

globe to another and by their ability to avoid taxation on their enormous profits, or controls over their capital movements, through transfer pricing and other avenues. Others had been impressed by the monopolisation of some sectors of the economy by these foreign owned agglomerates and their ability to squeeze small local businessmen out of the field. Yet others had observed the huge quantities of foreign capital which had come to control a large proportion of Australian mineral resources during the mining boom of the 1960s, and feared loss of Australian control over such a strategic sector.

In any case, the ALP during its 1972 election campaign was able to promote these nationalist sentiments to its full advantage. The reason for Labor's ability to exploit such a strategy at this particular time can be explained by two factors. The first of these factors is the need, in times of growing crisis, for the capitalist system to maintain social cohesion. In 1972/73, apart from the high level of inflation which seemed to threaten the process of capital accumulation itself, the level of industrial disputation was reaching new proportions.<sup>68</sup> The attack upon foreign ownership and control of Australian industry and resources thus provided a convenient vehicle for the Labor government to use an alliance between the working class and capitalist class whose real purpose was to isolate militant sections of the labour movement. At the May 1974 election, when there was<sup>a</sup> very high level of industrial activity, Whitlam tried to make the multinationals and foreign ownership of Australian resources the main issue. He was forced, however, by the Opposition and by pressure from within his own Party, to fight the election on the issue of inflation.

The second factor arises from conflict within the capitalist class itself, and in particular the need in a developing crisis to rationalize

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68. In October 1973 the Australian Financial Review reported that more working days were being lost through bigger, longer and costlier, although fewer, strikes (9/10/73).

the economy by attacking speculative and other unproductive areas of investment and promoting technologically advanced, high growth sectors. In the context of 1972/73, this meant the stemming of highly volatile capital inflows which were inflating the money supply in Australia, the tying of Australian export production more closely to the requirements of its (mainly Japanese) markets especially in view of the effects of the energy crisis on world commodity prices, the exploration of new markets in the centrally planned economies which were less affected by world inflation and thus more secure<sup>69</sup> and the encouragement of Australian investment in the Asian region.

The ALP's economic nationalism should be seen, then, in the context of the crisis facing Australian capitalism and the need of the government, in the interests of the capitalist class as a whole, to attack some sectors of capital whilst promoting others and at the same time attempting to forge a more harmonious co-existence between capital and labour. That the main thrust of the attack was against unproductive sectors of capital rather than foreign capital per se will be seen from the following discussion.

In a belated attempt to impose some control on the rate of capital inflow in 1972, the McMahon Liberal-Country Party government had, under the threat of impending electoral defeat, introduced legislation<sup>70</sup> to set up a committee which would scrutinize applications by overseas investors to buy shares in certain Australian firms. §Soon after its assumption of office, the ALP introduced several measures aimed at further stemming the flow of foreign capital. These included the revaluation of the Australian currency in December 1972 by 7.05 per cent,<sup>71</sup> the raising

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69. Australia's more independent foreign policy stance can be seen largely as a function of this sort of consideration.

70. The Companies (Foreign Takeovers) Act, 1972.

71. Australian Government Digest, vol. 1, no. 1, (Canberra, A.G.P.S., 1973), p.276.

of the variable deposit requirement on overseas borrowing to 25 per cent<sup>72</sup> (this was extended to cover 'indirect' borrowing in February 1973) and the announcement, in December 1972, that preference would be given to Australian suppliers in government purchasing.<sup>73</sup> The policy of the government was to protect certain sectors in particular from takeover by overseas interests and in March of that year it was announced that a freeze would be imposed on foreign investment in real estate<sup>74</sup> while vigorous action was also promised to protect the Australian petroleum industry.<sup>75</sup>

That the intention and application of these measures was part of an attempt to stem the tide of capital inflows and as such was a monetary measure rather than a patriotic defence of Australian ownership and control of resources can be seen from a study of their effectivity in controlling foreign investment. The Foreign Takeovers Committee, for example, definitely prohibited very few takeover applications of the several hundred placed before it. There was thus clearly no anti-foreign bias about the committee's deliberations. The more significant factor in this context is the size of the takeover proposals. When the McMahon government's Act was extended for a further period of 12 months in November 1973 the biggest takeover bid to come before the Committee to date had been only \$5 million,<sup>76</sup> indicating that perhaps the main function of the Committee had been to deter prospective takeovers by its public scrutiny. In addition, the timing of the revaluation of the currency and the imposition of the high variable deposit requirement (later raised to 33 1/3 per cent) suggest that their purpose was anti-

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72. Loc.cit.

73. Australian Government Digest, vol. 1, no. 1, p. 1.

74. Australian Government Digest, vol. 1, no. 1, p. 423.

75. R.F. Connor, Commonwealth Parliamentary Debates, (House of Representatives), 3 April 1973 and 16 October 1973.

76. Australian Financial Review, 28/11/73.



cyclical rather than anti-foreign, especially in view of the fact that the variable deposit ratio was dropped again in August 1974 to five per cent<sup>77</sup> and, after a further revaluation of the currency in September 1973,<sup>78</sup> the government devalued it again under pressure from unions in import competing industries a year later. These measures to reverse the direction of capital flows<sup>79</sup> were clearly in response to the deepening recession in the latter half of 1974 and it is significant that there are few references to the economic nationalism of the 1972/3 period thereafter. The one significant exception to this is the establishment in June 1974 of the Interdepartmental committee on Foreign Takeovers<sup>80</sup> but as Whitlam pointed out at the time, this committee, like the first one, would have a purely advisory capacity, and furthermore would conduct its investigations in secret<sup>81</sup> thus giving it less deterrent ability than its earlier counterpart. This committee did, however, cover takeovers of assets as well as shares, thus closing some of the loopholes in the old legislation which had allowed about a third of takeovers to escape scrutiny altogether.<sup>82</sup>

But the most crucial aspect of the Labor government's policy towards foreign investment is revealed in a speech made by Whitlam in Tokyo<sup>83</sup> where he stated that

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77. Australian Financial Review, 8/8/74.

78. Australian Government Digest, vol. 1, no. 3, (1973), p.1172.

79. The success of the earlier measures in drying up the capital inflows was born out by the statements of two financiers: Mr. D. Nicol, Manager of Martin Corporation Ltd. (a merchant bank) said that the flow of overseas capital and loan funds into Australia had virtually ceased because of the 30 per cent variable deposit ratio and this would force up interest rates and affect local credit in early 1974. Australian Financial Review, 22/11/73. The Chairman of the Melbourne Stock Exchange, Mr. J.C. Johnston, said that "it is clear that during the last six months there has been a reassessment of the prospects of investment in Australia by overseas investors". Australian Financial Review, 9/11/73.

80. Australian Government Digest, vol. 2, no. 2, (1974), p.455.

81. Australian Financial Review, 14/6/74.

82. The Australian, 24/9/74.

83. Australian Financial Review, 7/10/73.

We intend to ensure that foreign capital inflows are associated with productive investment which adds to Australia's real resources and brings us benefit.

The platform of the Australian Labor Party states that the aim of industrial policy is to "promote in Australia high technology industries with a significant world market growth potential, and to protect Australian science based industries against takeovers".<sup>84</sup> Cairns also elaborated this theme in a speech in Melbourne in July 1973:

... much of the Australian economy and society we have created is vulnerable to international forces and competition. Today the world industrial dynamic is more characterized than ever by relatively low wages coupled to advanced technology, and today international trade is less conducted according to the rules of competition and comparative costs than ever it was.<sup>85</sup>

In other words, Cairns argued that competition is carried on by means of technological advantage with technological transfers between multinational subsidiaries being more significant in determining competitiveness than the orthodox theory of 'natural advantage' due to cheap labour and resources.

It is in the light of these statements that the government's sectoral approach to capital inflows can be understood. For instance, the freeze on foreign investment in real estate in March 1973 and the prior announcement of strategic sectors to which capital inflows would be strictly controlled should be seen in the context of the government's attack on speculative capital. Also towards the end of 1973 it became apparent that property speculators were being squeezed, partly as a result of the government's credit squeeze, but chiefly because of the tight control over the inflow of foreign funds through the exceptionally high variable deposit ratio, with the result that a slowing down in the rapidly increasing prices of housing and land was expected.<sup>86</sup>

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84. Australian Labor Party, *Platform Constitution and Rules*, (1973) p.18.  
 85. *Australian Government Digest*, vol.1, no.3, (1973) p.1083.  
 86. *Australian Financial Review*, 31/10/73.

The expansion of the Australian Industries Development Corporation by the Labor government is a further instance of this approach to foreign investment. As pointed out in Chapter 1, the primary purpose of this body was not to 'buy back the farm' as had been widely canvassed in ALP statements; for example, Cairns' pronouncement that

The alternative for Australia has never been between private enterprise and nationalized industry - the real alternative is between Australian ownership and foreign ownership.<sup>87</sup>

By far the more important function of the AIDC was the task of co-ordination and reconciliation of the interests of the government and private sector. In addition to the proposed National Investment Fund which, according to the then Treasurer Mr. Crean, was intended to be able to mobilize "large sums of capital for nationally important industrial development by Australian owned and controlled companies"<sup>88</sup> and to create "the most single powerful financial and industrial institution in the country"<sup>89</sup> the function of the AIDC was to be the active encouragement of foreign investment where it would be technologically progressive or would otherwise contribute to increased productivity of Australian resources and industry. Organisations such as the AIDC were specifically set up to influence the business sector in such a way that economic development would follow the strategy prescribed by government policy: they were the principal agencies for pursuing the type of

87. The Australian, 31/1/74.

88. Australian Government Digest, vol.2, no.2, (1974), p.506.

89. Australian Financial Review, 27/8/73. For this the government earned the lasting antagonism of the life insurance corporations since it threatened to replace them as the most important source of finance. This antagonism was certainly carried over into, and indeed provided much of the impetus for, the campaign against the Australian Government Insurance Corporation in 1975 (see L. Rivers and J. Hyde, Arena, no. 39, 1975). In spite of this, Cairns clearly hoped to secure capital subscriptions from the life offices and pension funds over and above those automatically flowing in from the 20:30 rule. Australian Financial Review, 23/11/1973.

planning which the ALP endorsed.

The resources policy of the ALP can also be seen primarily in terms of the need to rationalize production in raw materials rather than as a dogmatic nationalist response of a "backward looking, Depression oriented" minister. As was noted in Chapter 1, the mining industry contributed substantially to the boom in the Australian economy in the late 1960s. Speculation in mining stock as well as genuine mining enterprise was encouraged not only by the prospects of high profits, but also by the generous taxation concessions available to investors in the industry. At the time of the Labor Party's assumption of office, owners of mining shares enjoyed tax concessions upon their dividends and the companies themselves received tax exemption on all profits from gold mining and on one fifth of profits from selected products including bauxite, beach sands, copper, nickel and tungsten.<sup>90</sup> In addition allowances on depreciation were such that companies could write off immediately against profits all costs of exploration, preparation and development, over a period of five years write off the costs of housing and other communal facilities provided, and over a period of ten years write off the costs of infrastructural expenditure on railways, roads, bridges, pipelines and so forth (but not ports).<sup>91</sup>

A further problem in terms of domestic economic management was presented by the high level of multinational involvement. E. Russell has pointed out the problem associated with the effects of transfer pricing on mining profits and hence on tax revenue to the state. The same author also noted that in an industry such as mining, where a high level of capital expenditure is necessary, companies with a high debt/equity ratio will pay lower taxes and if the debt is owed to a parent

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90. T.M. Fitzgerald, The Contribution of the Mineral Industry to Australian Welfare, Report to the Minister for Minerals and Energy the Hon. R.F.X. Connor M.P. (Canberra, AGPS, 1974) p.11.

91. Ibid., p.13.

company this makes it all the more difficult for the host state to control flows of money.<sup>92</sup>

The first priority of the Labor government was to wipe out the speculative boom in the mining industry which, it felt, was contributing to the inflationary spiral. In August 1973, therefore, the taxation concessions to investors in mineral company shares was terminated.<sup>93</sup> In the 1974 Budget the Treasurer announced that the petroleum search subsidy had been allowed to expire from June 30th 1974, that the tax deductions on mineral production would be withdrawn from July 1st 1974 and that besides disallowing the deduction for capital raising, the government had decided to extend the period of deductibility for development costs to cover the estimated life of the mine.<sup>94</sup>

The establishment of the Petroleum and Minerals Authority can also be seen as part of the government's strategy to rationalize the mining industry, and can be seen to have a role particularly in relation to the aforementioned problem of controlling capital flows. The PMA was designed so that the government should be able to exercise influence on the mining industry through direct operational involvement rather than through attempting to gain bargaining power (for example, by cartellisation of Australian firms). The Act enabled the Prime Minister's Department to explore, advance loans or take equity in various ventures. The government also planned to intervene in a similar manner in other aspects of the industry through its national pipeline grid and its proposed entry into the processing and sale of uranium.

The aim of the planned rationalization of the mining industry was that Australian production should be tailored more carefully to suit the needs of the Japanese market and this would help to shield the industry

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92. E. Russell, "Optimal Utilization of Australian Mineral and Energy Resources", (unpublished).

93. Fitzgerald, *op.cit.*, p.9.

94. Australian Financial Review, 18/9/74.

from the effects of fluctuations in world commodity prices. That its aim was not to 'hold the Japanese to ransom' or in any way protect Australian strategic resources from being used up is shown by the statement by Whitlam that "the need to remain on good terms with Japan, would dictate the limit to which Australia could go in supporting the attempts of supplier nations to secure a greater income share from their natural resources".<sup>95</sup> Since world commodity prices were at very high levels throughout 1973, and since the Japanese demand for coal in response to the energy crisis had resulted in a reinvigoration of the Australian coal industry at the same time, the reaction of many representatives of the mining industry to the government's policy was at first favourable, or at least compliant. Mr. R. Madigan, chairman of Hamersley, for example, was reported urging management to "learn to live with the Labor government".<sup>96</sup> The same article reported that the public indignation of Woodside-Burmah executives about government policies was contradicted by the evidence of their correspondence with the Minister for Minerals and Energy which the latter had tabled in the House of Representatives. There was, however, considerable resistance to these policies from other sections of the capitalist class. The Petroleum and Minerals Authority was successfully challenged in the High Court. The extensions to the AIDC were opposed by the Opposition in the Senate and, when the National Investment Fund failed to eventuate, the government's attempts to raise sums of money abroad in order to finance its schemes fell through amidst considerable clamour from the Opposition benches. Here too then, it is possible to see the pattern that characterises others among the Labor government's restructuring proposals. In this area, as in others, the attempt to stimulate growth by raising productivity and eliminating relatively unproductive sectors of the

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95. Australian Financial Review, 10/10/74.

96. Australian Financial Review, 24/10/73.

economy, depended for its success upon continued boom conditions in the more highly productive areas combined with government intervention with plans for investment in technologically advanced industries. In this area, as in others, the commitment of the government to a 'mixed economy' combined with the onset of the worldwide recession and strong resistance to such plans from sections of the capitalist class led to failure to implement them.

At the beginning of this section it was argued that the developing crisis in the domestic economy would result in a tendency for companies with their operational base in Australia to search elsewhere for investment which might yield a higher rate of profit, and that since the beginning of the 1970s several Australian firms had indeed begun to venture into the South East Asian region (i.e., away from traditional areas of Australian colonial and neo-colonial investment such as Fiji and Papua New Guinea). ALP encouragement of this trend had several features. Firstly, the move to step up Australian investment abroad can be seen as complementary to the attempts to slow down the rate of capital inflow into Australia. More importantly, it can be seen as part of a strategy originally outlined by Neil McInnes in 1970. McInnes argued that the previous government's attitude to foreign investment had exemplified a pattern which Australian governments should not follow. His argument is succinctly stated and is worth quoting at length. In relation to a particular incident during the regime of J.G. Gorton, he complained that

The foreigner had been persuaded to make an import-substitution investment here, to produce a commodity that is in world-wide excess supply and for which, in the words of the Tariff Board, gross overcapacity already exists in Australia. He had been induced to do this by an over-generous bounty in favour of fertilizer and by the prospect of further protection still, for which he is now suing. The same pattern exists throughout the fertilizer industry; the other international companies involved are such

giants as B.P., I.C.I. and Mitsui. The pattern is: the useless scattering of Australian capital (and managerial and research talent) in small packets under foreign control in an industry using an old technology to make things our Asian neighbours are perfectly capable of making. The nationalist delight here is that we have replaced an import with an expensive, subsidized local product and we have got minority Australian participation in what looks like a sure money-loser. (97)

According to McInnes the problem is basically solved if Australians take the attitude that their interest is to export old technology, like basic industrial chemicals, automobiles and steel, to Asia because

Asians are determined to set up such industries and they are quite capable of running them - which means they will never buy the products from us, so we could not achieve a scale of production, by way of export, to make such industries internationally competitive. The export of that technology would best take place by the classic means - i.e., via the international company, which in this case could be our own companies. This would have the advantage of giving Australians the feeling they were participants and not just witnesses in the internationalization of production. Presumably it would also bring Australian industry those immense profits and the orders for capital goods that, according to our nationalists, the international company garners. (98)

Furthermore, the Australian economy

being an advanced economy with plenty of educated folk, we can make instant application of the latest technique, which the Asians cannot yet. And by doing so, we would turn out products the Asians would want to buy, and to buy more of the faster they industrialize; thus we could attain an economic scale of operation and become internationally competitive, without the need of tariffs and subsidies.

