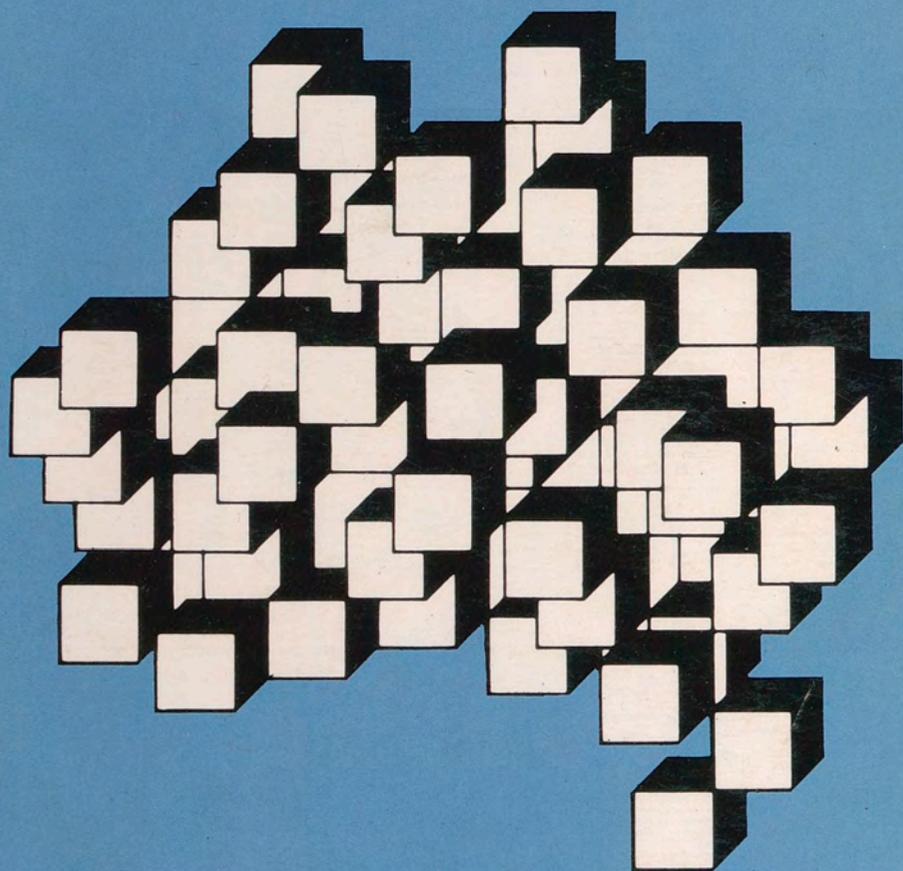


Essays in the
**POLITICAL ECONOMY OF
AUSTRALIAN CAPITALISM**
Volume four



Edited by
E.L. Wheelwright & Ken Buckley

H. G. B. C.

ESSAYS IN
THE POLITICAL ECONOMY OF AUSTRALIAN CAPITALISM

VOLUME 4

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The major economic expansion of late capitalism after the Second World War has solved none of the fundamental internal contradictions of the capitalist mode of production . . . The greater the slowdown in the average rate of growth of capitalist world production, the shorter the phases of boom and the longer the phases of recession and relative stagnation will threaten to become.

The transition from a 'long wave with an undertone of expansion' to a 'long wave with an undertone of stagnation' is to-day intensifying the international class struggle. The main objective of bourgeois economic policy is no longer to dismantle social antagonisms but to unload the costs of improving the competitive struggle of each national capitalist industry onto the wage earners employed in it. The myth of permanent full employment fades away.

*Ernest Mandel, Late Capitalism
New Left Books, London, 1975, p. 472*

INTRODUCTION

KEN BUCKLEY

WITH PUBLICATION OF Volume Four of this series, it is possible for the editors to stand back and take stock. Reviews of earlier volumes have appeared in a number of journals. We expected some brickbats. Our Marxist standpoint is not likely to commend itself to those intellectuals whose own ideological bias is both different and much less explicitly revealed. Nevertheless, we hoped that such people would see value in some of the essays; and this hope has been fulfilled to a greater extent than expected. The general good quality of the essays has gained recognition, the one sour note being a piece in the *Australian Economic History Review* which was so stale and generalised in its criticism that we can afford to dismiss it with a mention.

Naturally, we appreciate the comment by Robert Dixon, in his review for the *Economic Record* (September 1979), that despite shortcoming all the essays are 'interesting, radical and imaginative. Furthermore, it is impossible to read any of the essays without becoming aware of the humaneness of the author . . . Scholarship, imagination and humanity—what a contrast to the boring trivia and mystification which characterises much of social science'. This tribute is all the more welcome in that Dixon is not uncritical of the editors. He suggests that we could well present more integrated sets of essays rather than collections of disparate papers. Certainly this would be desirable. Unfortunately, there is not a large number of people engaged in research in the social (or physical) sciences in Australia from a Marxist viewpoint, no matter how broadly that viewpoint is defined. If high standards are set and maintained, it becomes necessary to accept general collections of papers. One incidental advantage of this is that the essays have a very wide range of appeal—to economists, historians, sociologists, political scientists and, we trust, readers who fit none of these categories. Breaking down barriers between academic disciplines—destroying the hedges behind which small groups of researchers talk only to themselves—is desirable in itself.

Criticism on other grounds appears in lengthy reviews by three academics in the *Australia New Zealand Journal of Sociology* (vol. 15, no. 1, March 1979). These perceptive 'think-pieces' take up a number of points about particular essays. More generally, one of the reviewers, Kevin Clements, argues that there are serious limitations to a national perspective, that the present is a time of international crisis affecting all capitalist countries alike, and consideration of problems in one country in isolation makes little sense. Furthermore, says Clements, by 'concentrating on the nation state as most writers in this series do understandably, there is an unconscious tendency to

over-rate Australia's role in the world economy'. This is fair comment and it has a practical importance in current politics. In Australia, we all know how easy it was in recent years to blame the Whitlam government for inflation and depression, despite the fact that these phenomena were worldwide: most Australians still believe that A.L.P. policies were primarily responsible for these developments.

Apart from acknowledging the force in Clements' argument, we proffer two responses. First, a number of our contributors have in fact placed their Australian material in an international perspective. In the present volume there are in particular the essays by McMichael, Beresford and Kerr, and Catley and McFarlane—besides which, other essays are related to Australian imperialism. Second, it must again be stressed that there are great gaps in knowledge about Australian capitalist development. These lacunae often lead to false generalisations which go unchecked. Clements expresses the hope that Volume Four 'of this excellent series' will explore 'how Australian development is determined by the capitalist world economy and in turn, how do class struggles within Australia reflect the wider struggles between nations over the production and distribution of commodities and scarce resources?'

It is not so simply 'determined', nor is the 'reflecting' exact. David Clark, in his essay in Volume One, 'Australia: Victim or Partner of British Imperialism?' analysed Australia's rather peculiar historical position as a colony which both benefited and suffered from imperialism. And in the present Volume, several contributors develop the theme of the twentieth-century extension of this ambiguity, with Australian capitalism acting as springboard for—whilst remaining subordinate to—American imperialism in southeast Asia. Yet there is a tendency to assume that this latter process of investment overseas developed out of the blue in the 1960s and 1970s, with no historical antecedents. Actually some Australian companies such as Burns, Philp and W.R. Carpenter were operating in the South Pacific for decades before this, although very little has been published about their activities.