In that way does the international company offer us the opportunity to adjust to rapid technological change and to Asian industrialization, and

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97. Australian Institute of Political Science, Big Business in Australia, (Sydney, Angus and Robertson, 1970), p.79.

98. Ibid., pp.79-80.



incidentally to obtain some sops to national pride in the shape of our own international ventures and our participation in advanced technology. (99)

McInnes' principles were certainly endorsed by the then Minister for Overseas Trade in 1973 when he said

Australia must become an investor abroad to play a fuller role in its geographic area and to build on its assets - its skilled population and its natural resources. Mr. Carnegie [managing director of C.R.A.] provided four main reasons for investing overseas:

- . to secure markets for processed products
- . to provide a larger base on which to built Australian technology and management skills
- . to strengthen Australia's political position in the Pacific Basin
- . to enable Australian companies to gain a better perspective of the world. (100)

Some of the Labor government's measures, taken to encourage Australian investment abroad, have already been documented by Catley and McFarlane<sup>101</sup>. They include a scheme involving the acquisition by the AIDC of shares in mining projects so that the government's share could then be exported to underdeveloped countries at a price which would be subsidized out of overseas aid funds. As a complementary measure the government would assist in the setting up of mineral processing plants in these countries - an example being the projected Hamersley plant for refinement of semi-processed ores from the Pilbara region. One of the consequences of such a program would be, of course, that industries in Australia using these processed raw materials would pay lower prices effectively subsidized out of overseas aid funds. Following a Department of Overseas Trade investment survey mission to Indonesia, the Minister announced in 1973 the successful negotiation of a treaty on the security of Australian investment in Indonesia:

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99. Ibid., p.80 (emphasis added).

100. Australian Government Digest, vol. 1, no. 2, (1973) p.668.

101. R. Catley and B. McFarlane, From Tweedledum to Tweedledee, (Sydney, ANZ Books, 1974), pp.54-55.

The Agreement provides that the Indonesian government will not undertake nationalization, expropriation, freezing of company funds, or block the transfer of corporation funds out of Indonesia. In the event of a leftist move in Indonesia, in which these promises are abrogated, the Australian corporations can ask for Arbitration, and ultimately, recoup losses from the Australian government. (102)

In October 1973 Cairns announced that similar survey missions were to be sent to Thailand and the Philippines. Later, in 1974, the government provided an Overseas Investment Feasibility Fund whose aim was to assist companies wishing to invest overseas to carry out feasibility studies.<sup>103</sup>

From the foregoing argument it should be clear that such encouragement of Australian overseas investment was not at all motivated by altruism towards the underdeveloped nations, nor by simple nationalist considerations, but was an essential part of the Labor government's overall strategy to encourage higher productivity of Australian capitalism. The expressions of nationalist sentiment by ministers fulfilled a twofold function. In the first place they were intended to help overcome the problem of rising industrial conflict by forging an alliance between the working class and the technologically progressive, high growth industry elements of the capitalist class against unproductive and speculative foreign capital. That the main thrust of the attack was against unproductive rather than foreign capital as such is born out by the ease with which CRA, an almost wholly British-owned company, was able to put itself forward as an Australian firm and the way in which its managing director was cited by Cairns (see above) as espousing the very principles which he endorsed. A concomitant development is the isolation of militant workers in firms which, when profits are squeezed by rising wage levels and high capital costs, are encouraged to transfer resources to the South East Asian region where labour is cheap.

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102. Ibid., p.54.

103. Australian Government Digest, vol. 2, no. 2, (1974) p.413.

In the second place, nationalism has been used as a veil from behind which the government can carry out its attack on unproductive sectors of the economy, and attempt to influence growth and productivity through its own instrumentalities.

#### ANTI-CYCLICAL POLICY

James O'Connor has written that

The main premise of bourgeois economic theory is that the market mechanism (influenced and modified by the power of monopolistic corporations) determines the volume, composition, method and distribution of private production. However, the market mechanism plays little or no direct role in the determination of the volume, composition, method and distribution of state expenditures and programs. (104)

Orthodox economics thus tends to regard public finance as essentially based on political decisions (i.e. the theory is 'normative') and not part of the 'science' of economics.<sup>105</sup> State expenditure is thought to derive from political and moral choices, such as the desire for 'full employment' or 'free medicine', and as such is often viewed as merely compensatory for, and inversely related to, the volume of private spending. The workings of the market are thus treated as having flaws which give rise to political and moral dilemmas which can then be solved by manipulating interest rates and public expenditure. The result is a view of government

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104. James O'Connor, The Fiscal Crisis of the State, (New York, St. Martins Press, 1973), p.64.

105. A. Lindbeck, for example, asserts that "the really dramatic disturbances in the national and international economic system - inflation as well as deflation and unemployment - as a rule stem from the political system, that is from decisions made by governments, central banks and/or parliaments, particularly in large countries". "Business Cycles, Politics and International Economic Dependence", Skandinaviska Enskilda Banken Quarterly Review, No. 2, 1975, pp.54-55.

intervention in the economy as something exogenous, or determined by forces outside the system itself. It has occurred to few orthodox economists that the operations of the capitalist state are integral to the very functioning of the market system and the theory of public finance remains, therefore, somewhat stunted. In particular, there seems to be little awareness of the consequences of the techniques of fiscal and monetary policy for the future stability and growth of the economy.

One of the consistent themes of this thesis, on the other hand, is that the capitalist state must try, and does try, to fulfil two important functions which are necessary to the maintenance of the market economy and which derive from capitalism's crisis ridden nature. In the first place, it must attempt to create and maintain the economic conditions which enable capital accumulation to proceed and, in the second place, it must strive to maintain social harmony (i.e., the political and ideological conditions for continued capital accumulation). The Australian Labor Party has quite explicitly embraced these two objectives.<sup>106</sup>

State expenditure thus takes two forms.. On the one hand it comprises expenditure on the socialization of the costs of production and reproduction of the forces of production (technology, education, workforce) or, in other words, expenditure on infrastructure which enables companies to take advantage of external economies, on research and development, on communications and on public health, welfare and education facilities which contribute to the productivity of capital by

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106. See, for example, E.G. Whitlam's speech to the Sydney Chamber of Commerce, 28th February 1975:

"The program of reform and development of any future Labor government cannot be fulfilled without prosperity in the private sector", and Cameron's (abortive) Industrial Peace Conference.

socializing costs of reproduction and maintenance of the workforce. On the other hand, it comprises what O'Connor refers to as 'social expenses'<sup>107</sup> which contribute nothing directly to the productivity of capital, but which are necessary for the maintenance of social stability (e.g. unemployment benefits, prisons). Of course, many items of public expenditure have the characteristics of both these forms. Hence many social welfare benefits can be seen both in the light of their role in socializing the costs of maintaining the workforce and as a response to the demands of certain sections of society for a better standard of living. Similarly, unemployment benefits, besides fulfilling a 'social harmony' role, are also important aspects of the maintenance of effective demand - thus having an economic function at the same time.

It is clear then, that the impact of the State Budget on growth and stability will depend not only upon the volume of these two types of expenditures, but also on their composition - in other words, their contribution to the productivity of capital.

Orthodox fiscal and monetary policy in post-War Australia, however, has tended not to take these considerations into account. Governments, in pursuing 'full employment' as their primary objective of economic policy, have relied on post-Keynesian aggregative measures to combat inflation and recession without any real understanding of the consequences of these actions for the long run growth and stability of the economy. The effects of such aggregative measures on the rate of growth and productivity in the 1970s have been indicated earlier (Chapter 1). Since the early 1970s the phenomenon of 'stagflation' (the hitherto unknown combination of high rates of inflation with growing unemployment) has caused a new goal to replace the 'full employment' objective, viz: price stability and continued growth. It has already been argued that the

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107. O'Connor, op.cit., p.6.

Labor government which was elected in 1972 has pursued this objective in the areas of industrial policy, rural policy and trade. It remains to be seen whether the traditional areas of stabilization policy, i.e. fiscal and monetary policy, under Labor have been used in any significantly different way.

The 1973 Budget showed no real cognizance of the seriousness of the inflationary problem. At the time inflation was running at an annual rate of about 13-14 per cent.<sup>108</sup> Employment was high, owing to the prevailing conditions of economic boom fed by high commodity prices, and it seems that the government regarded the rate of inflation as a temporary phenomenon which would disappear when excess liquidity had been mopped up by 1974-75. As a result the main weapon against inflation was the traditional monetary restriction.<sup>109</sup> This policy did create a credit squeeze which led, later in the year, to some stabilization of the rising prices in housing and land<sup>110</sup> which had been fed by speculation and, in 1974, contributed to the effects of the general downturn in the world economy which began towards the end of the year and affected the Australian economy increasingly from April-May onwards.

The 1973 Budget, therefore, was not basically concerned with the problem of inflation. It was concerned, instead, mainly with fulfilling election promises to the 'middle class' and sections of

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108. Treasury Information Bulletin, No. 75, July 1973 shows a Consumer Price Index increase for the June quarter of 3.3 per cent and for the September quarter of 3.6 per cent.

109. Orthodox economists regarded fiscal policy as virtually useless as an anti-inflationary weapon. H. Arndt, for example, argued that disinflationary budgetary policy would encounter political obstacles - presumably chiefly resistance to the dismantling of government department and expenditure programs. This sentiment was echoed by Crean in the 1973 Budget Speech. Arndt went on, however, to argue that "This is not to suggest that inflation can be effectively controlled by monetary policy alone without reinforcement by politically courageous budget policies."

"The Role of Monetary Policy" (University of Istanbul, 1955) p.147.

110. Australian Financial Review, 31st October 1973, 9th November, 1973 and 30th November, 1973.

capital which had supported the A.L.P. in 1972, and secondly, with the continued expansion of the economy which was felt to be a necessary condition for the fulfilment of those promises. Already, by February 1973, the government had increased the Liberal-Country Party's domestic deficit by 500 per cent and the overall Budget deficit was expected to rise in consequence from \$630 million to \$958 million.<sup>111</sup> In the 1973/74 Budget there was little or no slackening of this level of expenditure. Some limited restructuring measures were taken in accordance with the recommendations of the Coombs Task Force Report - for example, the taxation concessions to Pitt Street farmers and to shareholders in the mining industry were ended and there was a reduction in the tax deductibility for life assurance offices on 3 per cent of their turnover. But the main initiatives in the Budget were in things like the greatly increased expenditures on Art and Art galleries, parks and wildlife, and the abolition of university fees - all designed to benefit especially the middle and upper income earners - and the subsidies to business in the form of the coal drilling subsidy and the announcement of the scheme to encourage overseas investment by Australian firms. As Catley and McFarlane have pointed out,<sup>112</sup> the 1973 Budget, with its abolition of free school milk and its sharp rises in indirect taxes on petrol and tobacco - all of which impose a proportionally greater burden on the working class than on higher income brackets - made few concessions to traditional Labor emphasis on equality and in fact made virtually no effort to redistribute income or resources. The productivity impact of Labor's first Budget was thus in reverse to its efforts in other policy areas.

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111. Australian Financial Review, 9th February 1973.

112. R. Catley and B. McFarlane, From Tweedledum to Tweedledee, (Sydney, ANZ Books, 1974) pp. 69-76.

In May 1974 the Treasurer (Mr. Crean) argued that the government's monetary policy had been largely successful. He could see, he said, no sign of a recession in the near future and thus there was no contemplated change in monetary policy - the credit restrictions were no more than "a rundown in liquidity from previous excessive levels."<sup>113</sup> The mini-Budget introduced in July was thus aimed at the problem of inflation rather than recession, even though by this time unemployment and other recessionary indicators had begun to rise.<sup>114</sup> Instead the measures introduced continued the demand management policies advocated by the Department of the Treasury - the two main areas of action being the raising of indirect taxes and postal charges on the one hand and a slight reduction in government expenditure in some of its welfare programs, on the other.<sup>115</sup> These latter included the reduction of the immigration program, the postponement of the pre-school and childcare program and the postponement of the proposed abolition of the means test, again showing that the government had few intentions of redistributing income in favour of the lower income groups. Moreover, the other measures taken to attack the inflationary situation, namely the raising of postal and telecommunications charges and the raising of duty on spirits and cigarettes showed that not only was the government prepared to introduce taxes the burden of which fell most heavily on the working class, it was also prepared to tackle inflation by traditional deflationary policies which would result in unemployment.<sup>116</sup>

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113. Australian Financial Review, 29th May 1974.

114. Unemployment figures for July showed that there had been a sharp increase during that month. Department of Labor, Monthly Review of the Employment Situation, July 1974.

115. Budget Speech, cited in The Australian, 24th July 1974.

116. The conventional wisdom that indirect taxes are a way of fighting inflation has recently been attacked by J.W. Nevile, who argued in a paper to the NSW Economics Society, that the effects of such a tax increase in raising prices and thus boosting inflation would far outweigh its effect on the deflationary side. Cited by P.P. McGuinness in The National Times, 28th July-2nd August, 1975.



By September, however, the economic and political situations were quite different. The combined effects of the international recession, the July 1973 tariff cuts, the credit squeeze of 1973 and various other restructuring measures on unemployment and business activity had led to a political situation which could no longer be combatted by conventional demand management techniques. Moreover, whilst the unemployment figures had risen sharply since July, the absolute failure of the recession to make inroads on the rate of inflation was to be demonstrated clearly by the rise in the Consumer Price Index for the September quarter of 5.1 per cent.<sup>117</sup> To add to its dilemma, the failure of the government to appropriate to itself, by means of a referendum, the power to control prices and incomes directly meant that the prices and incomes policies which had often been tried by European and American governments were not open to it.

The 1974 Budget introduced in September seems to mark the government's departure from traditional fiscal measures. This budget contained the strongest attempts so far, to introduce restructuring policies and in combination with these, several concessions held out to the working class in the hope that trade unionists could be persuaded to accept some form of wage indexation. This Budget, often seen as a major concession to the workers because of its rejection of the Treasury's unemployment creating policies, in fact constituted the first real attempt to apply the 'productivity principle' to budgetary policy. The aim of the Budget was clearly to provide some expansionary stimulus through increased consumer spending, whilst attempting to raise overall productivity in the economy by greater encouragement to structural readjustment, further squeezing of profits in unproductive sectors and, simultaneously, negotiating with the unions to accept wage

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117. Treasury Information Bulletin, no. 76, October 1974, p.18.

restraint through indexation.

The Budget measures taken to encourage restructuring of the economy included expenditure of \$11.8 million on structural adjustment assistance to employees displaced as a direct result of government policy, \$10 million for the proposed Structural Adjustment Board, \$17.8 million for the National Employment and Training Scheme, \$8.8 million to support apprenticeship training in industries with shortages of skilled workers, \$15 million for the Industrial Research and Development Grants scheme, and new expenditure on technical education. Measures aimed at squeezing profits in less productive sectors included the halving of the bounty on butter and cheese production in accordance with the program to phase it out altogether, the announcement that the Phosphate Fertilisers Bounty Act would expire on December 31st 1974, the end of the Petroleum Search Subsidy scheme, the withdrawal of the tax deduction on mineral production from July 1st 1974, the disallowance of the deduction for capital raising and the extension of the period for deductibility on development costs over the whole estimated life of the mine. The two most startling measures of the September 1974 Budget also fell into this category - the announcement of a capital gains tax of 33 1/3 per cent on half of any realised capital gain with the exception of the sale of the taxpayer's principal home and the announcement of a 10 per cent surcharge to be levied on property income. These measures were clearly aimed at the speculative property developers which had mushroomed in the early 1970s.

The other category of measures contained in the September 1974 Budget were those designed to provide a mildly expansionary stimulus and these included the abolition of radio and television licences, the special rebates for low income families on housing loans and certain other tax cuts.<sup>118</sup>

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118. Budget Speech 1974/75, cited in Australian Financial Review, 18th September, 1974.

Later on in the year Whitlam announced further expansionary measures in order to "correct the lack of sufficient expansion in the September Budget". These included the expanded availability of money to the private sector, a reduction in personal income tax to lift consumer demand, an attempt to reduce the pressure of demand for wage increases by a reduction in income taxes, and a reduction in company tax to enhance profitability.<sup>119</sup>

At the same time as these Budgetary measures were being formulated, the notion of a 'social contract' between the government, unions and employers was being mooted. This was based on the government's continuing attempts to achieve some sort of wage restraint without taking the politically unpopular step of causing further unemployment. In late September, the idea of the 'social contract' was accepted by a national meeting of the ACTU which, however, laid down several conditions for its co-operation. The cornerstone of trade union acceptance of wage indexation was to be the government's willingness to introduce floating taxation scales based on indexation. But the organization also demanded that imports be restricted in industries currently suffering unemployment, lower interest rates, lower indirect taxes and a wage indexation scheme based upon automatic indexation of award wages, annual productivity adjustments and the possibility of changes in work value to be maintained. In other words, the concept of wage restraint was refuted.<sup>120</sup>

This plan was immediately rejected by the National Employers' Policy Committee<sup>121</sup> on the grounds that they would not consider

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119. E.G. Whitlam, Speech to the Sydney Chamber of Commerce, 28th February 1975.

120. Australian Financial Review, 25th September 1974.

121. Including the Associated Chambers of Manufactures of Australia, the Australian Woolgrowers' and Graziers Council, the Metal Trades Industry Association and the Australian Council of Employers' Federations.

indexation unless relativities were pre-determined; that is, work values and productivity must be fixed.<sup>122</sup> Moreover, the scheme was unacceptable to the government, chiefly because by indexing all awards the government's plan to squeeze relativities and proportionately reduce the share of public servants and other unproductive workers would be defeated. By November, the lines were firmly drawn - the Melbourne Trades Hall Council declared that the ACTU terms had not been met and the Minister for Labour (C. Cameron) told a meeting of shop assistants that workers continued to price themselves out of jobs.<sup>123</sup> L. Short, the right-wing secretary of the Federated Ironworkers Association, also rejected the government proposals, arguing instead that indexation should cover all earnings including over-award payments.<sup>124</sup>

Many of the budgetary measures of September suffered a similar demise. The capital gains tax was never put into practice and the concept was explicitly rejected by the Party at its Federal Conference in 1975. By October the Labor Caucus had modified the unearned income tax to such an extent that Cairns was moved to announce that it would eventually be abolished.<sup>125</sup> In May 1975, the new Minister for Manufacturing Industry (Senator J. McClelland) complained that the Structural Adjustment Board had not yet been set up.<sup>126</sup> In an economic climate where the government's manpower program had become little more than an unemployment relief scheme and the rate of private investment was steadily declining, these retreats from the restructuring goal showed once again the government's inability to introduce any elements

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122. The Australian, 28th September 1974.

123. The Australian, 23rd November 1974.

124. The Australian, 25th November, 1974.

125. The Australian, 4th October, 1974.

126. Australian Financial Review, 8th May 1975.

of planning.

The answer to the problem lay in the declining profitability of manufacturing industry as a whole - by this stage not only the less productive sectors were suffering. The rationalization policy was basically a program for a booming economy - as was shown by the Swedish experience and as was admitted by Cairns in a television broadcast in early 1975.<sup>127</sup> As long as growth sectors existed in the economy, then capital and labour could be transferred without too much pain. Restructuring was thus a policy dictated by the need for a healthy manufacturing sector. But in a generally contracting economy manufacturing profits and thus investment projects are not only squeezed by high costs and interest rates, but also by the Labor government's anti-inflationary measures. In this situation the government felt that the only way to increase private investment was to restore the liquidity of companies - hence the measures announced in November 1974. But as Mandel, among others has pointed out, the only effect of increasing company liquidity in a recession is to increase the unproductive expenditure of those companies. Since productive expenditure will not be undertaken in a situation where stocks are high and consumption low, the extra money will be spent largely in debt servicing.<sup>128</sup> It is at this stage that the financial sector becomes temporarily the dominant fraction of capital in an economy where the state has no direct control over the supply of credit. This explains the inability of the Labor government in 1974 to impose a squeeze on this sector and also the reversion in 1975 to policies which would resort to high

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127. Monday Conference, transcript, (Australian Broadcasting Commission, 1975).

128. E. Mandel, "The Industrial Cycle in Late Capitalism", New Left Review, no. 90, March-April 1975, pp.8-9.

unemployment to overcome inflation.

The confusion of mainstream economic theory on economic management in a crisis is clear. On the one hand, is the failure of the policy of rationalization to comprehend the nature of unproductive capital. Beginning from a premise which sees technology as the motor force of capitalism, the theory regards this unproductive sector as superfluous. If these capitalists could be eliminated and all resources transferred to the highly productive sectors then society could become rational and humane - the worst inequalities could be eliminated since society would be divided only into workers and salaried managers (the technostructure). As will be shown below, however, a more adequate analysis of the nature of unproductive capital would see it arising out of a set of social relations specific to the capitalist mode of production - this fraction living only on the surplus value produced in the productive sector of the economy.

On the other hand, the reversion in 1975 to a policy of creating public sector unemployment by reducing government expenditure in the hope of transferring resources to the private sector displays an equal lack of understanding. The main thrust of this policy, which is a repetition of those tried in the inflation of the late 1940s in Britain,<sup>129</sup> is that profitability in the private sector will be increased by a reduction in wages and that therefore, deliberately deflationary policies should be pursued in public expenditure, while lowering company tax and thus increasing funds available for investment. The fallacy in this view, however, is that it is by increasing wages and hence effective demand that the economy will be stimulated, not by increasing funds available to companies for investment. Nor does it

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129. Nigel Harris, Competition and the Corporate Society, British Conservatives, the State and Industry 1945-64, (London, Methuen, 1972), p.131.

take account of the crucial role of state expenditure in supporting the private sector. This type of policy, while it temporarily results in bigger profits from unproductive investment in real estate or luxury office blocks by the financial sector, ultimately exacerbates the crisis of overproduction in the manufacturing sector.

One of the Whitlam government's chief problems was that whereas prior to its election the trade cycle in Australia had displayed quite regular features and had taken ten years to complete,<sup>130</sup> in the period of the Labor government its severity and frequency were greatly increased. According to Whitlam, the business cycle by early 1975 had been reduced to about two years.<sup>131</sup> The effect of this, of course, is that government measures taken to counter the cycle over a six month or twelve month period are beginning to take effect as the cycle is turning and often resulted in exacerbation of the trend rather than counterbalancing it.

The trade cycle itself, however, remains the ultimate instrument of rationalization. As Marx pointed out, many years ago, the function of the crisis of overproduction is to destroy the value of capital in order that the whole production process may begin again with renewed vigour. Rationalization is achieved by the "slaughter of capital values" as a falling rate of profit takes charge. In such a situation, any analysis of Labor policy based on smooth vectors of movement (or the efficacy of "market forces" in producing growth) was bound to appear increasingly misleading and irrelevant.

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130. B. McFarlane, "Economic Policy", Ch.2 in F. Forward (ed.), Public Policy in Australia (Melbourne, Cheshire, 1975), Chart 1.  
131. E. Whitlam, speech to the Sydney Chamber of Commerce, 28th February, 1975.

CHAPTER 4RATIONALIZATION OF LABOUR : QUANTITY AND QUALITY

One of the key areas of Labor economic policy since 1972 has been concerned with Australian population and workforce requirements. Much of the impetus for these policies stems from the economic and social consequences of government policy encouraging the rationalization of the capital stock, but in addition, the conditions giving rise to a more active manpower program had already existed in the economy prior to 1972.

In a major statement on manpower policy, made to the Australian Parliament in July 1974, the Minister for Labour concluded that the primary reason for the A.L.P. government's increased attention towards labour market policies was that there had been a complete lack of any consideration of Australian needs in this area since the "Full Employment for Australia" White Paper of 1945.<sup>1</sup> The reasons for this are clear. In the long boom of the post-War period, the high rate of growth of the economy meant that labour shortages rather than excess supply of labour was a problem. This lack was overcome by a strong migration program and by a steady increase in the workforce participation of women. In keeping with the Liberal and Country Party governments' relatively laissez-faire policies towards economic growth, combined with ad hoc measures designed to correct 'flaws' in the workings of the market, little attention was paid to the effects of economic growth upon the structure and composition of the labour force. But by the time Labor came to office in 1972 the economic situation,

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1. Speech by The Hon. Clyde Cameron, Minister for Labour and Immigration on "Active Manpower Policy for Australia", Parliamentary Debates, 17/7/74.



and hence the problems of maintaining an adequate workforce, had changed.

The Report of the Australian Interdepartmental Mission to Study Overseas Manpower and Industry Policies and Programmes argued that the consideration of manpower requirements had become important because it was no longer possible to assume that conditions of full employment would prevail indefinitely. But in addition, the Report argued that even in times of sustained economic growth, developed manpower policies would be desirable to help iron out cyclical fluctuations, to overcome problems of regional or sectoral unemployment, and to utilize fully manpower reserves in order to avoid "inflationary bottlenecks" in the labour market.<sup>2</sup>

In Australia, several problems had arisen in the post-War period in this regard. The existence of one aspect of the employment problem is shown by the Report's statistics on unemployment and job vacancies in metropolitan and rural areas. These figures show that whereas in Sydney and Melbourne metropolitan areas job vacancies exceeded unemployment even in times of relatively high overall unemployment (for example, March 1973), the situation in country regions was the opposite. In these areas unemployment fluctuated from 43.6 thousand to 46.2 thousand between March 1973 and March 1974, while job vacancies moved from 12.1 thousand to 19.9 thousand, in other words less than a quarter of the labour reserve available.<sup>3</sup> Similarly, in the case of sectoral rather than regional imbalances, the Report points to labour shortages in the north-west Australian mining region and the labour surpluses which have

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2. Australian Department of Labour, Report of Australian Interdepartmental Mission to Study Overseas Manpower and Industry Policies and Programmes, (Canberra, Australian Government Publishing Service, 1974), pp.10-11.

3. Ibid., p.122.

developed where technological changes led to mechanization of, for example, the sugar industry or coal mining in N.S.W., thus causing long term structural changes. Periodical sectoral unemployment in the vehicle and building and construction industries is also noted.<sup>4</sup>

Two primary objectives of the Labor government were, consequently, to encourage labour mobility, both in terms of regional labour needs and in terms of the different skill requirements of industry. These two objectives correspond with the functions of the two chief manpower programs established in 1974: the Regional Employment Development scheme and the National Employment and Training scheme. Also integrated into this manpower program were the areas of immigration policy, education and science and technology policies - all crucial factors in an overall strategy to rationalize and restructure the quality as well as the quantity of the workforce.

Labour market policies had been used in Sweden (as was pointed out in Chapter 2) to tackle the problem of inflation ever since the 1950s. One of the chief characteristics of the Swedish policy was the use of retraining and structural adjustment assistance measures in order to encourage the transfer of labour from the northern region to the faster growing industries in the southern part of the country. The purpose of this was threefold: firstly, to mop up the excess labour supply of an economically declining region; secondly, to alleviate unemployment created by a deliberate government strategy to encourage rationalization through mechanization of the northern industrial base from the late 1960s; and thirdly, the most important requirement of increasing the supply of labour to those growing sectors of the economy where labour shortages were causing wages to rise too rapidly. The other side of this third function of the manpower policy was that by reducing

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4. Ibid., p.150.

the supply of labour in the declining sectors, it was hoped that wage pressure on those industries would hasten the rationalization process by forcing less competitive plants to close down.

Thus the manpower policies were not only aimed at mitigating the unemployment effects of restructuring, but were themselves a major element in a strategy to raise the overall productivity of Swedish industry by closing down inefficient firms, thereby enabling resources to be transferred to the highly competitive sectors of the economy, while at the same time helping to reduce cost pressures on these competitive sectors.

In Australia, the major elements of the manpower program, the RED and NEAT schemes, were not established until late in 1974. There were, however, a few initiatives taken in 1973 as part of the overall strategy. These included measures concerning immigration, the employment of women, technical education and science and technology policy.

Rationalization of Labour Quantity: Attempts to Influence the Price of Labour by Controlling Supply and Demand.

Several commentators on the Australian economy have pointed to the apparently restrictive side-effect of the post-War immigration program on the rate of productivity growth.<sup>5</sup> Briefly, the argument put forward against a continued rapid rate of population expansion through immigration was based on that retardation of productivity-growth which was assumed to arise from expenditure on 'capital-widening' investment required to maintain the expanded population at an equivalent standard

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5. See, for example, Commonwealth of Australia, Report of the Committee of Economic Enquiry, vol. 1, May 1965; OECD Economic Surveys, Australia (December 1972); Australian Department of Labour, Australian Labour Market Training, Report of the Committee of Inquiry into Labour Market Training, (Cochrane Report), (Canberra, AGPS, 1974) para. 2.23.

of living. It was felt that the failure of the migration program to add to the productivity of the Australian economy was one of the contributing factors of inflation, via a higher cost ratio.

On the other hand, the A.L.P. did not favour a complete curtailment of population growth. The Minister for Immigration (then Mr. A. Grassby) argued that the Australian population was still very small in relation to its growth potential and people were needed to develop Australian resources. But, he argued, improvements in technology, especially through recycling and new energy sources, would extend the range of resources available, thereby enabling population to be increased.<sup>6</sup>

When Labor was elected to office, therefore, its declared policy was to curtail the immigration program, but not to cease it altogether. Grassby announced, in December 1972, that the role of immigration would in future be planned, in close co-operation with other bodies concerned with the planning of labour requirements (for example, regional development bodies) with regard to skills needed and areas of labour shortage.<sup>7</sup> The flow of skilled immigrants would continue, according to Grassby, for industries with shortages of certain types of skilled labour,<sup>8</sup> and some companies would be permitted to continue recruitment of less-skilled or unskilled workers, where the government was satisfied that efforts had already been made to recruit Australians<sup>9</sup> (i.e., where genuine labour

6. Australian Financial Review, 16/8/73.

7. Australian Government Digest, vol. 1, no. 1, (1973) p. 194.

8. Statement of 28/12/72, ibid.

9. Australian Financial Review, 27/8/73. The Broken Hill Proprietary Co. Ltd. was permitted to continue its migrant recruitment program after the Minister for Labour had announced his satisfaction that the company had made greater efforts to employ more Australians and more women. The ban on BHP migrant recruitment had been imposed on the basis that the company should increase its assistance to Australian workers needing to move interstate and that it should offer higher wages to attract Australian workers.

shortages existed which could not otherwise be remedied).

On the whole, however, this plan was not implemented. Whitlam had announced that as a method of reducing the flow of migration

We will change the emphasis in immigration  
from government recruiting to family  
reunion. (10)

The effect of this policy, although reducing the absolute number of migrants, was to cause the government to lose control over immigration. With migrants being admitted for 'family reunion' reasons, rather than according to the needs of the economy (as Grassby and Cameron would have preferred), there was no guarantee that the desired raising of productivity would take place - indeed many of the new migrants might be old people, or persons otherwise dependent, who would only add to the inflationary pressures the government wished to remove.

Following recommendations of, among others, the OECD,<sup>11</sup> the emphasis of labour policy was to be on increasing the number of women participating in the workforce in the place of migrants. The main rationale behind this was that an expanding workforce using up already existing population reserves would not require the same 'capital-widening' and infrastructural expenditure to the detriment of productivity-raising investments which, it was argued, had contributed to the current economic crisis.

At the same time, there had been growing pressure in the years prior to the Labor government's election, for policies to be introduced which would be directed towards encouraging more women into the workforce. This pressure came particularly from women's organizations such as Women's Liberation and Women's Electoral Lobby, and can be directly linked to the situation of women in the economy in the late 1960s to

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10. E.G. Whitlam, 1972 Policy Speech, cited in The National Times, March 18-23, 1974.

11. OECD Economic Surveys, Australia, (December 1972). See also the Cochrane Report recommendations, especially paras. 2.23-2.24.

early 1970s. Over the post-War period, there had been a steady increase in the number of women participating in the workforce, corresponding to the growth in overall economic activity, such that by the early 1970s over one third of the workforce was female, many of them married women. There had not, however, been a corresponding improvement in the conditions and status of women workers and this contributed, at least to some extent, to the agitation of women's groups for equal pay and better conditions of work. Many of the middle-class and professional women who tended to dominate these groups may have contributed to the electoral swing towards Labor in 1972.

On the one hand, therefore, it seemed that the requirements of anti-inflation policy demanded a changeover from migrant labour as the chief source of workforce expansion to women, and on the other hand, the prevailing situation of women in the economy - their demands for better pay and conditions and their increasing ambitions outside of motherhood - had led to political pressure on their behalf which the Liberal-Country Party governments had failed to deal with.