Leonie Sandercock, another of the *A.N.Z.J.S.* reviewers, writes: 'Urban political economists in Australia are researching under enormous difficulties compared with their European and North American counterparts, in the absence of basic historical analysis of Australian capitalism, its similarities with and differences from capitalism elsewhere'. Historians themselves labor under similar difficulties. Thus one of the essays in this Volume Four briefly categorises the period 1900-1930 as one of lesser growth in Australia, and then goes on to consider more interesting matters—more interesting because better known. It is nevertheless a fact that within that long period of three decades there was an important boom between 1907 and 1914. It was a boom which has been grossly under-rated by Australian economic historians: a boom characterised by strong advance in manufacturing and farming, great capital growth (e.g. B.H.P. and C.S.R.), serious battles between labour and capital, and the first substantial move of Australian capital into the South Pacific. Yet no adequate assessment of this crucial

formative period (which included the firm establishment of Australian protection of manufacturing) has been made as yet.

One of the purposes of this series of essays was filling such obvious blanks in understanding of the development of Australian capitalism. Our contributors have made substantial provision of bricks and straw towards the building of a comprehensive edifice. For example, Andrew Hopkins' 'Anti-Trust and the Bourgeoisie: 1906 and 1965' in Volume Two went some way towards filling in the particular gap referred to in the preceding paragraph. But we are conscious that there is a long road ahead. Volume Four will be followed by other volumes and we invite further contributions of essays, which may be sent to either editor.

* * * * *

In this Volume Four, the main emphasis is on capitalist economic crisis, past and present. It is a fitting theme, given the current world crisis which several of our contributors view in terms of E. Mandel's revival of Kondratieff long-wave cycle theory, i.e. the beginning in the 1970s of a 25-year downward trend, following the equally long boom from 1945. If the capitalist world can expect an economic slide until the mid-1990s, there are dangerous years ahead—for both capital and labour. Of course, capitalist crisis is a common enough phenomenon from time to time. Marx regarded crisis as an inevitable process under capitalism: a tendency for the rate of profit to fall leads to crisis in which capital values are reduced, capital is redeployed, unemployment rises and real wages are cut. After a time there is a recovery. In these terms, there have been three major crises in Australian history, in the 1840s, 1890s and 1930s—followed, on a less severe scale, by that of the 1970s. The piece of jargon used for this process—the 'cleansing of capital stock'—appears peculiarly hygienic and inappropriate for events which in fact brought misery and deprivation to a great many workers and others on each occasion.

Our first essay, by Philip McMichael, is essentially a reinterpretation of the first of these great depressions in Australia. In university economic history classes, the causes of this depression are presented in terms of contrast between the older emphasis upon external factors and the newer emphasis upon developments within the economy ('endogenous factors' is the ugly jargon term). The principal exponent of the first type of explanation was Brian Fitzpatrick, who argued that an economic downturn in Britain was transmitted to her colonies in Australia via an interruption of capital flow (following a raising of the Bank of England's discount rate in 1839) and a fall in wool prices. Fitzpatrick thus assigned primacy in causation to Australia's dependency upon the imperial connection. Subsequently, S.J. Butlin, much more empirical in his approach, pointed out flaws in Fitzpatrick's interpretation. In particular, Butlin claimed that the reduction in British capital export to Australia occurred not in 1839 but in 1841, by which time the depression was already well in evidence. Butlin acknowledged that the downturn in capital inflow from Britain greatly accentuated the slump, but

the downturn really resulted from news of the depression rather than being a cause of it.

In place of Fitzpatrick's interpretation, Butlin rather tentatively advanced one which emphasised certain factors in the economic situation within Australia. Notably, Butlin argued that the pastoral industry had spread geographically in the 1830s to the point where (because of rising costs of transport) it suffered from apparent exhaustion of opportunities for profitable expansion into new areas. This squeeze on pastoral profits through declining marginal productivity led to a general contraction in credit, land sales, prices and incomes. One of the reasons for the greater acceptability of this interpretation among Australian historians has been that it presented the Australian colonial economy as having a degree of autonomy, of not being an automatic reflex of the imperial economy. This appealed both to nationalist sentiment (to which historians are not immune) and to those Marxists who prefer to seek explanation from within rather than as a result of external impact.

McMichael points out serious problems concerning Butlin's interpretation. On the one hand, the idea of geographical limits to pastoral expansion does not square well with the fact of continued growth in volume of wool exports in the 1840s, (although this is not to deny a decline in grazing profitability). On the other hand, the data used by Butlin to show the late timing of the downturn in capital inflow are unsatisfactory. There are no statistics of a modern character to establish the level of capital inflow. Butlin used the only figures available, the difference in values between imports and exports; and these trade figures were heavily distorted in 1840-41 by a large volume of British exports unloaded onto the N.S.W. market on a consignment basis. This speculative action indeed resulted largely from depression in English markets associated with stringency in the London money market.

Having established these points of doubt about Butlin's conclusions, McMichael returns to basic Marxist principles. Fitzpatrick may have been short on facts, his evidence may have been no more than circumstantial, but his ideological instinct was correct. It stands to reason that an economy so heavily dependent upon the pastoral industry, which itself depended upon markets and credit in England, would react initially to change in those areas in England—subject to a lag corresponding to the long time between production of wool in Australia and its sale in England. The Australian colonies must be seen as an integral part of the British empire: they could not go their own independent way in economic terms. What is involved here is not so much a downgrading of the importance of certain developments in the Australian economy, as rejection of the idea of attributing primacy in causation of the depression to *either* external *or* internal factors. Plumping for one or the other entails failure to grasp the essence of the Australian economic crisis of the 1840s.

McMichael examines the crisis in terms of both the world-economic context of Australian wool-growing—particularly the credit nexus between English merchants and graziers—and the social constraints upon pastoral capital accumulation arising out of conditions of labour supply. On the first

point, McMichael outlines the intricate web linking growth of Australian pastoral production in the 1830s, with the expansion of the British woollen manufacturing industry, and the concurrent decline of the German wool-production industry. The British woollen textile industry suffered a check in its main market, the U.S.A., in the late 1830s, which led to a fall in prices for Australian wool and a restriction in credit. There was thus a squeeze on pastoral costs of production. At the same time there was an increase in labor costs associated with the ending of convict transportation to N.S.W. in 1840. There was also a drought which raised labour costs through higher prices for grain with which to feed workers.

This bald summary does not do justice to the depth of McMichael's analysis. The value of his essay lies in his emphasis upon setting the crisis of the 1840s in its international context, and in viewing that context in a theoretical framework of a complexity seldom envisaged by Australian historians. This essay is likely to become required reading in Australian history courses on the subject.

There are other essays in this volume which are concerned with economic crisis, but in chronological terms it is appropriate to refer next to several essays which deal with aspects of Australian imperialism as seen in the exploitation of black labour, racism and the White Australia policy, and Australian economic interests in the South Pacific and southeast Asia. First, A.A. Graves looks at the use of Kanaka labour in the Queensland sugar industry in the late nineteenth century and establishes convincingly that although the *raison d'être* for this labour force was its cheapness and docility, the cost of Kanaka labour to plantation owners rose sharply in the last two decades of the century, for a variety of reasons. At the same time, the industry was hit by competition from subsidised European beet sugar which caused a dramatic fall in world sugar prices. The industry in Queensland was then rapidly restructured with State assistance and partly as a result of pressure from small farmers: plantations were replaced by small cane farms served by central mills.