In the first year of office, Labor introduced several measures designed to placate the women's movement: new laws concerning pay and conditions and measures to encourage more women to enter the workforce. Several steps were taken, for example, to end discrimination against women in Commonwealth Public Service employment, including the provision of maternity leave.<sup>12</sup> A commission was established to report on pre-school education and child care and the government announced that it would support efforts to obtain equal pay for women workers.<sup>13</sup> The Cochrane Report on manpower training argued that urgent attention should

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12. Australian Government Digest, vol. 1, no. 1, (1973) p. 4.

13. Ibid., pp. 33-34. See also E.G. Whitlam's speech to the Young Women's Christian Association, Brisbane, Australian Government Digest, vol. 1, no. 3, (1973) p. 1153.

be paid to encouraging female workforce participation especially in the areas of child care facilities and granting of permanent status to part-time workers (the bulk of whom are women).<sup>14</sup> Some funds were also provided for groups of women to establish women's health centres and refuges in the capital cities.

The child-care program, however, immediately ran into problems caused by differences of priority amongst its would-be administrators. This took the form of a debate between those urging a larger number of (probably) less-adequately staffed centres to meet an immediate and urgent need of working women to have young children taken care of during working hours, and educationalists who desired the provision of proper educational facilities for a smaller number of pre-school age children. In July 1974 the whole childcare program was postponed (until 1975) as part of the mini-Budget measures designed to reduce government expenditure.<sup>15</sup> The program was not revived, however, in the 1975-76 Budget and among the reasons for this one can probably include the worsened employment situation. The decline in employment during late 1974 and early 1975 had affected in particular the textile, electrical goods and other industries employing large numbers of women. For this reason, it would have been inopportune for the government to continue to introduce new policies designed to encourage women into the workforce.

It was not until the rate of unemployment had already begun to rise rapidly that other members of the government, besides the Minister for Labour, began to recognise the urgency of setting up the machinery of the manpower program's two main components. The three reports commissioned by the government to make recommendations on the program were not in fact tabled until July 1974. They were the Report of the

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14. Cochrane Report, p. ix.

15. The Australian, 24/7/74.

Australian Interdepartmental Mission to Study Overseas Manpower and Industry Policies and Programmes, the Cochrane Report on Australian Labour Market Training and a report on Manpower Policy in Australia to the OECD.<sup>16</sup> The actual machinery did not come into operation until October of that year.

These two programs were the National Employment and Training scheme and the Regional Employment Development scheme. The latter was announced by Cameron in September 1974 and was aimed at solving the problem of exceptionally high unemployment prevailing in rural areas.<sup>17</sup> It was argued that the areas to which industries and workers had been attracted by the previous government's decentralization policies were the worst affected by the slump.<sup>18</sup> The RED scheme was intended to overcome the particular difficulties faced by these areas through provision of employment on locally designed work programs. The government would provide finance for projects submitted by local authorities in such fields as extension of tourist facilities, reafforestation, pest eradication and other public works. The chief criteria to be used in selection of these projects for eligibility under the RED scheme was that they be both economically viable and socially useful, and preference would be given to the more economically viable programs.<sup>19</sup>

At the time of its introduction, the RED scheme appeared primarily as an anti-unemployment weapon and therefore as temporary. In a less urgent situation, it could have been an integral part of the government's regional development strategy - part of the program to create economically viable industries in regions suffering chronic underemployment and to improve the efficiency of existing industries by giving assistance for

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- 16. Parliamentary Debates, 17/7/74.
  - 17. The Australian, 12/9/74.
  - 18. The Australian, 17/9/74.
  - 19. Australian Financial Review, 12/9/74.



the building of certain infrastructures in order to improve external economies of scale. Under the circumstances, however, it was the social welfare function of the RED scheme which was given priority, and the program became little more than an unemployment relief scheme, as it crept into the fringes of the metropolitan areas as well.

The NEAT scheme was by far the most important aspect of Cameron's manpower policy; unlike RED it was not abandoned in the expenditure cuts of the 1975/76 Budget. The proposed National Employment and Training scheme was announced in July 1974, and, according to the Minister for Labour, its basis was provided by the recommendations of the Cochrane Report (of the Committee of Inquiry into Labour Market Training).<sup>20</sup> The main recommendations of this Report were that a training and retraining scheme should be designed to cope with problems arising from structural changes in the economy. It should be able, for example, to deal with the effects on employment levels of scientific and technical change, of structural changes affecting the nature, composition and location of industry, of government policy measures such as tariff cuts and decentralisation policy, of changes in the balance of international trade, of persistent shortages of key skills and of the persistent incidence of poverty or other social problems.<sup>21</sup> Some of those structural imbalances, which had built up over the long boom of the 1960s, have already been indicated, as have some of the successes and failures of the Swedish program in the 1950s and 1960s.<sup>22</sup> Cameron hoped that the Australian program would be able to cope with 15,000 persons in the year 1974/75, 26,000 in 1975/76 and proceed to train and retrain an eventual quota of 55,000 persons or one percent of the workforce annually.<sup>23</sup> According to the Report of the Interdepartmental Mission,

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20. Parliamentary Debates, 17/7/74.

21. Cochrane Report, p.17.

22. See Chapter 2 of this thesis.

23. The Australian, 9/7/74.

a capacity to retrain one per cent of the workforce at any one time was the requirement of most countries hoping to absorb unemployment created by periodic cyclical fluctuations.<sup>24</sup>

One of the chief criticisms of the Cochrane Report's recommendations was that it offered no system of discrimination between applicants for retraining assistance.<sup>25</sup> In a period of full employment such a system may indeed become unnecessary, but in times of high unemployment (such as existed when the NEAT scheme was introduced), the scheme could be misused by those not really in need, for example, "middle-class bored housewives". Lack of a discriminatory policy could draw people, who might otherwise be only temporarily unemployed, into a long-term retraining program, thus helping to create labour shortages and bottlenecks in key areas. These factors did in fact enter into the operation of NEAT, and probably contributed to its lack of effectiveness in fulfilling its key function of overcoming labour market bottlenecks and ensuring a plentiful labour supply to key areas. But a much more important factor contributing to a higher stress on NEAT's social welfare function than on its economic function, was the stagnation of the economy after mid-1974. In a situation where only a few individual industries continued to expand, and the key sectors of the economy were contracting production and employment, the aspect of NEAT which was concerned with a smoothly functioning labour market rapidly became redundant; only its social welfare function remained relevant.

Several programs which were supplementary to the two main labour market schemes were also introduced. These included the National

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24. Australian Department of Labour, Report of Australian Interdepartmental Mission to Study Overseas Manpower and Industry Policies and Programmes, (Canberra, AGPS, 1974) p. 156.

25. See, for example, P.P. McGuinness, article in Australian Financial Review, 10/7/74.

Apprenticeship Assistance Scheme, the proposed Structural Adjustment Board and the National Small Business Bureau.

The first of these, the National Apprenticeship Assistance Scheme, was announced in 1973. It provided for subsidies to employers who would provide training facilities and employ apprentices. This was to act as a supplement to the two main programs of sectoral and regional labour market policies by helping to overcome shortages of skills in certain industries and at the same time, by providing allowances to apprentices undertaking training, to facilitate regional mobility of labour.<sup>26</sup>

The idea of a Structural Adjustment Board was proposed at the time of the July 1973 tariff cut, as part of a plan to cope with social dislocation caused by government policy. At first, structural assistance was to cover only those persons or firms affected by the 25 per cent tariff cut. It was later extended to include the effect of tariff cuts on the electronics components and equipment, domestic appliances, woven shirts and knitted outer garments industries, the restructuring measures in the dairy industry and the decision to reduce the ship-building subsidy.<sup>27</sup> The institutionalization of structural adjustment assistance, however, was considerably delayed. This would have involved the setting up of a permanent Structural Adjustment Board as part of the integrated program to deal with relocation assistance and alleviation of hardship caused by structural changes on an ongoing basis. As it turned out, the failure to establish such an institutionalized program meant that structural adjustment assistance remained on an ad hoc basis, and although small Budget allocations were made in 1974,<sup>28</sup> many of these

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26. Australian Government Digest, vol. 1, no. 3, (1973) pp. 1054-55.

27. Australian Government Digest, vol. 2, no. 2, (1974) p. 415.

28. Australian Financial Review, 18/9/74. Allocation of \$11.8 million was made to assist displaced employees.

were withdrawn as part of the expenditure cuts of the 1975 Budget. In September 1974, Cairns announced the setting-up of an interim committee for dealing with structural adjustment assistance, in an attempt to provide some institutional basis in lieu of a properly constituted Board,<sup>29</sup> but this committee faded from prominence with the advent of RED and NEAT and their taking over of many of its welfare functions. In addition, it was found that many of those whose unemployment was directly attributable to government restructuring policies were women, especially migrant women, who did not apply for assistance. The problem of structural unemployment thus appeared less acute on paper than it was in reality and this contributed to the government's lack of focus on structural adjustment assistance in later months.

Yet another aspect of the structural adjustment side of manpower policy concerned some of the functions of the proposed National Small Business Bureau. Of particular relevance at this point are the provisions of that program for assisting small businessmen, who are displaced or forced to close by government policies, to find new employment by retraining and relocation assistance. Finally, the government's housing policies were aimed at transferring low-cost housing resources to areas of regional development or labour shortages, in order to encourage the mobility of labour towards these areas.

Rationalization of Labour Quality: Attempts to Influence the Price of Labour by Improving its Productivity

One of the key concepts adhered to by the government in relation to its manpower program was the concept of "a lifelong learning process". This is particularly important in relation to the aim of improving the quality, as well as rationalizing the quantitative aspects, of the

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29. The Australian, 17/9/74.

workforce. It is at this point that the government's structural adjustment program intersected with educational policy. Cairns, for example, argued that if the government were to bring about faster technological advance, and transfer people and resources with minimum dislocation, it would be necessary to

establish ways of providing continuous education or training especially for those who have to move from one job to another as a result of the application of industry development policies. (30)

In this statement he was also echoing the remarks of the OECD report on Educational Policies for the 1970s (1971), in which it was recommended that premature selection in the direction of education should be avoided, in order to assure greater flexibility in changing courses,<sup>31</sup> and which stressed the need for continuing education programs to help eliminate unemployment problems created by structural change.<sup>32</sup>

Such a view was also expressed by another OECD report in relation to science and technology policy itself:

More important than trying to regulate the flow of scientists and engineers, and particularly research workers, is concern for the content of their training. Whereas the recent past was characterised by the concept of "maximum specialisation" designed to prepare each individual, from university onwards, for very precisely defined fields, we should now consider more and more carefully the idea of "maximum adaptability". To avoid imposing upon scientific and technical ventures an overall inflexibility in the structure of human resources, thus limiting possibilities for development, we should endeavour to equip prospective researchers with the sort of education that will enable them to move easily from one type of project to another, from one discipline to another; and from research to other forms of activity. Furthermore, only a

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30. Speech by J.F. Cairns, 30/7/73, Australian Government Digest, vol. 1, no. 3, (1973) p.1084.

31. OECD, Educational Policies for the 1970s, (Paris, OECD, 1971) p.135.

32. Ibid., p.17.

system of continuing education can make it possible at any stage in a man's career to equip him with the special skills of immediate value made necessary by new technological circumstances. The spread of technological change to new sectors of socio-economic activity should lead to a re-appraisal of the aims of education. Its content too, must be adapted to an era in which technological progress has engendered great uncertainty as to future needs for qualified manpower. The training of research workers, in particular, cannot be subjected to rigid planning. It should be carried out with the utmost flexibility in order to allow for all kinds of adaptation. But it is essential to ensure that signals from the outside world be fed back into the system to facilitate its self-adaptation. (33)

The desire that education should not end at age fourteen or sixteen and should be fitted to the changing needs of industry was not only one of the key concepts underlying the manpower training program (NEAT), it was also the crucial element in government policy concerning technical education at a secondary and tertiary level. This field received particular emphasis in 1973.

In February 1973 the government announced that expenditure on technical education would be increased by \$10 million in addition to the already budgeted \$36 million for the 18 months to July 1974.<sup>34</sup> A Committee on Technical and Further Education was set up, later to become a Commission. In addition, the Minister for Education claimed that the aim of payment of tertiary education expenses by the Federal Government was to release state government funds to pre-school and technical education.<sup>35</sup> It seems likely, however, that if this occurred it was more a fortuitous side-effect since the federal government could claim to have no control over state governments' education expenditures. In reality, the additional expenditure on universities and colleges of advanced education should be seen more in terms of middle class vote-

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33. OECD, Science, Growth and Society, (Paris, OECD, 1971) pp. 73-74.

34. Australian Government Digest, vol. 1, no. 1, (1973) p. 145.

35. Australian Government Digest, vol. 1, no. 2, (1973) p. 570.

catching.

Apart from the greater emphasis on technical education, several measures were taken to encourage the principle of "lifelong learning". A big trade union education scheme was launched by the Minister for Labour, which included the commencement of building of the later-named Clyde Cameron College at Albury-Wodonga. Paid educational leave was mooted as a means of supporting the principle of continuous education,<sup>36</sup> and in March 1974 the government announced that, in order to encourage further education, self-education expenses would be made tax deductible.<sup>37</sup>

Finally, a National Management School was established at the University of New South Wales in order to encourage "efficiency and enterprise".<sup>38</sup>

In the overall context of education policy, however, the federal government's concern with technical and further education played a relatively minor role. There were undoubtedly increases in the allocation of funds towards these hitherto neglected areas, but most other areas of education also experienced growth in the period prior to the 1975 Budget. In spite of the rhetoric about tying education more closely to the needs of the economy, ALP practice amounted to little more than an extension of the previous government's policy of expanding the existing tertiary sector of education in absolute terms. In other words, in response to electoral pressures, the government resorted to aggregative rather than selective measures.

In regarding increasing productivity as the key to economic growth the Labor Party elevated science and technology to the position where,

36. Australian Department of Labour, Australian Labour Market Training, Report of the Committee of Inquiry into Labour Market Training, (Cochrane Report), (Canberra, AGPS, 1974) p. 22.

37. Australian Financial Review, 20/3/73.

38. Statement by E.G. Whitlam, 23/4/74, Australian Government Digest, vol. 2, no. 2, (1974) p. 435.

with capital and labour, they became one of the factors of production. It is not surprising then, that upon Labor's election to office, science was immediately promoted to a separate ministry in the Cabinet - in the previous government it had been included among the functions of the Minister for Education.

In Opposition, the ALP had displayed a technologically-determinist view of the role of science in economic growth. The assumption had been that there was a strict correlation between the percentage of Gross National Product devoted to basic science or research and development on the one hand, and the resulting rate of growth on the other.<sup>39</sup> The major changes in the ALP's science policy - much expanded and enlarged between 1967 and 1971 - were all premised upon this assumed correlation. Similar views were once held by the OECD, but by 1971 that body had begun to doubt this theory and to speak of the need for a different and more selective support for science:

One may suspect that the right action was often taken for the wrong or insufficient reasons: building up scientific capabilities was no doubt right, but basing it on the implicit assumption that research and development expenditures necessarily mark a directly proportional contribution to growth was unwarranted. This is not to say that R & D does not contribute to growth; it most certainly does, but this relationship has to be seen in the framework of a more complex process whereby what accounts for growth is in fact total innovation, i.e., the sums of original and imported innovation and of the funds spent on probing the market for new products, ironing out production bugs, and achieving adequate reliability in the commercial product ... disparities in national R & D effort did not by themselves give rise to major differences in economic and trade performance and ... in the innovation process, the assimilation of new knowledge derived from research and development could not usefully be considered in isolation. Many other factors are involved, including capital availability, fiscal policy, management competence and attitudes, entre-

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39. B. McFarlane, Economic Policy in Australia, (Melbourne, Cheshire, 1968) Chapter 12.



preneurship, marketing skills, labour relations, general levels of education and even culture and national psychology. (40)

Thus the OECD concluded that science policy cannot be geared solely towards the expansion of science and technology per se, but must include the management and direction of technical progress.<sup>41</sup> The report argued, for example, that the system of pluralistic allocation of R & D resources (i.e., market allocation) had led to some long-run interests of society being overlooked in favour of the shorter-term interests of individual firms or industries.<sup>42</sup> Similarly, the problem of work-dissatisfaction had arisen because of the subordination of technical change to economic efficiency.<sup>43</sup> On the other hand, the OECD group felt that it was especially important that R & D expenditure should be increasingly directed towards the science-based industries if OECD countries were to stay ahead in international competition:

original innovation is necessary in a nation if it is to realise its capacity for development in the more advanced science-based industries. We can import technology up to a certain point, but there comes a time, as illustrated by Japan, when a country has to generate its own share. (44)

In office, the ALP seems to have adopted a similar view. Its increase in the funding of science was a result of the feeling that the government should exercise a greater degree of control over science policy, and in particular that there should be a more self-reliant development of science and technology in Australia as well as a greater integration of science with economic and social policy in general.

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40. OECD, Science, Growth and Society, pp. 41-42.

41. Ibid., p.39.

42. Ibid., p.66.

43. Ibid., p.86.

44. Ibid., p.42.

In a discussion paper issued on the subject of the proposed Science Council, the Minister for Science (W.L. Morrison) criticised the traditional reliance by industry on the importation of technology which had resulted in research and development being concentrated in a small number of large firms.<sup>45</sup> The attempt to evolve a degree of technological independence appeared to the government to involve three essential aspects. The first of these - technological transfer by multinational corporations - has already been referred to in Chapters 1 and 3.<sup>46</sup> Briefly, the intention was to continue to promote foreign investment in so far as it assisted the growth of science-based, advanced technology industries in Australia. This was in keeping with the ALP's plan to encourage growth at the technological frontiers while exporting old-technology industries to the South East Asian region.

The other chief elements of this drive for technological independence - promotion of small business and management excellence - were neatly summarized by Cairns when he argued that:

Invention and application of invention by individuals are of greater importance than is realised. The status and power of Australian invention and innovation must be raised. It is likely that something like the following will come about in the near future:

- . There will be a fund to reward inventors.
- . An invention development corporation will be established.
- . A small enterprise administration will be set up.
- . Panels of committees will operate to bring together inventors and inventions, industry and government facilities.

But industrial enterprise is a matter of big

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45. W.L. Morrison, Towards an Australian Science Council, A Discussion Paper, (Canberra, Government Printer, 1974) p. 3.

46. See J.F. Cairns' speech to the Australian Industries Development Association: "Foreign capital which merely takes over what is in operation can hardly expect to be welcome, yet it has real value if it advances technology, increases scale or provides new markets ..." Australian Government Digest, vol. 1, no. 3 (1973), p. 1198.

enterprise as well as small. It is a matter in which unions and the workers can be expected to play a more positive role. Industrial development is essentially a matter of technology, of education, of research and it is essentially managerial. It will involve the transfer of people from one job to another. It will involve change and the psychology of change. (47)

Apart from the announced intention to set up an Inventions Development Corporation which would encourage creative smaller enterprises, Whitlam reported that

Efficiency and enterprise is to be encouraged by a variety of measures, notable among which are the establishment of a National Management School at the University of New South Wales<sup>48</sup> and the setting up of a Small Business Bureau.

The Minister for Manufacturing Industry (Mr. K. Enderby) announced in April 1974 that the government would provide assistance to local firms wishing to bring industrial experts from overseas to Australia because of their disadvantage compared to foreign based firms in acquiring technical expertise.<sup>49</sup>

Finally, in an effort to force scientific research along more interdisciplinary lines, to subordinate it in a greater degree to social and economic requirements of Australian capitalism, the ALP abandoned the previous government's Advisory Committee on Science and Technology. It announced a plan to form a wider body - the Science Council - which would include social scientists and would advise on aspects of science policy involving, for example, social problems and environmental impact of technological change as integral parts of its more traditional concerns. The C.S.I.R.O. was also asked to reorient the direction of its research towards closer amalgamation of the research results of the various divisions.

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47. Australian Government Digest, vol. 1, no. 3, (1973) p. 1084.  
 48. Australian Government Digest, vol. 2, no. 2, (1974) p. 435.  
 49. Ibid., p. 465.

Perhaps one of the most important aspects of the Labor government's manpower policy was summed up in the statement by the Minister for Labour that

Technological innovation could destroy society if political and social innovations fail to keep pace with it. (50)

The desire to suppress undesirable social and political consequences of technological change is certainly the most widely publicised aspect of the manpower policy, involving not only the labour market schemes such as RED and NEAT, but also the promotion of worker participation and job enrichment schemes. On the one hand, for the continued economic growth necessary to Labor's program of social reforms, technological progress and greater productivity of the workforce are seen as desirable. The major considerations of the government with regard to its manpower program stemmed from the need for immigration, education, employment and wages policy to be directed towards furthering the technological prowess of the Australian economy and greater productivity. But as Cameron rightly pointed out, technological change in a free market economy, and government policies to encourage this, are likely to have socially disruptive effects. Different regions and sectors of industry are likely to have severe unemployment problems if technological change results in the closing down of industry. In other cases the rapid growth of a new industry may lead to a shortage of housing and other facilities. The process of increased automation itself and the ever greater specialisation and division of labour in industry has been seen to have adverse social effects. As Cameron also observed,

Overseas studies have pointed to increasing absenteeism, rapid labour turnover, poor workmanship and incipient and sometimes overt labour unrest which is higher where working conditions and fringe benefits are above the national average. (51)

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50. "Productivity for People", paper by C.R. Cameron to the Productivity Promotion Council, 24/8/73, p.5.

51. Ibid., p. 6.

Technological progress thus gives rise to government intervention not only to stabilise inflationary pressures and maximize growth potential, but also to iron out socially disruptive effects.

Worker participation and job enrichment were the most prominent planks in this attempt to maintain industrial peace in the face of government policies designed to hold down wage increases and create unemployment in selected sectors. For the most part, however, the activity of the government was limited to a huge publicity campaign aimed at encouraging the voluntary introduction of such schemes rather than any attempt to introduce mandatory legislation like that operating in West Germany.

Much of this publicity campaign was carried on through the productivity Promotion Council, established by the government within the Department of Labour. In spite of its name, most of the publicity generated by this body was couched in terms of the political and social needs rather than the more narrowly economic productivity requirements. In his paper on 'Technology for People', Cameron claimed that he wanted to end the dictation of technology by economic considerations and introduce human ones.<sup>52</sup> In this same paper he echoed the hopes of Galbraith in urging that

management and workers must be partners with the community generally in achieving social responsibility. A new social contract of this kind is essential if technology is to be the servant of man and not his master. (53)

Apart from statements of this kind, however, the government intended to make a more concrete contribution to the establishment of worker participation and job enrichment schemes through the subsidization of capital expenditure costs for experiments of this nature.<sup>54</sup>

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52. Ibid., p. 3.

53. Ibid., pp. 9-10.

54. Ibid., p. 9.

Worker participation in one form or another received considerable bi-partisan support, which perhaps betrayed more about its real benefits to capital as well as its more publicised benefits to working class people. Senator Rae, for example, an Opposition spokesman on industrial relations endorsed the proposal that trade union and consumer representatives should be able to sit on the boards of corporations, arguing at the same time that businessmen should sit on the executives of trade unions.<sup>55</sup> A former president of the National Employers' Policy Committee, M. Dillon, approved of the less 'radical' concept of job enrichment through the participation of workers in organization of the work process at the shop floor level.<sup>56</sup> A management consultant firm which imported two Scandinavian experts to publicise 'Organization Development' cited the example of a Norwegian plant where the introduction of this type of job enrichment had resulted in a reduction of employment over a period of five years from nine thousand to six thousand seven hundred workers, while output rose by over 50 per cent in addition to several other cost savings through better organizational methods.<sup>57</sup> This last example perhaps demonstrates better than any the very real disbenefits to working people inherent in workers' participation schemes. By viewing the working class condition in psychological rather than social terms, by giving a sense of involvement in the day to day running of the firm, workers' participation schemes obfuscate the real relations of power in capitalist societies.

It is not surprising then that there has also been considerable

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55. The Australian, 27/8/74.

56. The Australian, 29/4/74.

57. Australian Financial Review, 28/5/74. In March 1974, Chrysler Australia Ltd., a major car manufacturer, announced that a company mission to study overseas worker participation schemes would include a shop steward.

support for the idea from certain right-wing sections of the trade union movement.<sup>58</sup> Both the New South Wales and South Australian Labor Party Branches have sections of their platforms devoted to encouraging the scheme. Mr. B. Unsworth, who designed the New South Wales platform on workers' participation, gave as the main aims of the program the ending of strikes and forcing workers to "act responsibly". The meaning of the term 'responsibility' in this context is perhaps illustrated best by his attitude towards the owners of capital:

Their capital is not being interfered with.  
They still retain 100 per cent of that. All  
that is being taken over is a half share in  
the way capital is used. (59)

Thus it can be seen that the solution to psychological problems offered by workers' participation schemes not only does not impede the operation of capitalist production relations, but in all likelihood helps to improve the efficiency with which labour is employed. That a scheme which in social democratic theory is designed to overcome problems of social unrest at the same time smooths the functioning of the economic system, serves to illustrate the degree to which social democracy and capitalism are compatible and complementary.

#### Attempts to Influence the Price of Labour Directly

This chapter has been concerned so far to show how the government attempted to influence the labour market by regulation of the supply and demand for labour and by encouraging greater labour productivity. These were both, at least in part, attempts to control the price of labour by

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58. For example, the Assistant Secretary of the New South Wales Labor Council, J. Ducker, praised workers' participation for its role in increasing productivity and reducing absenteeism, The Australian, 16/7/74.

59. The Australian, 30/6/75.

indirect means. The development of the economic crisis after 1971, however, meant that manpower policy would have more direct aspects and would be broader in scope than the policies which were originally designed to cope with longer-term structural problems of a growing economy. In a situation of inflation, the necessity for a full-scale attack on the share of wages became a much greater priority,<sup>60</sup> and it was in this environment that prices and incomes policies were linked with the 'Swedish style' labour market policies as part of this attack.

The first manifestation of the government's intention to intervene directly in order to influence the price of labour occurred during the 1973 National Wage case before the Commonwealth Conciliation and Arbitration Commission, when it supported an increase in the minimum wage in return for ACTU agreement not to take action to increase overaward wages. But with rising inflation throughout 1973 it was inevitable that this agreement would not be adhered to by many unions. So the government sought, by way of a referendum in December 1973, to gain power to control prices and incomes directly. (The Prices Justification Tribunal had already been established, but without jurisdiction to enforce its decisions, and had generally been ineffective in preventing price increases.)

During the referendum campaign the government, through Whitlam, tried to emphasise that its intentions did not include the imposition of a wage freeze. Such measures had already been tried in a succession of countries and been found unsatisfactory, due to working class opposition and a tendency of unions to lodge big claims at the end of every freeze period. Whitlam therefore stressed that the Labor government

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60. Cairns, for example, in a February 1975 television interview, stressed the need to whittle down the 8 per cent increase in the share of wages in the national income since Labor had come to office. Monday Conference, Transcript, (Australian Broadcasting Commission, 24/2/75).



had ruled out a wage freeze as being "too heavy handed". In a speech to the New South Wales Labor Council in November 1973 he argued that constitutional power over incomes would give the government power to give equal pay to women and to bring in cost of living adjustments.<sup>61</sup> This clearly demagogical announcement met with little response however.

With the resounding defeat of the referendum proposals the tactics of the government were directed more towards persuading unions to accept the idea of voluntary wage restraint, and towards persuading the Conciliation and Arbitration Commission to introduce some form of wage indexation.

In July 1974, the Cabinet endorsed the principle of quarterly cost of living adjustments.<sup>62</sup> That the main aim of the government in promoting this idea was to squeeze relativities between higher and lower income brackets (and thus to slow down the rate of wage increases by slowing down the "pacesetters" in the higher income brackets) was shown by the publication shortly afterwards of two plans devised by the Minister for Labour and two of the government's senior economic advisers. The first of these, prepared by Cameron, advocated that the minimum wage should be indexed to the Consumer Price Index and that all workers should receive a flat rate based on this amount. The two advisers, Gruen and Coombs, argued that such a scheme would prove unacceptable because it would cause too severe a compression of the wage structure. They recommended that full percentage indexation should be allowed up to average weekly earnings, that after this 50 per cent of the rise in the CPI should be allowed up to an income of two and a half times average weekly earnings and that

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61. E.G. Whitlam, speech to the New South Wales Labor Council, 22/11/73. See also his Australian Broadcasting Commission broadcast on 20/11/73.

62. The Australian, 30/7/74.

there should be a cut off point of \$14,000 per annum, above which no adjustments would be made.<sup>63</sup> As the Department of Labour publication, Wage Indexation for Australia, pointed out, all the methods of wage indexation involve compression of the wage structure to some degree, unless it can be written into industrial agreements that all earnings, including over-award payments, should be indexed.<sup>64</sup> Eventually, the Commonwealth Conciliation and Arbitration Commission accepted, with qualification, the principle of indexation of all earnings thereby preventing further narrowing of differentials.

The Commission can only hear government submissions; it cannot, under the Constitution, operate as a government instrumentality to fix wages. Two courses of action open to the government in such a situation were thus strong advocacy of its case during minimum wage hearings as was the case in 1973 and 1974, combined with control of the wage levels of its own workforce, especially the 'pace-setters' in the Public Service and Universities. The latter task was assigned to the Minister for Labour<sup>65</sup> although reservations were expressed by the Cabinet about his style of attacking "fat cat" public servants and their unions.<sup>66</sup> These measures were accompanied by a strong advertising campaign to discourage workers from pressing "excessive" wage demands while the pre-Keynesian slogan that "workers are pricing themselves out of jobs" was revived in the government's ideological armoury.<sup>67</sup> The only other alternative open to the government was to follow the British Labour Party's attempts to offer a "social contract" to the unions in which agreement to restrain wage demands would be secured in return for improved social services and

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63. Australian Financial Review, 23/8/74.

64. Australian Department of Labour, Wage Indexation for Australia? (Canberra, AGPS, 1974) pp.40-41.

65. Australian Financial Review, 22/10/74.

66. The Australian, 29/10/74.

67. The Australian, 26/4/75.

greater consultation with unions upon economic policy matters. The Australian Labor government's approach to the ACTU was made in September to November 1974, but a special meeting of the trade union body decided to accept the "social contract" only under certain conditions. Tax indexation was to be introduced simultaneously with wage indexation in order to ensure the maintenance of real wage levels and the possibility of changes in work values to account for productivity increases was to be left open.<sup>68</sup>

The overall results of government attempts to introduce de facto wage control by these methods were minimal. It is perhaps worth asking why a labour movement which had elected its "own" Labor government and was on the whole committed to the social democratic ideology should remain so unco-operative. The answer to this question lies in the erosion of real wages by the spiralling cost of living<sup>69</sup> and the realization that in spite of money wage increases already granted, actual earnings had not increased because of the unchanged taxation scales.

Lack of working class co-operation, however, is not sufficient explanation of the failure of governments all over the capitalist world to control wage levels successfully. The capitalist relations of production themselves and the 'free' labour market are at the source of the problem for governments. Marx pointed out that the value of labour power (its 'natural price') is determined by the socially necessary labour time required to maintain and reproduce the workforce (including an historical element), while the market price of labour depends upon the forces of supply and demand. Where the demand for labour is strong, due to a certain

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68. Australian Financial Review, 25/9/74. The second condition met with immediate resistance from employers.

69. Perhaps also the loss of employment for a large number of married women in female-intensive industries would spur their spouses to make higher wage claims in order to maintain previous standards of living.

relationship between capital accumulation, technical progress and the degree of monopoly, real wages will rise whatever the government desires (although the magnitude of the rise will depend upon such factors as the organisational strength of trade unions). The only real hope governments have to reduce wage demands in such a situation is to allow the 'natural rate of unemployment' to rise to unusually high levels in order to bring discipline and fear into the labour market. Such a strategy was rejected by the Labor Party in the period before 1975 as having politically unacceptable consequences and the alternative methods which have been discussed in this chapter constituted an attempt to avoid taking such a path.

### Conclusion

A discussion of the Australian Labor government's labour policies reveals an awareness of the importance of qualitative improvement of social life as well as the economic necessity to accelerate the rate of growth and ameliorate inflationary pressures. The government has understood that not only the normal functioning of the capitalist economy, but also its own measures to overcome 'flaws' in the system create social problems which lead to political dissatisfaction. Thus the more selective approach towards migration, the promises to improve the condition of women, the increased expenditure on education, social services and regional development represented an awareness that in today's world of rising expectations coupled with objective economic difficulties, it is still necessary to solve the social problems and not merely to improve the efficiency of the economic system.

In addition, the discussion has shown that the economic aspects of labour policy involved both (i) attempts to smooth the functioning of the system in response to the long-term inflationary pressures and structural changes of the post-War period and (ii) attempts to arrive at a more

immediate solution in the face of the mounting crisis conditions. The latter approach, which in the field of labour policy consisted of attempts to impose direct control upon the level of wages, had little success. Swedish experience has also shown that this is less likely to achieve its aims than the longer term labour market policy which tries to improve the productivity of labour and eliminate bottlenecks in the supply and demand for this particular commodity.<sup>70</sup> In Australia, however, the lack of preparation for RED and NEAT, the theoretical rather than practical commitment to workers' participation and better technical education facilities, the failure to establish appropriate criteria for the selection of migrants, the disagreement over the direction of child care policy contributed in part to the ineffectiveness of the manpower program's economic functions. Moreover, the development of a serious crisis of inflation and high unemployment meant that carefully planned strategies disappeared as the government resorted to more ad hoc measures, and that the manpower organisations were used for purposes for which they were not intended (e.g. RED and NEAT became unemployment relief schemes). As the short term considerations engendered by the crisis began to dominate over the longer term manpower strategy, so the social welfare functions of the policies also dominated over their economic functions. The inability of the ALP to solve the economic crisis can thus be seen to arise from the growing level of class struggle and political backlash from its own erstwhile supporters.