As Graves puts it: 'When plantations passed, so did the need for the large scale importation of field labor'. In 1906-7, thousands of South Sea islanders were summarily deported from Queensland to the Solomons and the New Hebrides. This was not a simple matter of application of the White Australia policy to keep out blacks and others with the wrong skin pigmentation: these particular blacks were forced out of Australia, although many of them had been there for years. Employers and the Queensland government which represented them in 1901 protested against the Commonwealth decision to end the Kanaka labour trade, and it has been generally assumed that the deportation of Kanakas resulted from the strength of racist and White Australia feelings, especially among Labor supporters. Actually, as Graves indicates, there was little hostility towards the islanders while they were employed on plantations as field workers who posed no threat to the working conditions of white workers in northern Queensland. Hostility developed in the 1890s when small cane farmers began to employ Kanakas on their farms. Trade unions protested, often in directly racist terms.

At bottom, however, the abolition of the Queensland labor trade was due less to political factors than to economic: the profit motive was paramount. By 1906, the restructuring of the sugar industry had progressed to the point where the increasingly costly Kanaka labour could be dispensed with—it could be replaced by more expensive but more efficient white labour, as the supply of unskilled workers increased through immigration from Europe and by the redeployment of workers from the declining mining industry in Queensland.

Two further points may be noted from Graves' essay. One is the appallingly high death rate among Kanakas (even higher than among Australian Aborigines today), which contributed to low productivity. Secondly, there were hopes among some capitalists interested in the South Pacific, that the deported Kanakas would serve as a useful labour force on plantations in their own islands. In practice it did not work out that way: most of the Kanakas had had enough and many were resentful of their enforced repatriation. By 1909, Lever Brothers' subsidiary in the Solomons, Lever's Pacific Plantations Limited, was urging the British government to permit the entry into the Solomons of indentured labour from India. The application was unsuccessful for reasons relating to India. It was not due to any respect for the islanders on the part of officials in the Colonial Office in London. One of them in 1896 minuted a document on the Queensland labour trade as follows: 'The brown man of the Pacific is doomed, and the black man from Africa or the yellow man from the East must take his place. If the labour trade is hastening the process, it is at least doing it painlessly and even pleasantly'.¹ With protectors like this—the Solomons was a British protectorate—it is not surprising that some whites in the islands met violent deaths.

There was another industry in Australia which had a fiendishly high death rate. This was pearlshelling, in Western Australia and the Torres Strait. Here the sufferers were mainly brown men—Japanese divers. Besides these, the industry employed a large number of Papuans and others as boat crews. In fact, pearlshelling had the largest concentration of Asians in Australia in the early years of the twentieth century. The question which Lorraine Phillips poses is: why was this industry uniquely exempted from the White Australia policy? Why were Japanese, Papuans etc. still allowed to enter Australia as indentured workers in the industry? Phillips traces the neglected history of pearlshelling in the 1890s and the early twentieth century to explain why several official attempts to effect a transition to white labor (as in the sugar industry) failed. Pearlshell, used mainly in buttonmaking, was a semi-luxury item for which the market lay in Europe. There the trade was subject to the whims of fashion clothing and the threat of cheap substitutes. Also, there was a small ring of buyers in London who operated together to keep down prices paid for Australian shell.

As more luggers entered the industry in the 1890s, there was a tendency towards chronic overproduction and a fall in the price of shell. There was consequently strong pressure to keep down costs in the industry. One approach to this problem was for major Australian fleet-owners to induce the Queensland government to discriminate against Japanese capitalists in

the industry. This was done successfully in 1897. But whilst the fleet-owners were able to rid themselves of competition from Japanese boat-owners at Thursday Island, there was a desire throughout the industry to retain Japanese workers because they were relatively cheap and efficient. From the establishment of the Commonwealth, Asians were permitted to enter Australia to work in pearlshelling under certain conditions, and this permit system still operates today.

As Phillips shows, there was no lack of effort by supporters of the White Australia policy (mainly Labor) to have the Japanese divers excluded, but each attempt came up against the need to keep down labour costs in an industry where the product was dependent entirely upon the world market. This situation was quite different from that of the sugar industry, which had a large market in Australia—a market where sugar prices could be manipulated by tariffs, bounties, etc. Any attempt to subsidise Australian pearlshelling would have been disproportionately expensive to governments. The alternatives were to let the industry die (with loss of appreciable export revenue) to continue using cheap Asian labour. Phillips quotes a revealing remark made by one operator in the Queensland industry in 1908: ‘there is as much chance of the pearl-shell industry being worked by white labour as there is of the Queensland Parliament being run by a black man’.

It was not simply a matter of Japanese being cheaper labour than white divers. It became apparent that the latter were not available at all. The diver’s life was short; and he was not covered by Workmen’s Compensation Acts. The racist conclusion drawn was that the work was not suitable for white men: let the Japanese die if they wished.

Part of the industry’s problems lay in the division of powers between the Commonwealth (immigration control) and the Queensland government (licensing of boats). Phillips notes that in 1913 a federal Royal Commission recommended that such difficulties be overcome by the cession by the State to the Commonwealth of the whole of the islands and reefs of the Torres Strait. It is a pity that Queensland did not act upon this recommendation—it would have obviated Premier Bjelke-Petersen’s posturing as a little Queenslander in the 1970s. Even more interesting is the fact that the private letters of James Burns, principal of Burns, Philp & Co. Ltd. (which was heavily involved in pearlshelling) reveal him to have been thoroughly exasperated by the White Australia policy and the recurrent threat that it might be applied to exclude Papuans from the industry. To Burns, the problem was not so much one of federal-state division of power as of A.L.P. pressure at both levels of government. In 1908, Burns felt that it would be a good idea to incorporate the Torres Strait islands into Papua, so as to remove the company ‘a little away from the Labor Party’s control’.²

The context of Burns’ opinion on the matter was that Papua was then an Australian colony. Peter Fitzpatrick’s essay concerns developments mainly at a late stage on the road to independence for Papua New Guinea. This follows on from Fitzpatrick’s piece in Volume Three of this series, in which he argued that the imperial power found it useful to preserve elements of a traditional society, alongside development of capitalist relations of produc-

tion. Now, in the current essay, he examines the creation and containment of the P.N.G. peasantry. This is a seminal piece of work which draws together a wealth of research material from anthropologists and others who seem singularly oblivious to political economy. On the other hand, it must be added that many Marxists, accustomed to thinking of a peasantry in European terms, are likely to be surprised by Fitzpatrick's analysis of a traditional mode of production in an undeveloped country, where the peasantry was virtually non-existent before World War Two. A peasant is defined here as someone who has significant independent control of his means of production, and who produces partly for subsistence in the traditional mode and partly for the capitalist market. Most members of traditional society do not produce for the market to any appreciable extent and are not classed as peasants.

Fitzpatrick presents a fascinating picture of growth of class relations in rural society—the evolution of capitalism through local 'big men' who are nevertheless still connected with, and to some extent influenced by, the traditional society within which they develop. State action, first by the Australian government in the 1950s and 1960s and then by the national government, has fostered this development. As Fitzpatrick puts it: 'Characteristically, Development Bank lending has been to the few rather than the many, the wealthy rather than the poor, the individual rather than the group and, in a significant degree, to the literate and the formally educated. It also helps to be a member of the national legislature'. Further, laws relating to individual ownership of land, and inheritance, have been modified to aid the process.

Even so, such development is not straightforward. One of the virtues of Fitzpatrick's essay is to bring out the complexities of society in P.N.G., and he concludes that despite the growth of a peasantry it is possible that traditional society will be maintained and will prove able to contain or co-exist with the budding capitalists on the land.