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70. E. Höök, in Australian Institute of Political Science, Industrial Australia, 1975-2000, (Sydney, ANZ Books, 1974).

CHAPTER 5THE A.L.P. AND THE CAPITALIST STATE 1972-74

The long boom of the 1950s and 1960s gave rise to the notion that capitalist crises, of the magnitude experienced during the Great Depression, were no longer a necessary feature of the system. Indeed it was felt in many quarters that refinement of the economic tools which were the legacy of the Keynesian Revolution would lead to a situation where the major features of the general crisis - stagnation of investment and high unemployment - could be eliminated. The focus of economic theory shifted away from the problems associated with the trade cycle and short-term stabilization, towards the problem of maintaining sustained economic growth. With the threat of vast unemployment apparently receding into the distance and the seeming probability of constantly rising standards of living for all, it became possible to think more and more in terms of reforms within the parameters of the system, of eradicating the worst inequities and of the demise of class struggle. In the field of economic theory this was manifested in the works of people like Schumpeter and Galbraith, who argued that economic growth and technological progress would drive society inexorably towards socialism as managers and technicians replaced entrepreneurs and the old class antagonisms of capitalism disappeared. In political theory it was represented by the "end of ideology" notion of Daniel Bell.

There are, however, methodological problems associated with the 'managerialist' approach of writers like Schumpeter and Galbraith and a proper understanding of the policy approach of the ALP (many of whose ideas can be traced to this source) requires a closer examination of these. Such an examination will focus in particular upon what could be described

as the 'subjective problematic' of these writers. The term refers to the danger, in this type of analysis, in concentrating as the managerialists do, on the motivations of conduct of individuals, rather than viewing social classes as objective structures in a capitalist economy, and their relations as an objective system of connections. What is meant by this is that analysis should be concerned with the objective place of individuals within the production process and the ownership of the means of production.

If, like the managerialists, we argue that ownership is no longer a significant element in economic and political power and that instead it is the motivations of members of the technostucture which are important, we are not only bound to ignore the real economic facts - as Miliband pointed out, the important decisions about growth, size, investment policy, are not made by the vast membership of the technostucture, but by a very few top managers and difectors who in any case are themselves large shareholders and therefore have a vested interest in profits<sup>1</sup> - but we are bound to ignore also the question of what Poulantzas called "economic property or real appropriation",<sup>2</sup> the fact that the surplus value created by the working class is appropriated by the relatively few. This concept of "economic property" (as opposed to formal, legal property on the one hand, and technical control of the production process on the other) needs further exposition. As DeVroey has pointed out, Poulantzas' concept consists of "the power to assign the objects on which it bears (especially the means of production) to specific uses and to dispose of the products

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1. R. Miliband, "Professor Galbraith and American Capitalism", in R. Miliband and J. Saville (eds.), The Socialist Register, (London, Merlin Press, 1968).
  2. N. Poulantzas, "The Problem of the Capitalist State", in R. Blackburn (ed.), Ideology in Social Science, (London, Fontana, 1972).

obtained through those means of production".<sup>3</sup> Power of assignment and disposition rests on control of the voting system in which legal ownership (shareholding) entitles participation. But legal ownership alone does not imply economic ownership.

In fact Marx had already pointed out in the nineteenth century, that one of the chief features of capitalist production was precisely the separation of the function of management from legal ownership:

For Marx the historical trend is that these functions, which at the rise of capitalism were often performed by the same person tend to become separated with the development of the capitalist mode of production. In Marx's terms: "Stock companies in general - developed with the credit system - have an increasing tendency to separate this work of management as a function from the ownership of capital, be it self-owned or borrowed ... The mere manager who has no title whatever to the capital, whether through borrowing it or otherwise, performs all the real functions pertaining to the functioning capitalist as such, only the functionary remains and the capitalist disappears as superfluous from the production process." (4)

Thus the separation of ownership and control is seen as linked with the emergence of joint-stock companies as a new form of ownership and "this emergence itself must be understood as a manifestation and a stage of the process of socialization of capitalist production".<sup>5</sup>

In other words, the joint-stock company, with its wide-spread ownership of shares, was a way of resolving the contradiction between the increasing social concentration of the means of production and of labour power (and concomitantly growing amounts of capital which were required to

3. M. DeVroey, "The Separation of Ownership and Control in Large Corporations - The Marxist View", Working Paper, no. 7419 (Louvain, Institut des Sciences Economiques, September 1974) p. 10.
4. Ibid., pp. 5-6, cites K. Marx, Capital, vol. 3 (New York, International Publishers, n.d.).
5. Ibid., p.7.



be advanced) and the private appropriation of surplus value. This new form of social capital was, in Marx's words, "the abolition of private property within the framework of capitalist production itself".<sup>6</sup> As Hilferding later pointed out, it was this dispersion of ownership in the form of joint-stock companies which enabled an actual concentration of economic power (not, as the managerialists would argue, a dispersion of power) because the big capitalists could now assign and dispose of the means of production and their product with a reduced proportion of legal ownership.<sup>7</sup> It is often argued that as little as 15 per cent of the shares is sufficient to give economic control over a firm. This is now new: according to Hilferding in the early part of this century,

The ownership of a great number of capitalists is constantly being restricted and their unlimited disposition of the productive resources suppressed. But, on the other hand, the circle of the masters of production becomes more and more restricted. (8)

Hilferding's argument was given support by the finding that between 1956 and 1962 the number of shareholders in the USA nearly doubled, but that this increase was due to the purchase of shares by people with an annual income of over 7,500 dollars while the shareholding of the great mass of the population decreased.<sup>9</sup> The Berle and Means study of 1937 showed that inside the 200 largest non-financial corporations, a controlling clique dominated while the majority of small shareholders (the formal owners) remained impotent.<sup>10</sup> These findings have been confirmed in the Australian

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6. Ibid.

7. Ibid., p.8, cites R. Hilferding, Le Capital Financier, (Paris, Editions de Minuit, 1970).

8. Ibid., p.9.

9. A. Anikin, "Monopolistic Corporation and Development of Capitalism: Adolf Berle's Conception" in S. Dalin, A. Anikin and Y. Olsevich, Economic Theories and Reality, (Moscow, Progress Publishers, 1967), p. 190.

10. Ibid., p.144.

context by Wheelwright and Rolfe.<sup>11</sup> As Anikin put it,

Actually control cannot ... be opposed to ownership and managers cannot be opposed to the shareholders. The role of managers consists primarily in that they are confidential agents, representatives of the finance oligarchy which holds in its hands both the legal ownership in the form of large blocks of shares and the actual control. (12)

Schumpeter and Galbraith treated technological progress as the driving force of economic growth. From this perspective they derived the notion that capital and technology can be treated in isolation from the "social relations of production" in existence at a given time. By this it is meant that they did not include consideration of class antagonisms as a necessary part of the process by which capital accumulation and technological change become possible and occur. Some indication has been given in this chapter of the consequences of such an approach for an analysis of the role of the technostructure in modern capitalism and of the failure of these writers to grasp the essential fact that capitalism cannot be reduced to a question of technique. In order to be able to assess more fully the real influence of the technostructure in Australia in the 1970s and the role of the Australian Labor Party as its political arm, it will be necessary to have some understanding of those relations of production.

Marx stressed, from the beginning of Capital, that commodities and capital acquire, in bourgeois economics, a fetishistic quality in that they obscure relations between men by relations between things. Machines exist and are used in specific ways only because certain social relations are in existence. Behind the notion of 'capital' lie the social relation-

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11. E.L. Wheelwright, Ownership and Control of Australian Manufacturing Companies, (Sydney, Law Book Co., 1955) and H. Rolfe, The Controllers, (Sydney, Law Book Co., 1966).  
 12. S. Dalin et al., op.cit., pp.148-149.

ships of the capitalist mode of production - the class relationship between workers and those who exploit their labour. Means of production (raw materials, tools, etc.) have always existed in all sorts of modes of production. But they do not become capital until they are owned by a small group in society and are used to extract surplus value. Under capitalism the owners of past 'dead' labour dominate and subjugate living labour, and it is only this domination which turns 'dead' labour into capital. Capital "consists in living labour serving accumulated labour as a means for maintaining and multiplying the exchange value of the latter".<sup>13</sup> As Lenin said,

capital signifies certain relations between people, relations which remain the same whether the categories under comparison are at a high or low level of development. Bourgeois economists have never been able to understand this, they have always objected to such a definition of capital. (14)

It is not the tools that differentiate modes of production or social formations, but the productive relationships (the 'social relations of production') that make it possible for the tools to be created in the first place. It is intended, therefore, to give here an alternative analysis to the Schumpeterian technological determinism which will bring out the consequences of treating technology and capital, not as mere pieces of machinery acting independently, but as embodying the social relationships of the capitalist mode of production.

Marxian economics seems to establish that the formation of capital depends upon the extraction of surplus value from living labour. But it also shows that there is a limit to the amount of surplus value which can

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13. K. Marx, "Wage Labour and Capital", in K. Marx and F. Engels, Selected Works, (Moscow, Progress Publishers, 1970), p.81.

14. V.I. Lenin, What the "Friends of the People" Are and How They Fight the Social-Democrats, (Moscow, Foreign Languages Publishing House, 1950) p.132.

be extracted in a given working day with given instruments of production. Once the possibility of extending the length of the working day is excluded, the capitalist must therefore strive to increase the productivity of labour; that is, to increase the quantity of commodities produced during the working day by the labourers. This can be done through the use of better machinery, better organisation and other technical advances. 'Relative' surplus value is increased in this way in as much as the improved methods result in the cheapening of workers' socially necessary means of subsistence; that is, in as much as it reduces the socially necessary labour time required to produce those means of subsistence. Capitalists who improve methods of production are therefore propelled not by a desire to lighten the load of the workers,<sup>15</sup> but by the imperatives governing their existence as capitalists, that they must always seek to increase profits. They are compelled by their economic situation to become instruments of technical progress and do not, as social-democratic theory would have it, introduce new techniques because a 'socially responsible' technostructure has taken over from the old avaricious capitalist owners. Profits are the lifeblood of capitalism. It is only through profit that capital can be realised, increased and turned into more profit. Those capitalists who do not constantly seek to increase their fortunes by turning their existing capital into more and more capital fall by the wayside.<sup>16</sup> There is, therefore, implicit in

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15. As was thought by J.S. Mill, see K. Marx, Capital, vol. 1, (Moscow, Progress Publishers, 1971), p.351.

16. The accumulation process itself can carry with it an implicit increase in the demand for labour - for the moment this refers only to the extensive development of capital (capital-widening) - assuming that the simple addition of more machines requiring a proportionate increase in the number of workers required to operate them takes place. This increased demand for labour will result in an increase in its price. Sweezy points out that the equilibrating mechanism of supply and demand does not operate in the case of the commodity labour power as there is no guarantee that the supply of labour power will be automatically increased to meet increased demand. P. Sweezy, The Theory of Capitalist Development, (New York, Monthly Review Press, 1968) p.84.

the accumulation process, pressure upon the capitalist to increase the productivity of the labour power at his disposal by introducing technologically more advanced machinery in order to increase the rate of surplus value. This is the "intensive" development of capital or an increase in the 'organic composition of capital' (capital-deepening).

Marx argued that a tendency of the rate of profit to fall stemmed from this increase in the organic composition of capital; that is, the increase in the value of constant capital (c) relative to variable capital (v). If surplus value (s) remains constant but organic composition of capital is rising then the rate of profit which =  $\frac{s}{c + v}$  will fall. Marx also carefully enumerated several counteracting influences to this 'law', leaving to it merely the character of a tendency. These counter-trends included the cheapening of the elements of capital (which has the effect of keeping down the organic composition of capital), raising the intensity of exploitation (speeding up the line, etc. which acts to raise the rate of surplus value), depression of wages below their value, relative overpopulation (which acts to depress wages), foreign trade (to the extent that it cheapens the elements of constant capital). Sweezy pointed out however, that

A rising organic composition of capital goes hand in hand with increasing labour productivity. If the rate of surplus value remains constant, this means that a rise in real wages takes place which is exactly proportional to the increase in labour productivity. (17)

Yet Sweezy's analysis led him to expect a rising rate of surplus value:

One of the normal concomitants of increasing labour productivity under capitalist conditions is the creation of an industrial reserve army which exercises a depressing effect on wages and in this way tends to elevate the rate of surplus value. (18)

16. cont.

There will therefore be a tendency for the rate of surplus value to fall. This creates additional pressure in times of rapid capital accumulation to increase the rate of investment in labour-saving, capital-intensive machinery.

17. Sweezy, op.cit., p.100.

18. Ibid., p.101.

The assumption of a constant rate of surplus value does appear to neglect this effect of a rising organic composition of capital; yet it hardly seems appropriate to regard it as an "offsetting" factor. Although it would seem fairly clear from Sweezy's argument that in fact the rise in organic composition of capital would tend to restore the rate of surplus value, Dobb<sup>19</sup> has drawn attention to the likelihood that increases in labour productivity generate progressively smaller proportionate increases in surplus value. Dobb relies on a passage from Capital vol. III which refers to the intensification of exploitation as having "certain impassable limits". The final limit, which is approached asymptotically, is set where labour time is reduced to zero, when further increases of productivity can increase surplus value no further - given the amount of labour and the length of the working day.

So far, basic Marxist theory on the purely economic causes and consequences of the process of technical change have been outlined. But it is also the social consequences of the introduction of new machinery which need to be discussed in the context of the attitude of various capital-owning groups to technological progress. One of the earliest writers on the subject of technological change was Ricardo, who influenced Marx.

Ricardo, in the third edition of On the Principles of Political Economy and Taxation, retracted and criticised his former opinion that the introduction of machinery is in all cases beneficial to the different classes of society. His new conclusion, shocking to the political economists of his day, was

that the opinion entertained by the labouring class that the employment of machinery is frequently detrimental to their interests, is not founded on prejudice and error, but is conformable with the correct principles of political economy. (20)

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19. M. Dobb, On Economic Theory and Socialism, (London, Routledge and Kegan Paul, 1955) pp.199-200.  
 20. D. Ricardo, On the Principles of Political Economy and Taxation, (Cambridge, Cambridge University Press, 1951) p.392.

Ricardo showed that under certain conditions technological unemployment will undoubtedly result from the introduction of machinery, whatever other benefits of that machinery might be in reducing prices. As he put it,

All I wish to prove, is that the discovery and use of machinery may be attended with a diminution of gross produce; and whenever that is the case, it will be injurious to the labouring class, as some of their number will be thrown out of employment, and population will become redundant, compared with the funds which are to employ it. (21)

The details of Ricardo's argument are as follows. The level of employment depends on the gross value of output (roughly total product of an industry) because more people are needed to produce the labour effort required by increases in gross output. However, the decision of the capitalist to introduce new machinery depends on something else: that is, the amount of profit or surplus (gross income less expenditure on wages and machinery which Ricardo calls 'net revenue'). It can happen that the prospective amount of profit will be at a satisfactory level or even rising and so encouraging new investment in machinery at the same time that gross produce is stagnant or even falling. Whenever this happens, machinery will be introduced in response to the prospective profit level, but unemployment will follow the fall in gross produce. As Ricardo explained,

My mistake arose from the supposition, that whenever the net income of a society increased, its gross income would also increase; I now, however, see reason to be satisfied that the one fund, from which landlords and capitalists derive their revenue, may increase, while the other, that upon which the labouring class mainly depend, may diminish... (22)

As Marx was quick to appreciate, Ricardo's discussion had the virtue that it placed the analysis of the impact of technology squarely within the framework of a class analysis:

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21. Ibid., p.390.

22. Ibid., p.388.

Ricardo's theory of the inverse relation between wages and profits...was developed incidentally with his pre-occupation with the trend of profits as the criterion of economic progress. ... But with the shift from the social and political conflict between landlords and the industrial bourgeoisie to the one between labour and capital, Ricardo's theory served to feed the theoretical fuel to the flames of the latter conflict. (23)

Marx criticised Ricardo, however, on the grounds of his assumption that the introduction of machinery was detrimental to the working class only in cases where it resulted in a diminution of the gross product (and therefore gross/revenue), that where gross product remained the same there would be funds available for the employment of the displaced workers.

Marx argued that

it is quite preposterous [to extend this case] to industry proper, whose ability to sell its gross product is by no means restricted by the internal market. (24)

It may happen that while those workers originally displaced by the introduction of machinery starve, the extra fund of commodities available will be lowered in price and consumed by other sections of society - or they may be exported. There is thus no guarantee, as the classical economists thought there was, that the capital set free by the redundancy of labourers would be used to re-employ them elsewhere.<sup>25</sup>

Marx therefore argued that

machinery ... makes a part of the population redundant, throws a section of the labouring population into the street. It creates a

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23. L. Rogin, The Meaning and Validity of Economic Theory, (New York, 1956) p.468.
24. K. Marx, Theories of Surplus Value, Part II, (Moscow, Progress Publishers, 1968) p.561.
25. Some 19th century economists had assumed that all those displaced would be re-employed in the production of new machinery. Ricardo had already dismissed this possibility since it is pointless to introduce machinery which embodies the same or more labour than that which it displaces.



surplus population, thus leading to lower wages in certain spheres of production, here or there, not because the population grows more rapidly than the means of subsistence, but because the rapid growth of the means of subsistence, due to machinery, enables more machinery to be introduced and therefore reduces the immediate demand for labour. This comes about not because the social fund diminishes, but because of the growth of this fund, the part of it which is spent in wages falls relatively. (26)

Thus Marx's analysis shows that the net effect of the capitalists' attempts to economise on the wage bill through increased labour productivity is to increase relative unemployment, and this in turn acts on the wage level itself. The rise in the organic composition of capital due to the displacement of workers by machinery may mean an absolute fall in the demand for labour, or, if the population is growing, it may be only a relative lag in proportion to capital growth:

With accumulation, the development of the productiveness of labour that accompanies it, the power of sudden expansion of capital grows also; it grows...because the technical conditions of the process of production themselves - machinery, means of transport etc. - now admit of the rapidest transformation of the masses of surplus-product into additional means of production... In all such cases, there must be the possibility of throwing great masses of men suddenly on the decisive points without injury to the scale of production in other spheres. (27)

In such cases the reserve army of labour will be depleted and the check on a rise in wages removed. Surplus value may then become seriously diminished, but

as soon as this diminution touches the point at which the surplus labour that nourishes capital is no longer supplied in normal quantities, a reaction sets in: a smaller part of revenue is capitalised, accumulation lags, and the movement of rise in wages receives a check. (28)

In Marx's theory changes in methods of production become necessary

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26. K. Marx, Theories of Surplus Value, Part II, p.571.  
 27. K. Marx, Capital, vol. 1, (Moscow, Progress Publishers, 1971) p.592.  
 28. Ibid., p.582.

conditions for the very existence of capitalist production. For it is chiefly by means of labour-saving technological innovations that the reserve army of labour is recruited, and it is through the existence of this reserve army that a high rate of surplus value can be maintained and the capitalist class which it supports survives.

So far I have been concerned to show the crucial role of technological progress in capitalist accumulation. But in the accumulation process itself there are tendencies counteracting the drive to innovate which Schumpeter, in his argument that monopolistic practices are necessary conditions for technological progress, fails to understand. These counteracting tendencies have been described by Sweezy:

We observe the apparent paradox, namely, that a monopolist making large profits will nevertheless refuse to invest more capital in his own industry and will search for outside opportunities for investment even though the rate of profit obtainable be much lower. The paradox disappears as soon as we realise that the monopolist's investment policy cannot be dominated by his overall profit rate or by the rate obtainable by the additional investment taken by itself. He must rather be guided by what we may call the marginal profit rate, that is to say the rate on the additional investment after allowance has been made for the fact that the additional investment, since it will increase output and reduce price, will entail a reduction in profit on the old investment. The overall rate of profit may be high while the marginal rate is low or even negative.<sup>29</sup>

This factor helps explain why in addition to the slowing down or cessation of investment in monopolised fields of industry, the monopolist will have a different attitude towards technological progress. As in the case of expansion of output, the monopolist cannot ignore the effects of technological innovation on his old capital, which must necessarily become outmoded and suffer depreciation in value and make it more difficult to capitalize investments already made in monopolistic sectors of the economy.

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29. P. Sweezy, The Theory of Capitalist Development, (New York, Monthly Review Press, 1968) pp.275-276.

What this means is not that innovations will cease in such sectors, but that (a) labour saving innovations become even more important to force up the rate of surplus value (by stepping up the rate of entry into the reserve army of labour), and (b) that the introduction of new methods will be timed so as to minimize depreciation of existing capital stock. This latter may mean that some inventions are passed over altogether, since by the time they can be used more advanced methods will be available.

The macroeconomic effect of these tendencies is that investment will flow back towards more competitive sectors of the economy, even though the profit rate there may be lower than in the monopoly sectors. Eventually the need to take action in the face of a low marginal rate of profit and the need to realize investments already made will also produce an interest by monopolistic corporations in the export of capital to foreign places. It may, in addition, involve the state coming to the defence of 'national' capital in the form, for example, of export subsidies or 'resource diplomacy'. Certainly the internationalization of capital will tend to be accentuated as capital attempts to break out of the narrow confines of its nation state in search of extra profits and markets elsewhere. In this case pressure will be exerted on governments to assist capital to be exported.<sup>30</sup>

Clearly then we have in this counteracting tendency of monopoly to slow down the rate of technological innovation a process which, when it comes together with the falling tendency of the rate of profits, will cause overall economic stagnation to ensue. But an upward economic cycle and the rebirth of the conditions for capitalist production is also inherent in the process which destroys parts of the older capital stock, which was depressing the marginal rate of profit. This destruction of older capital stock is caused by the fact that the threat posed to profit together with competition between capitalists causes them to turn to new

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30. The details of such pressures were examined in Chapter 3.

innovations.

Whenever the capital stock grows, and a boom develops, a negative feed-back operates so as to push investment back. This is due to the depressing effect which a growth of the capital stock has on the rate of profit. This feed-back...produces an oscillation round a stable position where net saving is zero and the capital stock constant. Innovations make it possible to break through this closed circle and set an upward path for the capital stock. (31)

Schumpeter's one-sided technical dimension to innovation (looking only at physical equipment and ignoring social relations) led him to the conclusion that monopolistic practices are the sine qua non of technological progress.<sup>3</sup> He failed therefore, to recognise the offsetting tendencies implicit in the process of concentration and centralisation of capital caused by the central role of profit. He also failed to see the effects of technological change on the working class, and that in fact technological progress is at the very crux of the contradiction between capital and labour. Whenever we look only at the struggle between capitalists or look at how each capitalist individually builds up profits through monopoly and innovation, as Schumpeter did, we shall miss the social process (including class relation-

31. J. Steindl, "On Maturity in Capitalist Economies", in Problems of Economic Dynamics and Planning: Essays in Honour of Michal Kalecki, (Warsaw, PNP Press, 1964) p.431.
32. Schumpeter's view that most innovations take place in the monopoly sector is not confirmed by the evidence. As a recent article on this subject concluded, "with respect to the amount of incentive to invent monopoly ranks higher than competition because of lower uncertainty, but at the same time ranks lower than competition because of the lower return per period. Without precise knowledge of the relative strengths of the two opposite forces, we cannot say unequivocally which market structure is superior with respect to the amount of incentive to invent". Y.K. Ng, "Competition, Monopoly and the Incentive to Invent", Australian Economic Papers, June 1971. Moreover, Schumpeter's assertion that big corporations and a strong concentration of market power to a few firms is favourable for innovation is not borne out by studies done since he wrote which indicate that it is in firms of small size, often newly created, that the really significant innovations are launched. "Outsiders" take the main initiatives, not established large firms. For evidence see B.R. Williams and C.F. Carter, Investment in Innovation, (London, 1958) and D. Hamberg, "Invention in the Industrial Laboratory", Journal of Political Economy (April 1963).

ships) which control the rate of profit. This social process must include the limits placed on the degree of exploitation (i.e. the rising rate of surplus value) by working class struggle. It is the limits set by this struggle which tend to make the rate of profit fall and thus to stimulate the flow of innovations which will destroy old capital and make capitalist production possible again. As Marx said: "a fall in the rate of profit calls forth a competitive struggle among capitalists, not vice versa".<sup>33</sup>

With this framework in mind, it should now be possible to make a more adequate assessment of the Australian Labor Party's economic policy which, as we have seen in previous chapters, depended to a large degree upon the technologically determinist assumptions of Schumpeter and Galbraith. If class struggle were eliminated from the analysis, the problem of analysing society could be reduced to the question of technique. Capital accumulation and the rate of profit would disappear in favour of technology as the driving force of growth; struggle between the classes over the distribution of the national product would disappear in favour of social engineering and the integration of the trade union movement into the capitalist 'planning' process. All political and social problems would thus be translated into technical and administrative ones. The introduction of an account which takes as its point of departure the social relations of production existing within a capitalist society such as Australia enables a new perspective to be gained; one which can explain both the role of the Labor Party at the particular conjuncture under consideration and its failure to achieve what it set out to do.

In the long boom of 1949-1971, the emphasis on managerial and administrative techniques coincided with the growing strength of the 'technostructure' as a social force in advanced capitalist societies. Capital accumulation, as Marx showed, is accompanied by a process of concentration and centralization of capital. In every capitalist society

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33. K. Marx, Capital, vol. 3, (Moscow, Progress Publishers, 1971) p.256.

today, this process has reached the point where a handful of corporations account for the great bulk of the wealth produced.<sup>34</sup> Moreover, as Poulantzas has described, there has occurred a vertical and horizontal integration of industrial production on an international basis.<sup>35</sup> The result of this process has been that huge agglomerations engaging in highly capital intensive production, requiring increased technical skills and a large administrative bureaucracy, have for the most part superseded the world of the entrepreneurial enterprise. The technicians and managers who make up the large bureaucratic structures of these corporations are a growing force in the political life of capitalist countries, not only because of their increasing numerical and electoral strength, but more importantly because they represent the interests of the strongest, most rapidly growing and most technologically advanced sectors of manufacturing capital.

The size of modern corporations and the magnitude of their capital outlays means that it is advantageous for management to plan new investment well in advance. In order to do this they would clearly prefer a relatively stable and growing economy and a stable political situation. One of the primary reasons for the establishment of multinational branch headquarters and plants in Australia, where labour is comparatively expensive, has been precisely the economic and political stability of this country since the Second World War. But if this stability and growth seems threatened, as it began to be with the increasing signs of economic crisis after 1971,

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34. An American study showed that in 1962 the one hundred largest manufacturing corporations held "close to 57 per cent of the net capital assets of all manufacturing companies". P.M. Sweezy and H. Magdoff, The Dynamics of U.S. Capitalism (New York, Monthly Review Press, 1972). In Australia, E.L. Wheelwright has shown a similar level of concentration in his "Concentration of Private Economic Power" in J. Playford and D. Kirsner (eds.), Australian Capitalism, (Penguin, 1972) p.69.
35. N. Poulantzas, "Internationalisation of capitalist relations and the Nation-State", Economy and Society, vol. 3, no. 2, (May 1974) pp. 156-157.

then the interest of the technostructure lies in greater government intervention in the economy in order to guarantee continued growth and predictability. Under the Liberal-Country Party coalition of 1949-72 the sustained economic boom in Australia had reduced the necessity for any kind of target setting or overall consideration of priorities. Economic policy consisted largely of reaction to events as they arose, and conditions of rapid economic growth and rising standards of living enabled the governments of Menzies and subsequent Liberal Prime Ministers to avoid giving serious attention to the question of planning. In addition, the Country Party, a party of sectional rather than nation-wide interests, tended to dominate the economic policy making of the coalition.<sup>36</sup> But throughout the 1960s and early 1970s business leaders were voicing increasing concern over the lack of coordination of economic policy.<sup>37</sup> It is for this reason that many sections of the technostructure in Australia were attracted to the Labor Party during this period.

The type of economic policy pursued by the Liberal-Country Party coalition contributed significantly to the dimensions of the economic crisis which Australia is experiencing in the 1970s. On the other hand, as the Industries Assistance Commission has recently observed, ALP policy

recognises the fact that in Australia policy advice originates from many sources, and there is a high degree of interdependence between public policy and private economic activities. It also recognises that ad hoc, uncoordinated, and reactive policy making can lead to wasteful duplication and have significant private and social costs; and that rational and consistent

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36. See J. Barbalet, "Tripartism in Australia: The Country Party", Politics, vol. X, no. 1, (May 1975) and B. McFarlane, Economic Policy in Australia, (Melbourne, Cheshire, 1968) Chs. 1 and 3.

37. See, for example, the statement in The Australian, 19/10/65 by S. Ricketson: "while we are regularly treated to a statement of the [Liberal] Government's economic objectives, little is said as to the methods by which these objectives will be sought... apparently it is politically unwise to admit to planning, which would tell a private enterprise what was expected of it, and politically prudent to disown such planning as inappropriate and unacceptable".

behaviour on the part of Government is a pre-requisite for business confidence and thus for a high rate of investment and economic growth. (38)

Furthermore, the Labor Party, with its base in the trade union movement and ideological commitment to reform, appeared to many sections of the technostructure to be an ideal vehicle for their needs. Its apparently solid core of trade union supporters lent it independence from the conflicts between vested interests in the capitalist class which had characterized Liberal-Country Party economic policy. Because of their nature as capitalist class parties, the two conservative parties were bound to find conflicting interests between different sectors of the economy reflected in divisions within the parties and their policy making machinery. The ALP, on the other hand, being relatively independent of such pressures would appear more likely to be able to carry out a programme of rationalization and restructuring of the economic system and to introduce some form of long-term planning. Virtual hegemony of working class electoral support also rendered the ALP more likely to win acquiescence of the trade unions to a restructuring programme. Moreover, the ideological commitment of the Party to reform of the capitalist system, together with its greater attachment to government intervention as a means to stabilization, growth and the increased welfare which it expected to flow from these, was a more likely candidate to fulfil the needs of the technostructure.

The rise of what has recently been labelled 'technocratic laborism' was primarily due to the strength of representation of the technostructure within the ALP structure. Catley, for example, argued<sup>39</sup> that, in South Australia at least, a "middle class" and professional leavening of the working class basis of the Party had occurred with the result that "middle

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38. Industries Assistance Commission, Annual Report 1973-74, (Australian Government Publishing Service, Canberra, 1974) p.3.

39. R. Catley, "The Politics of Transition", Arena, no. 28 (1972), pp. 23-24.



class" candidates won marginal seats, there was a leakage of "middle class" voting away from the conservative party and the importance of this stratum in the hierarchy of the Party increased because of the strategic importance of Dunstan's appointments of professionals and intellectuals to the ranks of press secretaries, 'think tanks' and personal staff. A similar process in the federal party has been noted by Catley and McFarlane.<sup>40</sup>

### The Technocratic Labor Thesis

In the early 1970s, several analysts of contemporary Australian politics began to write about the changes occurring in the structure and ideology of the Labor Party in the period during which this section of the capitalist class and its allies became dominant. In the wake of Humphrey McQueen's analysis of the early development of the Party,<sup>41</sup> Kelvin Rowley wrote

one could say that the critique of Laborism has come just at the moment it is rendered redundant ... the last five years have been the last gasp of the old Laborism in the ALP. It is currently being isolated and purged by the ascendant forces ... the victors have been the Whitlamites, representing the new petit-bourgeois mentality of what Galbraith called the 'technostructure'.<sup>42</sup>

There followed several attempts by various writers to analyse the phenomenon of 'technocratic Laborism' (as opposed to 'paeleo-laborism' - the old style of a Labor Party composed largely of politicians from the

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40. Bob Catley and Bruce McFarlane, "The Labor Plan: Neo-Capitalism Comes to Australia", Intervention, no. 3 (August 1973), p.6.
41. H. McQueen, "Labor Versus the Unions", Arena, no. 20 (1969); "Laborism and Socialism", in R. Gordon (ed.), The Australian New Left, (Heinemann, Melbourne, 1970); A New Britannia, (Penguin, 1970); "Glory Without Power", in Playford and Kirsner (eds.), Australian Capitalism, (Penguin, 1972).
42. Cited by H. McQueen, "Technocratic Laborism: Introduction", Arena, no. 25 (1971), p.54.

trade unions).<sup>43</sup> It seems appropriate to approach the problem of drawing conclusions about the relationship between capitalism, technocracy and social-democracy in Australia today through an examination of these writings in the light of the framework outlined above.

The difference between the new and old varieties of Laborism was seen, according to the 'technocratic Labor' thesis, to be mainly in the realm of ideas. It is this attention to ideas that has given rise to the erroneous criticism (by Richard James, for example)<sup>44</sup> that the technocratic labor thesis attacks its subject from the point of view of the paeleolaborites, thus implying a sort of 'Golden Age' of socialism in the ALP which unfortunately died out with Arthur Calwell. In fact the difference between the two varieties of laborism is in structure and ideology only, and the authors of the technocratic Labor thesis are uniformly explicit that the practice of the ALP in office has always been essentially the same. According to Catley and McFarlane<sup>45</sup> Labor was "Never a socialist party, but a liberal-capitalist one".