* * * * *

Volume Three in this series focussed upon the working class, especially its separate elements. In contrast, Peter Cochrane now looks at historical divisions within the Australian bourgeoisie. Thus, to put alongside the standard picture of confusion and differences among Labor supporters, we are given an unusual view of internal conflict on the other side of the political fence between 1917 and 1934. Cochrane gives a lucid account of major developments in the 1920s and analyses the position of manufacturers and other groups of capitalists in relation to them. As Australian economic growth slowed down after 1923, the Bruce-Page government (representing primarily mercantile and landed capital) gave greater support to the (rural) export sector: the need to export became greater as the volume of overseas debt obligations rose. There was thus a relative decline in government aid to manufacturers, despite an apparent raising of tariff levels. Small manu-

facturers in particular were not yet fully accepted as respectable members of the ruling class.

Many small manufacturers became increasingly resentful of their subordinate political role. They organised in support of their own particular interests. They wanted very high tariffs and they were opposed to imports. Cochrane considers that the Scullin Labor victory in the federal election of 1929 was due at least partly to desertion from the Nationalist Party by many manufacturers; and in the depression from 1929, the erection of a high tariff wall to keep imports out and preserve the balance of payments was naturally welcomed by manufacturers. Conversely, the move was deplored by capitalist interests which were primarily dependent upon trade with Britain: importers, primary producers and British manufacturers. With the breakdown of the old Nationalist Party coalition there was an extraordinary fluidity in political alignments. Manufacturers, for example, condemned the deflationary proposals advanced by the Bank of England's representative, Sir Otto Niemeyer, in 1930.

However, in the following year, disparate elements of the conservative party re-grouped in the new United Australia Party and recruited some useful Labor renegades such as Joe Lyons. The Scullin government was defeated and although the Lyons government made some tariff reductions later in the 1930s, the tariff wall remained basically intact. Dissident manufacturers were absorbed by the U.A.P. The working out of these political trends against the background of Australia's changing economic position is a study which adds to understanding of what is usually presented as a one-dimensional Labor-Conservative struggle.

The following essay, by Melanie Beresford and Prue Kerr, is also concerned with the question of protectionist policy, though in a more rarefied international atmosphere. During World War Two, British and U.S. representatives negotiated on the establishment of appropriate institutions to promote expansion of world commodity and capital flows after the war. The outcome of these discussions was the Bretton Woods monetary agreement of 1944 and the setting up of the International Monetary Fund and the International Bank for Reconstruction and Development (now known as the World Bank). Australia was one of the countries which played a minor role in the discussions and was invited to subscribe to the resulting institutions. Beresford and Kerr have made good use of *Australian Archives* material in elucidating Australia's position. They argue that the decade from 1942 to the signing of the ANZUS treaty marked a decisive turning point for Australian capitalism in its relations with British and American capital. The Curtin and Chifley governments developed plans for expanding manufacturing by import-substitution, which entailed tariff protection and diversification of the sources of Australian imports and export income. This strategy involved a loosening of the strings which tied Australia to a declining British Empire, and correspondingly a reorientation towards the powerful American economy.

In the wartime discussions, the Americans mainly aimed to promote liberalisation of world trade policies by breaking down the British system

of imperial preference. British officials such as Keynes were not happy about this but were in no position to persist with objection, given Britain's need for large American aid at the end of the war. The Australian position was that in the long run imperial preference would have to be abandoned. The Australian negotiators were mainly insistent upon the importance of obtaining international agreement on the necessity for all countries to adopt expansionary domestic policies in the interest of full employment. The Americans were not willing to adopt this position and the British gave only half-hearted support to it. The Americans had their way in the end. Indeed, it is not clear whether Australian policy and advice, here revealed in detail for the first time by Beresford and Kerr, had any real effect upon the main power-brokers on the international scene. Within Australia, as documented here, there was a remarkable display of cynicism by the Chifley government in selling to the Labor movement and the public the decision for Australia to join the I.M.F. and I.B.R.D. The decision was taken in the interests of Australian capital, in view of the probable need for dollar loans, despite Chifley's fear of possible I.M.F. interference in domestic policy. That fear was well founded, as a number of Third World countries—and a Labor government in Britain in 1976—discovered.

An intriguing aspect of the Beresford-Kerr essay is the emergence from the shadows of young officials and Australian government advisers who are now well established (and distinctly more conservative) gurus. Besides the expected names of Melville, Coombs and Crawford, there are others like N.G. Butlin and A. Tange. If *Australian Archives* can yield material like this, perhaps it was to be expected that the Public Service bureaucracy should be so determined to protect its anonymity by blocking an effective Freedom of Information Bill in recent years!

* * * * *

The essays by Jim Kemeny and John Braithwaite examine, respectively, the political economy of housing and of punishment. Kemeny is concerned to sweep away mystification about the realities of Australian housing. He elucidates the differences between cost-renting (as in public-rental housing), private home-purchase, and renting from private landlords; and he shows that the last of these three categories entails the greatest amount of exploitation of the occupier. Of the other two categories, Kemeny reckons that per capita subsidies from government are almost certainly higher for home-owners than for public rental tenants, despite the universal belief to the contrary, and that there is a deliberate suppression of demand for public rental housing in Australia, in the interests of capital which has more to gain from the other forms of housing. He points out that in Sweden, where public housing has been allowed to expand to meet the demand, private landlords have been forced by competition to forgo super-profits, and a much smaller proportion of people have chosen to become home-owners: one-third of householders, as against two-thirds in Australia.

Kemeny then analyses the phenomenon of high home-purchaser rates in

Australia and considers the connections between this and the housing finance industry. Wider aspects relate to the poverty cycle, the fragmentation of working-class solidarity, the urban sprawl and weaker welfare structures. All this amounts to a damning indictment of government policy on housing—and Labor policy in this area is virtually indistinguishable from Liberal-Country party policy. Introduction of Kemeny's arguments into A.L.P. branch policy debates could be very useful—if the development of conservatism among Labor home-owners has not already gone so far as to make them deaf to reason.

Braithwaite looks at the function of imprisonment as a form of punishment in modern society, in the light of two books on the subject, published in 1977 (independently of each other) in the U.S.A. Both are by Marxists yet they reach conclusions which are apparently diametrically opposite to each other. One author, R. Quinney, argues that as capitalist crises worsen and unemployment grows, imprisonment of the surplus population becomes more necessary as a means of State control; while A. Scull believes that the cost of prisons is so high that increasing financial pressure on the State leads to 'decarceration' (a terrible jargon term for a desirable thing) in favour of community treatment (or forms of punishment outside prisons) for criminals. The context for this discussion is that criminologists have now shifted away from the idea of rehabilitation, concluding that it does not work in practice. As a result, conservatives favour imprisonment as a means of retribution or deterrence, while liberals advocate community treatment rather than imprisonment.

In relation to Quinney's views, Braithwaite points out that the available evidence is not very consistent as to whether *crime* rates go up or down during periods of high unemployment. *Imprisonment* rates in the U.S.A. did rise and fall in unison with unemployment rates between 1960 and 1972, but this could have been related to deterrence theories rather than an increase in crime. Thus the real relationship seems to be between unemployment and imprisonment, and there is little evidence to suggest that in times of economic crisis, imprisonment is effective as a means of controlling the crime of the surplus population. In fact, the growth in unemployment is much more marked than the increase in prison population.

Braithwaite suggests that Quinney overlooks the tendency of capitalism in periods of crisis to blame the victims. In the Australian context that means attacks upon 'dole-bludgers' and the like. Another example, which has appeared since Braithwaite wrote his essay, is the report of the N.S.W. Royal Commission on Drugs, which attributed marihuana and heroin-trafficking to criminals of Italian, Chinese or French origin. The press plays up such sensational stories and manufactures crime waves. Anything will do, so long as a close look at the real ills of capitalist society may be avoided. The emphasis is placed on the need for law and order, without acknowledgment of the fact that laws are made and enforced by controlling groups in society and thus reflect the interests of those groups.