The change in Labor ideology was due, according to Catley and McFarlane, to the influence of a new intellectual 'middle class' who did not own substantial controlling capital or productive power.

They were, therefore, a 'progressive' stratum,  
often radical, and not the backward-looking

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43. John Lonie, "The Dunstan Government", Arena, no. 25 (1971); Kevin Rowley, "Bob Hawke: Capital for Labor", Arena, no. 25 (1971) and "The Political Economy of Australia Since the War", in J. Playford and D. Kirsner (eds.), Australian Capitalism, (Penguin, 1972); H. McQueen, "Living off Asia", Arena, no. 26 (1971) and "The End of Equality", Arena, no. 30 (1972); R. Catley, "The Politics of Transition", Arena, no. 28 (1972); B. McFarlane and R. Catley, "The Labor Plan: Neo-Capitalism Comes to Australia", Intervention, no. 3 (August 1973), "An Emerging Manpower Policy", Arena, no. 32-33 (1973), From Tweedledum to Tweedledee (ANZ Books, Sydney, 1974), and "The Limits of Technocratic Laborism", Arena, no. 36 (1974); J. Baguenault, "Dunstan Scheme for Worker Participation", Arena, no. 32-33 (1973); Bruce McFarlane, "A Neo-Colonial Policy for the Pacific Rim", Arena, no. 32-33 (1973).
44. R. James, Review of B. McFarlane and R. Catley, From Tweedledum to Tweedledee, in Intervention, no. 4 (May 1974), pp.67-68.
45. R. Catley and B. McFarlane, From Tweedledum to Tweedledee, p.4.

stratum typical of much of the petit-bourgeoisie. For many, the form their education had taken made them aware of the irrationality of the capitalist social system. They sought, as with the Fabian socialists in England, a moderate, 'civilized' series of reforms. Reason ruled because an intellectual elite knew 'what's what'. (46)

The emphasis on intellectual rationality was reflected in a changed attitude among the technocratic laborites towards socialism:

In the decade following the defeat of the Labor governments in Britain and Australia there developed the notion that political ideology was exhausted. In the context of the ALP this meant that nationalization was no longer accepted as an intrinsic component of the party's 'democratic socialism'. To the extent that anything was salvaged from the wreckage of the experience of Labor in office it was a commitment to 'equality'. (47)

The author of this statement then goes on to suggest that even this limited definition of socialism has become irrelevant to the ALP in its present phase.<sup>48</sup> Catley and McFarlane argue that this is because the technocratic laborites have redefined 'equality'. Whitlam, they say, has argued that

inequality is not a function of ownership structure. Rather it is a function of where you live, and of differential access to public goods such as education. Consequently the government officials have studied regional differences in access to sewerage, the arts, education and so on, and the differing burdens of land and housing costs ... This is bringing the new technocratic laborists in federal politics into conflict with the 'paleolaborites' who are still attached to the economic style practised by the Attlee-Stafford Cripps Labour government in England: highly progressive taxes, supertax on property, rent subsidies and price-controls. (49)

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46. Ibid., p.10.

47. H. McQueen, "The End of Equality", Arena, no. 30 (1972), p.8.

48. Ibid., p.9.

49. From Tweedledum to Tweedledee, pp. 11-12 (emphasis added).

As Humphrey McQueen pointed out, this essentially meritocratic conception of 'equality', where the distribution of resources between Federal, State and local governments for the purpose of equalizing the distribution of funds for health, education and urban living so that people living in different regions have equal access, sidesteps the question of income distribution and property ownership completely.<sup>50</sup> Commenting on Hurford's plan to "make the poor richer by increasing the size of the cake", McQueen argues that an increase in the size of the cake will not necessarily mean that the poor will retain their percentage of it unless the tax scale is altered at the same time.<sup>51</sup> He also pointed out that ALP plans to finance its superannuation and health schemes by contributory levy on taxable income was by no means designed to redistribute income towards the poor because a flat rate of contribution reduces the progressive nature of any tax system, and furthermore taxable income is a highly unequal basis upon which to tax people further since the rich are able to reduce this figure through the system of deductions, expense accounts, company travel etc.<sup>52</sup> In other words, the technocratic Labor conception of 'equality' ignores the plight of the poor, and benefits instead the middle income ranges of Australian society.

In the words of Kelvin Rowley, the technocratic laborites

Unlike the traditional laborites (or paeleolaborites) ... do not view themselves as leading a crusade on behalf of 'the common man' against corruption and privileges in high places, against 'money power'. Rather, they are leading a crusade against inefficiency. (53)

The commitment to reform is not a commitment to a redistribution of income, but to "modernity, efficiency and rationality".<sup>54</sup> John Lonie's article, "The Dunstan Government", places emphasis on the South Australian technocratic laborites' commitment to economic development and techno-

50. "The End of Equality", p.11.

51. Ibid., pp. 9-10.

52. Ibid., p. 11.

53. "Bob Hawke: Capital for Labor?", Arena, no. 25 (1971), p.9.

54. K. Rowley, "The Political Economy of Australia Since the War", in J. Playford and D. Kirsner (eds.), op.cit., p.310.

logical progress and planning.<sup>55</sup> Catley and McFarlane also lay stress on "technocratic planning".<sup>56</sup> Mesmerized by the long boom and the 'end of ideology', technocratic laborites reduced all political and social problems to technical and administrative ones. Thus their type of planning and economic thinking were completely orthodox in conception. As Catley and McFarlane point out,<sup>57</sup> the 'Swedish model' of rationalization of the capital stock, manpower policies and so forth, relies on the "concept of optimization of a chosen goal function within a given structure, and a rigid evocation of the ceteris paribus clause". They continue: "Essentially this kind of analysis is suited to comparing given technological alternatives in a given project and not to 'quality of life' issues".<sup>58</sup>

It is apparent from the foregoing brief summary of the technocratic Labor thesis, that it was primarily the analysis of a change in the structure and ideology of the ALP. It is an explanation of changes in the balance of power within the Party and of changes in style; an account which is born from political theory rather than from political economy. On the whole, the series of articles which make up the body of the technocratic Labor thesis do not trace the changes in the ALP to their roots in the changing nature of the Australian capitalist system. An attempt was made to trace the social roots of the technocratic ideology to the intellectual 'middle class' and the technostructure but the analysis went no deeper. It did not relate this alteration of the social and political composition of Australian society to the

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55. "Because we need business confidence in SA to raise employment and get development, we couldn't touch the main business concessions the LCL gave at least one major company. We looked elsewhere for funds." Dunstan speech in Lonie, *op.cit.*, p.65. See also: "in the coming years the Labor Party will be able to implement effective planning and research on a national scale." Speech to American Chamber of Commerce in *ibid.*, p.61.

56. See From Tweedledum to Tweedledee, Ch.2.

57. Ibid., p.20.

58. Ibid., p.21.

increasing concentration and centralization of capital and the intensifying contradictions of the world capitalist economy.

The concentration on ideas of the technocrats was partly a result of the lack of experience of the practice of these new leaders of the Labor Party in office. But in fact these leftist analyses of the ALP suffered from the same mesmerization by the long boom and the increasing affluence of the Australian people that orthodox social science had experienced. The resulting tendency to examine society in terms of superstructural phenomena<sup>59</sup> led away from political economy towards the subjective problematic of the technocratic Labor thesis, to the emphasis on the ideas of ALP leaders. John Lonie's article, for example, concentrates on Dunstan's own conception of the role of Labor in government, rather than the social forces delimiting that role. He argues that the ALP differs from the LCL "only in as much as Dunstan's Labor is more in tune with the demands of the 1970s. What it all involves is the domination of government decisions by industry".<sup>60</sup> But government activity has always been dominated by the needs of the economy and Lonie does not say what demands it will be making in the 1970s.<sup>61</sup>

It was only in the wake of the international monetary crisis of 1971 and, in particular, after the crisis of 1974, that political economy came to the forefront of the analysis. In 1972, R. Catley pointed out that one of the key determinants of the future of techno-

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59. Many others in the Australian Left in the late 1960s and early 1970s were heavily influenced by neo-Gramscian concepts of ideological and cultural hegemony.

60. Lonie, op.cit., p.64.

61. Continuing the emphasis on technocratic Labor's origins in the realm of politics, Kelvin Rowley argued that "Defeat and divisions in the context of Cold War affluence led to an important shift in Labor ideology in the 1950s and 1960s." J. Playford and D. Kirsner (eds.), op.cit., pp. 309-310. In other words he was saying that Cold War politics forced Labor's ideology to change rather than changes in the structure of the economy and society.

cratic laborism would be the performance of the economy. He suggested that the conditions for continued rapid development of the South Australian economy were unlikely to be evident in the long run due to the absence of a mineral boom and distance from eastern states markets. The indications that this would affect the success of the technocratic laborist solution were a growing disillusionment by the organized labour movement with the 'progressive' intelligentsia who dominated government policy, the emergence of militant shop floor organizations and a declining support among rank and file workers for the ALP.<sup>62</sup>

Catley and McFarlane, in their 1974 Arena article, "The Limits To Technocratic Laborism", argued that the period from July to September 1974 "was marked by a considerable series of defeats for technocratic laborism".<sup>63</sup> The most important developments signifying a technocratic retreat were: the rapidly rising unemployment "surpassed peak Liberal Party induced levels" rendering the Cameron manpower policy impotent, while the intensity of strike action by the working class "reached the previous record level established in 1929". These factors combined with pressure on the trade union representatives within the parliamentary party forced Whitlam and Crean (who was then Treasurer) to retreat from open advocacy of unemployment and to allow a more 'traditionalist' attitude to full employment policies to emerge. The unions were consulted and the government offered a social contract involving concessions such as better social services, and a redistribution of the taxation burden. In addition, the period following the publication of this article saw the rate of investment begin to stagnate and decline while the rate of inflation continued to spiral. The spectre of a 'strike of capital' began to emerge.

Catley and McFarlane argued that the advent of the 'social contract' in Australia "may mean ... that technocratic laborism does not work under

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62. "The Politics of Transition", Arena, no. 28, pp. 29-30.

63. Arena, no. 36, p.53.

condition of sharp economic conflict";<sup>64</sup>

It now appears that technocratic laborism was not able to put down enough deep roots in society, in real social classes. This was partly because its policies related to functional solutions rather than open capitalist class solutions which it tried to impose without full success. Clearly Whitlamism can achieve office. It has a successful electoral model, but it does not follow that it can run capitalism smoothly.

This explanation is true at one level. Social classes are not necessarily the same as the functional income class, as Catley and McFarlane themselves point out. Indeed many writers have commented on the differences between, on the one hand, the 'class' of managers and technicians, or the 'middle class', as defined by function, and on the other hand, the capitalist class as defined by the objective system of social relations of production in a capitalist society.<sup>65</sup> The 'electoral model' described by Catley and McFarlane in many ways related to functional 'class' solutions: the health, superannuation and urban planning proposals were designed to benefit the middle income stratum. But in fact the policies of the ALP were much more than functional solutions. The aim of this thesis has been to show that the policies of rationalization and restructuring of the economy were demanded by the strongest, most technologically advanced, monopolistic sectors of

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64. *Ibid.*, p.59.

65. Galbraith, for one, has shown the difference between the 'techno-structure' from a functional point of view (their desire for prestige and other goals unrelated to capital accumulation) and the old entrepreneurial class. The debate between Miliband and Poulantzas (R. Blackburn ed., Ideology in Social Science, (Fontana, 1972)) shows clearly the error of adopting this approach to social classes: "to characterize the class position of managers, one need not refer to the motivations of their conduct, but only to their place in production and their relationship to the ownership of the means of production ... it is necessary to distinguish, in the term 'property' used by Marx, formal legal property, which may not belong to the 'individual' capitalist, and economic or property or real appropriation, which is the only genuine economic power. This economic property, which is what matters as far as distribution into classes is concerned, still belongs to capital. The manager exercises only a functional delegation of it." N. Poulantzas, "The Problem of the Capitalist State", Blackburn, op.cit., p.244.



the economy whose spokesmen are the members of the technostructure. This while the 'technocratic retreat' described by Catley and McFarlane constitutes a retreat in terms of the subjective interests of the technostructure, there can be no retreat from the objective interests of this group in the long run.

In order to explain and justify this more fully it will be necessary to go into the structural link between the state in capitalist society and the relations of production of that society in a little more detail. To argue that technocratic laborism has failed in a crisis because it related to functional solutions (the subjective interests of the technocratic strata) is to ignore "social classes and the State as objective structures, and their relations as an objective system of regular connections, a structure and a system whose agents, 'men', are in the words of Marx, 'bearers' of it".<sup>66</sup> The capitalist state is the organization for the advancement and defence of the capitalist class. The capitalist system being inherently unstable, the function of the state is to regulate and organize it internally. The ways in which the state organizes society politically include the suppression of class struggle by means of force (police, courts etc.), by means of ideology (the ideology of the non-existence of class; i.e. of citizenship) and by incorporation of all members of the society into the system (e.g., by means of parliamentarism). The economic organization of capitalist society includes the maintenance of effective demand, the creation of conditions favourable to capital accumulation (e.g., through socialization of losses, and provision of infrastructure) and restructuring of the economy (perhaps obliterating certain sectors) in the interests of overall rationality.

The state apparatus is not, however, identical with the capitalist class itself, the reason for this being that capitalism is competitive

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66. Ibid., p.242.

and unstable and the state must, to some extent, stand above fractional conflicts between capitals in order to effectively benefit the class as a whole. The interest of the capitalist class in the maintenance of the relations of production is not the same as the economic interests of individual capitals. Hence arises a division of labour between the class and its organizational apparatus (the state). The relative autonomy of the state is a function of this division of labour.

We are now in a position to see more clearly the ALP and its technocratic programme in relation to Australian capitalism. Technocratic laborism arose as a response to definite economic conditions in the 1960s and 1970s and the apparent 'retreat' from these policies was not a failure of the technocrats to put down roots in one of the major social classes, but an expression of a more fundamental antagonism existing in the society as a whole. Technocratic laborism, despite its functional solutions, has much more significant roots in the needs of the strongest, most concentrated sectors of the capitalist economy. The conflict which arose in late 1974 was not a failure of Whitlam's 'electoral model' so much as an expression of the conflict between the capitalist class solutions posed by the government and the refusal of the working class to accept these. Thus, although thrown into a panic by the possible loss of its working class support in a threatened early election, the government soon recovered its memory of its necessary and objective role and the technocratic policies re-emerged in their pronouncements:

The experience of the past two-and-a-half years has shown that we still have the job ahead of us to devise effective means whereby we can actually achieve desirable structural changes without having to call a halt every time local or national economic circumstances lead to social problems which give rise to political pressure. (67)

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67. J. McClelland (then Minister for Manufacturing Industry), Australian Financial Review, 8/5/75.

The contradiction between the working class electoral and structural core of the Party and its objective function in office as the policy-making body of the capitalist state was reflected in the crisis within the parliamentary Labor Party in 1975 and in its inability to find a solution to the function which it perceives it must carry out (i.e., streamlining or rationalizing the capitalist system). Marxists, often basing their opinions on the apparent success of social-democratic governments in Sweden and West Germany in streamlining the economy, have tended to argue that the role of social-democratic and labour governments in late capitalism is one of intervening in an economic crisis to save capitalism and make it work more smoothly - a role which conservative governments with their traditional 'abhorrence' of state intervention are unable to fulfil.<sup>68</sup> The reason for this view is mainly that the hegemony of the working class support by labour parties is more likely to give them the ability to preserve social peace and prevent an outbreak of class struggle which might result in the working class seizing political initiative. The Australian Labor Party in fact perceives its role in this light: E.G. Whitlam put his party forward as the party of consensus, as the party to heal the wounds of the conflicts between labour and capital, older and younger generations, national and international capital, and promised businessmen a high level of profits and to try to head off strikes through the government's special relationship with the ACTU.<sup>69</sup> But as the experiences of the Labour governments in Britain in recent times and of the ALP in Australia have shown, social democracy is not able to achieve this goal in times of crisis. In each case the acceleration of class struggle has prevented the fulfilment of the technocratic function, and this acceleration of class struggle has

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68. See, for example, Bill Warren, "Capitalist Planning and the State", *New Left Review*, no. 72 (1972).

69. R. Catley and B. McFarlane, From Tweedledum to Tweedledee, (Sydney, ANZ Books, 1974), p.78.

been primarily a reflection of the deepening crisis of capitalism.

In other words, from the moment social democrats enter the race for parliamentary office and government they are encapsulated within the framework of the bourgeois democratic state, with all the implications that this entails. The technocratic laborist policies constitute an attempt to overcome the crisis of capitalism within that framework, but the limits to the success of such a programme are dictated by the limits of the crisis itself and the extent of the class struggle generated by it.

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