Scull's theory about the growing cost of institutionalised treatment in modern society applies not only to criminals but to the aged and the indigent

generally. The growth of the welfare state means that the fear of starvation is no longer effective to secure compliance from the unemployed; and by the same token, it is unlikely that they will be driven by desperation to rebel. They, and criminals, may therefore be safely left within the community rather than locked up in prisons which are very costly to run. Braithwaite assesses Scull's views in the light of imprisonment rates for N.S.W. and Victoria from the mid-nineteenth century. These rates indicate a fall until 1920 and then broad stability. The rates need to be examined more closely in relation to economic fluctuations and the piecemeal introduction of welfare state measures, but provisionally Braithwaite concludes that there is no necessary incompatibility between the theories of Quinney and Scull on the place of imprisonment: within a broad shift towards 'decarceration' since the latter part of the nineteenth century, there appear to have been upturns in the male imprisonment rates at times of major economic crisis in Australia.

Braithwaite concludes his discussion by expressing disagreement with the way in which Scull, because he believes 'decarceration' to be in the interests of capitalism, feels logically obliged to argue that cutting down the size of the prison population would be a bad thing for the criminals themselves, as well as others. As Braithwaite suggests, Scull should try asking the 'crims' about this—he would receive a reply in no uncertain terms.

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Finally in this volume, there is a group of essays which deal specifically with aspects of the current crisis of capitalism in Australia. Ernst Utrecht directs attention to the growth, since the 1960s, of Australian investment in south-east Asia and the Pacific region, sometimes on direct Australian account, sometimes as an agent for transnational corporations with a base in Australia. Utrecht's essay is in part a survey of the work done in recent years by the University of Sydney Transnational Corporations Research Project in establishing the extent of Australian capital's participation in a new international division of labour: the investment in underdeveloped countries to secure the advantages of cheap, malleable labour and easy access to raw materials. Utrecht gives precise illustrations of the incentives held out to foreign companies to invest in cheap labour havens, otherwise known as free trade zones. He estimates that there is now a total of about one billion dollars of Australian-based corporate investment overseas, involving over 600 companies.

In recent years, the movement abroad of Australian companies has attracted attention because of the export of jobs as well as capital and technology. Utrecht reckons that some 20 000 Australian jobs per year are lost in this way. This process is clearly not the main 'job-killer' in the Australian economy in the current crisis. Nevertheless, it raises sharply the question of whether more protection should be afforded to Australian manufacturing. There is a link here with the essays of Cochrane and Beresford-Kerr. In discussing the issue, Utrecht appears to favour the idea

of temporary protectionist policies, provided that at the same time the T.N.Cs. concerned are brought under control or nationalised. This seems equivalent to saying that socialism is the only real long-term answer to the problem—a point with which the contributors of the last two essays agree.

Neither Windschuttle's essay is a *tour de force*—a hard-hitting, factual analysis of unemployment and class conflict, incorporating much material which has become available since Windschuttle's Penguin, *Unemployment*. In this essay, he first looks at the fall in manufacturing jobs in Australia. If the present situation looks gloomy, the future is likely to be worse. Windschuttle considers a range of industries in which there is a threat of displacement of labor by new technology (computers, word-processors, automation, etc.) and through competition from Asian cheap labour havens. The trends in vanishing jobs are particularly adverse for migrants.

Windschuttle then analyses the Fraser government's offensive against labour in this situation: the cuts in real wages and social services, especially health; the restriction of unemployment benefits and the bashing of 'dole-bludgers', while introducing youth employment schemes which do little more than shuffle jobs around; and the manipulation of official statistics to disguise the seriousness of unemployment. Windschuttle reckons that in addition to the half-million Australians officially registered as unemployed there are another half-million who are not actively seeking jobs but would take them if they were available.

In 1929, as depression developed in the U.S.A., President Coolidge uttered the tautology of all time on this subject: 'When more and more people are thrown out of work, unemployment results'. Two years later he concluded: 'The final solution of unemployment is work'. The threat of permanency in the situation in Australia today is indicated by Labor leader Hayden's proposal to create 50 000 jobs by increased government expenditure. As Windschuttle emphasises, 50 000 is the number by which unemployment has increased *each year* since 1974. A long-term strategy must be much more radical than this yet it would be up against a potent threat of flight of capital—or capital strike, as occurred under the Whitlam government. Even so, one major factor in labour's favour is that working-class organisations have remained strong, in marked contrast to the situation in the depression of the 1930s. The Fraser government has cut and chipped away in many areas: by its labour legislation it has indicated how it would like to throttle trade unions—but it has not so far been willing to risk a real showdown with them.

Bob Catley and Bruce McFarlane, in their inimitable polemical style, range freely over a variety of periods and aspects of Australian history to the present day. Like bushrangers, they fire staccato volleys at the enemy as they go and if the shots are sometimes off-centre there are also plenty of bull's-eyes. In the essay here, their main concern is not so much the main class enemy as a major trend within the Australian labour movement: the trend which reacts to severe capitalist crisis by capitulating and acting in the interests of capital through the pursuit of policies of 'national economic management'. The leaders of this trend, thrown up by the labour movement,

are contrasted with those who stick to basic labour policies such as nationalisation of strategic industries, progressive taxation of income and wealth, and expansion of social services and employment. Historically, basic labour politics have been advanced by people like Eddie Ward who, as the Beresford-Kerr essay indicates, opposed Australian entry into the I.M.F., for fear of international capitalist domination.

In the estimation of Catley and McFarlane, the Whitlam government does not fall neatly into either category. However, their interest in this essay is not with particular leaders. They set out to analyse the constraints under which social democratic leaders operate when in government. In particular, a detailed and illuminating analogy is drawn between the Scullin government in the depression of the 1930s and the position of Labor in the 1970s. Scullin is cast as villain or hapless victim in the earlier period and a heavy question-mark is placed against Hayden in the later phase. Yet it is acknowledged that the options open to Hayden or any other Labor leader are very restricted, given the international character of today's economic crisis. Capital is international in movement and power.

Like Windschuttle, Catley and McFarlane recognise the continuing strength of the trend towards basic labour policies. It may be further noted that this is an international trend, paralleling the evolution of capital. There are particularly interesting developments on the horizon in Britain, the country with which Australia has most in common in terms of type of government and class institutions. Consensus in politics between Labour and Capital in Britain since 1945 has been based essentially upon economic growth which, relatively weak though it has been, has made possible substantial advances in living standards and the welfare State. That phase has now ended. Despite oil discoveries, the British economy faces even greater structural and growth problems than the Australian. Consensus shows signs of breaking down: the bailiffs are in, led by Margaret Thatcher with her viciously anti-Labor petty bourgeois ideological approach. If she is not reined in by the old managers of the Tory party, she is likely to provoke confrontation with trade unions.

It is possible that, when put to the test, the strength of trade unionism in both Britain and Australia will prove to lie only on the surface. In the former country there are ominous signs of workers in industries or plants under threat of closure (rationalisation) being bought off, dissuaded from militant action, by promises of cash payments in compensation—a potent lure for workers who have never had more than a few pounds in the banks. On the other hand, there are alternative scenarios. What happens in a real show-down in a bourgeois democratic society where capital is determined to assert itself decisively, while union leaders can no longer be thrown into prison in strikes, and the welfare State means that workers' families do not face starvation? Chile under Allende provides one answer, but others are possible.

The Catley-McFarlane conclusion on this point is not optimistic. They do not expect a serious effort by a future Labor government to transform the distribution of wealth and power in Australia. History is on their side in this assessment. Nevertheless, to use the one phrase for which Malcolm

Fraser will be remembered historically, life was not meant to be easy. The struggle for socialism will go on both within and without the Labor Party.

Sydney
November 1979.

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CRISIS IN PASTORAL CAPITAL ACCUMULATION: A RE-INTERPRETATION OF THE 1840s DEPRESSION IN COLONIAL AUSTRALIA

PHILIP McMICHAEL

Introduction

THE ESSENTIAL FUNCTION of cyclical crisis in capitalism is the overcoming of barriers to capital accumulation in the previous phase of economic growth. While conventional studies of economic depressions tend to focus upon issues of causality, they lose sight of the regenerative function of the crisis, as well as the consequent structural shift in the economy allowing renewed capital accumulation. The study of Australian economic history is noted for its empirical debates around causal explanation of the crisis itself (1840s, 1890s, and 1930s). It is not noted for analysis of the longer term role of the crisis in the process of development of capitalism in Australia. This essay pursues that task by positing alternative terms of reference for analysis of the 1840s crisis. In this way, it is hoped to make explicit the barriers to capital accumulation in the colonial economy—barriers deriving from its world-economic context. While this represents the focus of the essay, the intention is thereby to account for the transitional character of the crisis, making it as much a threshold (if not more so) of colonial economic development as the gold rushes of the 1850s.

Crisis in pastoral capital accumulation

The 1840s depression represented primarily a crisis in colonial pastoralism as a world-economic industry. Contrary to existing accounts,¹ which have adequately documented the course of the crisis, the approach here will be to analyze the circumstances of the crisis as a phenomenon crystallizing fundamental aspects of staple commodity production in a settler colony.

With regard to the imperial context, there was a close correlation between the respective trade cycles in Britain and colonial Australia.² More particularly, there was a steady downward trend in wool prices at London (where most Australian wool was sold) during the late 1830s, culminating in a depression in the English textile industry in the early 1840s. This price trend was an expression of two primary forces at work, affecting the reproductive circuit of industrial capital in textile manufacture.³ On the one hand, British capitalism entered a cyclical downturn, in which the excess capacity of the textile industry (following a period of industrialisation) was exacerbated by demand falls in woollen export markets. Wool prices in London dipped sharply. On the other hand, on a long term basis, the shift in the source of wool supplies—that is, declining German and rising Australian sourcing⁴—represented an increase in the level of world pasture productivity, and therefore a secular fall in wool-production costs. Downward price trends were accordingly transmitted through the circuit of capital involved in the woollen textile industry, affecting industrial as well as pastoral capital accumulation.

It was through the wool trade that the circuit of industrial capital was linked to pastoral capital in Australia. For this reason, pastoral capital accumulation (and its contradictions, leading to crisis) can only be understood from a 'world-historical' perspective. The squatting expansion involved wealthy emigrés⁵ (as individuals or representatives of private companies floated in Britain), as well as overseers of flocks of absentee landed or commercial capitalists from the coastal 'settled districts'.⁶ The relational framework of squatting increasingly took the form of a 'putting-out' system of commodity production—where merchant capitalists, based in the port-cities, channelled British finance to the wool-grower, in return for the commodity, wool.

While formerly pioneer wool-growers consigned their own wool-clip at their own expense, or, in the late 1820s, local merchants purchased wool from small pastoralists, in the 1830s and 1840s the emerging trend was consignment through local merchants or merchant-factors.⁷ Here wool was consigned to London, and bills of exchange, discounted at colonial banks, were drawn simultaneously on London agents—making the London capital market the increasingly significant source of capital. Consigning agents made advances to the grower as a condition of delivery of the wool-clip to the agent, who also supplied other provisioning services. In other words, the trend was the engrossment of colonial wool production, as a supplier branch of the British textile industry, by merchant capital (increasingly British) operating in a dual capacity as commercial and money-lending capital. The significance of merchant capital was directly related to the length of the period of turnover of pastoral capital, resulting from the long-distance character of the wool-trade, and the regulation of wool-growing by natural processes. Intervention of merchant capital in the turnover period enabled continuous reproduction of the producing unit, as well as the proliferation of specialist wool-growers.

Thus, on the one hand, the grower's wool-clip was tied to the mercantile

agency, through a system of commercial credit. Or the other hand, wool-growing as a system of staple commodity production became increasingly dependent upon merchant capital which, in effect, was the basis of expansion of the squatting frontier. Colonial economic growth, then, was geared in this period to metropolitan expansion through the agency of merchant capital, linking wool-growing to the circuit of industrial capital based in British textile manufacture. That is, with the rise of the London discount market, as British industrial capitalism matured, British mercantile credit became the agent of destruction of long distance, by reducing the turnover time of pastoral capital through advances, and thereby encouraging the expansion of staple commodity production.

The consequences of this 'putting-out' system were that during this period before mid-century, the colonial economy resembled a staple-producing economy.⁸ That is, as wool was the primary basis and object of commercial credit,⁹ colonial commodity production was fostered along specialised lines, inhibiting capital investment and accumulation in other industries. Related to this was the speculative credit nexus established between grower and merchant. There was an inherent tendency in the wool trade for merchants to speculate on future wool markets through money-lending, because command of increasing quantities of wool was the key to profitability. Similarly, the pastoralist was compelled to speculate on future wool markets—because while prices were favourable (and therefore while credit was easily available), new pastoralists were attracted to the industry. With an expanding frontier, the woolgrower had the opportunity to maximise his income by combining a rapid expansion of his own flocks with sales of surplus sheep to newcomers. The pastoral unit of production was, then, essentially a center of 'commercial speculation'.¹⁰

This description indicates the relationship of merchant capital to pastoral capital (on a basis of short-term credit), effectively tying the producer to his city agent. Accordingly, indebtedness discouraged experimental breeding to increase yields. Another factor was the lack of fixed capital investment due to the result of the insecure tenure of the squatter. Consequently, technical change in production was minimised. It is for this reason that this period of pastoralism is characterised in this essay, as a period of 'primitive' accumulation of pastoral capital.¹¹ The primitive character of capital accumulation in the pastoral economy was expressed in the limited form that it assumed—manifestly in (leased) land and sheep. The implications were twofold. Firstly, capital accumulation in pastoralism was quantitative: the same technical relations of production (sheep, *qua* capital: labour) were reproduced, without significant variation. And secondly, as a result of this quantitative mechanism of expansion of wool-production, the pastoralists were fundamentally dependent on a parallel increase in labour supply.¹²

What is proposed here is that the squatting movement—the extensive and productive occupation of pasture-land—was, to be sure, a physical characteristic of pastoralism, but in socio-historical terms it was a result of the peculiar form of capital accumulation in a peripheral settler economy

in this period.¹³ Extensive appropriation of the land, with sanction by the imperial state as landed proprietor, was the *modus operandi* of the squatting phenomenon, fostered as it was through its relation to an expanding imperial mercantile system.

Returning now to the contradictions of the pastoral form of capital accumulation, and the generation of barriers to accumulation, leading to crisis; the constraints on pastoral capital accumulation derived from its 'primitive' character. At the most immediate level, its accumulation was limited by the supply of labour (and its cost), and this was manifested most clearly with the abolition of assigned convict labour in 1840. At a second level, the relation with merchant capital imposed a set of constraints also. As an agent of industrial capital, commercial capital strove to provide a regular and increasing supply of wool as raw material for textile production. Thus the web of credit was extended to speculative proportions, reflected in the haphazard spread of the grazing frontier. In this environment (with primitive transport), agricultural development was outstripped and was necessarily limited by the character of the mercantile relation itself—in the pattern of credit and centralisation of squatter marketing requirements at the coast. These circumstances precluded the settlement of a small-farmer labour-supply on the frontier, and contributed to a rising level of food prices (and therefore wages) as the pastoral economy was forced to import grain. This inflationary tendency was exacerbated by the dominance of merchant capital and its monopolisation of colonial trade. Rising production costs for pastoralists, in addition to rising interest charges on loans, completed the profit squeeze experienced with falling wool prices.

Trends in the circuit of capital in textile production

The period in question (1830 and early 1840s) was a transitional one for British industrial capitalism, as it represented the *dénouement* of the early phase of industrialisation based on textiles. The next phase would be geared to the production of capital goods, under the stimulus of industrialisation elsewhere in the world economy. As Hobsbawm put it: 'The age of crisis for textile industrialism was the age of breakthrough for coal and iron, the age of railway construction'.¹⁴

Early British industrialisation, led by cotton textiles, was premised on commercial strength and an imperial division of labour, providing access to raw materials and European and colonial markets. British commercial hegemony was the cutting-edge of world economic development at this time, a period characterised by Schumpeter as the 'industrial revolution Kondratieff'—the long cycle of world capitalist economy between (roughly) 1790 and 1850.¹⁵ In the quarter-century following the Napoleonic Wars, cotton textiles production increased at a rate of 6-7 per cent per annum,¹⁶ including an expansion of industrial production in this period unsurpassed in the rest of the nineteenth century.¹⁷ The financing of the process of application of technical innovations in the new industrial sectors of textile manufacture, transport, and coal and iron, was facilitated by the rise of the London discount market, which, through the practice of bill broking,

served to channel funds from country banks with surpluses to banks in industrial districts.¹⁸

The rise of Lombard Street also stood behind the commercial expansion of this period, on which the growth of industry was based. Trade with the United States, Britain's principal customer,¹⁹ was developed through merchant banking agencies in London and Liverpool,²⁰ with cotton leading the way.²¹ Following cotton exports was the category 'woollens' in the commodity structure of Britain's export trade, as the accompanying table of 1838 shows.²²

<i>Commodity</i>	<i>£m</i>	<i>% (rounded)</i>
Cotton piece-goods	16.7	34
Cotton yarn	7.4	15
Woollens	5.8	12
Linens	3.6	7
Iron and steel	2.6	5
Hardware	1.5	3
All others	12.2	24

The woollen textile industry (composed of woollen and worsted manufacture) expanded in the shadow of cotton manufacture, but nevertheless adopting its revolutionary methods of factory production, once high-speed machinery was adapted to work with wool fibres. Worsted manufacture (using long staple wools), led woollen (using shorter, more easily matted wools) manufacture in this development, being less inhibited by centuries of tradition that characterised the woollen trades.²³ It was not until the 1830s that the power-loom was adopted by both cotton and wool textile industries, causing a 50 per cent reduction in handloom weavers' wages almost overnight.²⁴ The resulting expansion of woollen textiles production is described by Checkland:²⁵

Between 1835 and 1838 the number of woollen mills in the West Riding rose by 30 per cent; worsted showed an increase of 65 per cent. The number of workers grew on a similar scale. Such growth was extraordinary. It showed a burst of confidence in the industry that was almost unlimited.

The relation of the Australian pastoral industry to the secular expansion of English woollen textiles production was secured through worsted manufacture. John James commented:²⁶

The rapid rise in the value of South Down and Australian wool may be attributed, in the main, to its being now (1830), from the improvements in machinery, adapted to the worsted manufacture.

A further development in worsted manufacture after 1837, arising in

response to initial demands by American merchants for a suitable type of luxury cloth ('orleans cloth'), was the introduction of cotton warps in the weaving of worsted stuffs—of which James remarked:²⁷

. . . of all the eras which have marked the history of this manufacture none exceeds in importance . . . It has imparted a new character to the worsted industry, enabled the manufacturer to suit the requirements of the age by producing light and elegant stuff goods, rivalling in the cheapness articles from cotton, and in brilliancy and delicacy those from silk. Henceforward the trade assumes a new and broader aspect, and exhibits a power of adaptation for all classes of goods, and a capability of expansion which, a few years previous to this period, could not be conceived.

In Schumpeter's schema, this expansion in the 1830s represented the working-out of the process of technical advance in consumer goods production through the downward phase of the Kondratieff cycle. The latter would trough before consolidating a new technical basis for expansion in producer goods industry—the foundation of the next long cycle of world capitalism. Schumpeter identified railroads as the compelling new technology. And Hobsbawm agreed, stressing that an ongoing process of industrialisation required the stimulation of 'heavy capital goods industries of coal, iron and steel', and arguing that industrialisation on the basis of one sector of the textile industry was 'limited' and 'neither stable nor secure'.²⁸

Superimposed on this emerging technical barrier to capital accumulation in 'textile industrialism', was the particular trade cycle (in Schumpeter's terms: Juglar cycle) of English capitalism represented in the early 1830s boom and the late 1830s crisis. This cycle was closely woven, through commerce, with a similar cyclical course of American capitalism. As Jenks writes:²⁹

The increased sale of American cotton was more than matched by the purchases of British implements and cutlery, silks and cloths, and some railway iron. Between 1830 and 1836 the volume of Anglo-American trade doubled, and in the year ending September 30, 1836, the imports from Great Britain exceeded the exports to that country by more than twenty million dollars. On her entire trade the United States was debtor for the year to the extent of sixty million dollars. And she was debtor besides for interest upon previous borrowings. The export of British capital had created a relation which only still larger capital exports could sustain.

The severe drain on the Bank of England's reserves triggered an increase in the discount rate and a subsequent crisis in accommodation of American merchants, beginning in the cotton trade.³⁰ The cycle of expansion was reversed, leading to a sharp decline in British exports to America.

Although the 1837 crisis in the cotton trade did not induce a general commercial depression in Britain, according to Jenks it certainly affected the stability of the British textile industry. As Matthews stresses, the state of the U.S. market largely governed the fluctuations in exports of woollens at this time;³¹ and, indeed, about 30 per cent of all British woollen exports were accounted for by the U.S. market.³² The accompanying table indicates the

disruption in woollen exports associated with the fluctuations of the U.S. economy, with an overall declining tendency after the mid-1830s.

EXPORTS OF BRITISH WOOLLEN AND WORSTED GOODS³³

<i>Year</i>	<i>Quantity of exports to the U.S. (pieces)</i>	<i>Value of woollen and worsted exports (£m)</i>
1832	337 000	5.2
1833	512 000	6.3
1834	342 000	5.7
1835	560 000	6.8
1836	461 000	7.6
1837	127 000	4.7
1838	316 000	5.8
1839	498 000	6.3
1840	273 000	5.3
1841	498 000	5.7
1842	285 000	5.2

The disruption in the British woollen textile industry resulting from the uncertainties of the American market was emphasised by the English wool-importing firm, Robert Brooks and Co. Ltd, in various letters to colonial merchants and growers. For example:³⁴

To Messrs. R. Campbell Jnr & Co.

London, 8th May, 1841

. . . I enclose you particulars of the 15 Bales Wool shipped by you to my consignment on the *Jane*—I regret to report that the Public Sales are going off more heavily than usual. I really wish I could hold out to you any fair and reasonable prospect of an improvement in prices: we cannot look to the United States of America for customers for our manufactures to any extent as nothing can be more gloomy than the monetary affairs of America . . .

To W.J. Macmichael Esq.,

Cornhill, 27th Sept., 1841

. . . Although the monetary affairs of the United States are yet in an unsatisfactory position yet there becomes a little growing demand for our manufactures and I am led to believe that the demand will be considerably increased next spring, hence we may look forward to better prices for wool . . .

The instability in the woollens export market was matched by a decline in the price of wool after a peak in 1836. Wool prices remained unfavourable until the 1850s.³⁵ This price decline reflected both demand and supply trends—the former, a short-term cyclical phenomenon, exacerbating the longer-term secular trend in supply conditions. But this secular trend was not independent of demand for wool. The latter was changing with the process of industrialisation, involving alteration in the type of wools required both in production and as a result of competition with cottons in the cloth trade. The rise in demand for long-stapled colonial wools was one component in the long-term displacement in the London wool market of Saxon and

Spanish supplies, which had been developed as short wools for the cloth trade earlier.³⁶

Integral to this process of relocation of wool-growing for the London market was the shift in social conditions of world wool production. That is, emergence of specialised wool-growing on the periphery of world-economy (e.g. Australia) was linked with development of the German home market for industrial capital. Social transformation in German economy resulted in both a decline in German wool exports as German textile industrial production developed around mid-century, and rising costs of wool production, giving Australian supplies the edge at London. In Germany, following early 19th-century land reform which undermined manorial and estate systems of land tenure and fostered treatment of land as a commodity, agricultural capitalism (commercial landlords and kulaks) began to emerge. This was furthered by the engrossment of common lands (enclosure), extending land areas for cash cropping, and expropriating small cottagers who became agricultural labourers. The consequences for wool-growing (particularly in Eastern Germany) were rising rents on pasture land, as arable farming to supply growing urban markets expanded, and a secular decline in green fodder crops.³⁷

German attempts to raise wool-growing productivity scientifically,³⁸ tipped production costs in favour of Antipodean wools. This worked in two ways. On the one hand, colonial squatters paid nominal rents to the state, as landed proprietor, so that profits of the colonial wool trade were retained among merchants and growers, thereby enhancing the competitive position of colonial wools. On the other hand, German wool exports were increasingly specialised in very fine wool, such that John McLaren remarked in 1843 to his colonial agents, Frew Bros & Co., that '... the demand for Australian was much aggrandised by the discovery that has been made that the German fairs cannot supply us with middling quality wool... on nearly so good terms as the Colonies can...'.³⁹ Hence the displacement, between 1830 and 1850, of German by Australian wools on the London wool market involved a secular fall in wool prices. This trend combined both the reduced production costs on open pastures in a settler colony lacking a landed property class to inflate rents, and the secular decline in circulation costs, as Australian wool freights dropped from 4½d per lb in the 1810s, to 1d per lb in 1850.⁴⁰

Returning to the demand conditions affecting wool prices, by 1839, according to James, not only were the accumulated stocks of wool very extensive (thereby aggravating the price decline into the 1840s), but declining profitability in the textile mills was asserting itself in the reduction of time of operation of the machinery. Further, it was '... estimated that in the month of October there were no fewer than three hundred spinning frames in the Bradford district alone unemployed, owing to the insolvency of their owners'.⁴¹ Mann cites a Yorkshire manufacturer's lament in 1840 that '... in the woollen industry it was extremely difficult, even in good times, to make the average profits of the country'.⁴² Matthews summarises the depression in the woollen industry thus:⁴³

In the trough of the slump, wool and worsted were even harder hit than cotton. Unemployment in Leeds in 1842 was worse than in Manchester. Halifax—after Bradford the most important centre of the worsted industry—showed a greater proportional decline in brick production between 1836 and 1842 than anywhere else in England, although until 1839 the level maintained was quite high. *The burden of the extra capacity created during the boom was very widely complained of.* Woolen and worsted manufacturers did not have the same facilities for dumping their wares abroad as were enjoyed by cotton manufacturers.

The excess capacity of the textile industries at the end of the 1830s, referred to in the previous quotation, reflected the barrier to further industrialisation on the basis of textiles. The series of practical applications of technical processes in an age-old industry, in response to widening urban markets, had run its course. The maturity of this process (and therefore its limit) was propelled forward in a speculative boom, ultimately financed by the larger merchant-financier interests, with their stimulation of U.S. commerce through investment in securities and their easy accommodation of American merchants. This kind of speculative promotion of commodity circulation characterised the social environment of 'textile capitalism' as well as its limits. This was the age of transition from mercantile to industrial capitalism.

A new phase, or cycle, of capitalist development required a revision of investment opportunities, to shift capitalist production to a more advanced technical base while the textile industry concentrated its capital resources under crisis conditions. The opportunity was provided by the stimulus that foreign industrialisation gave to British capital goods production, including the railway, which arose on the destruction of pre-industrial domestic production. In the meantime, the crisis in the early phase of 'textile industrialism' was expressed in both declining levels of profitability in textile production with falling prices, and a general economic crisis in the early 1840s. In the colonial branch of the British textile industry, accumulation of pastoral capital also suffered under the joint pressures of wool-price decline, and restriction of British capital imports. The importance of Britain's re-export business in her world trade relations thus focusses the world-economic context of Australian wool-growing in this period.⁴⁴

The 1840s crisis in colonial capitalism

Interpretations of the 1840s depression in colonial economy divide causal explanation between emphasising the role of 'external' or 'internal' factors. Current conventional wisdom gives precedence to the latter interpretation.⁴⁵ This rather awkward dichotomy pervades most interpretations of Australian economic history, with the dominant emphasis reflecting the particular state of historiography at the time (e.g. politico-cultural climate, empirical state of the discipline).

Traditional interpretations⁴⁶ of the slump assigned primary causality to the interruption of capital flow from Britain, following the tightening of

the London market in 1839 when the Bank of England raised the discount rate. The effect of this financial stringency, according to Fitzpatrick, was to undermine the colonial land boom and hence the condition of stability of pastoral expansion. Wakefield's 'beneficent cycle—land purchase, immigration financed from land sale receipts, increased production, increased land purchase . . .'⁴⁷ had been checked by an 'external' factor, namely 'English capital shyness', which was also due to falling wool prices. Colonial government intervention to finance immigration from its bank reserves exacerbated local capital shortage, undermining further the land and stock markets.

Butlin's re-interpretation, which stands as the current conventional wisdom, set out to replace ' . . . the Australian tradition of explaining every slump as caused by overseas events'.⁴⁸ He posits a thesis of a 'natural limit' to physical expansion of the pastoral industry, which resulted in decreasing returns with rising costs of production. The industry suffered ' . . . apparent exhaustion of opportunities for profitable expansion into new areas after a decade in which its profits and its technique of growth had been reckoned in terms of geographical spread',⁴⁹ leading to a general contraction in credit, land sales, prices and incomes. A variant of this interpretation is expressed in Lynette Peel's study of Port Phillip, where she argues that sheep prices fell as land availability declined, thereby undermining the value of the pastoral enterprise.⁵⁰ The notion of geographical limits, however, is contradicted by rising export figures for wool throughout this period, and evidence of expansion of squatting regions at this time, which are reproduced later in this essay.

Because of the explicit thrust of Butlin's argument for 'internal' causality, subsequent representations of the protagonists in the historiography of the 1840s depression fall into the trap of viewing it as a controversy involving *dichotomous* explanation of the primacy of 'internal' or 'external' causality.⁵¹ Actually the difference between Fitzpatrick's and Butlin's interpretations is methodological. Whereas Butlin considers the Australian colonies as his unit of analysis, and therefore is constrained to follow the empiricist logic of noting the chronology of events, Fitzpatrick considers the Australian colonial economy as an integral part of the British empire, and is thus committed to considering the logic of this relationship with regard to the concurrence of depressions in metropolis and colony, and how downturn in Britain was transmitted to colony.

Thus Butlin contests Fitzpatrick's identification of 1839 as marking the reduction of British capital export to Australia, arguing that the available statistics (which are actually import trade figures) demonstrate that this reduction did not occur until 1841. He remarks: 'The truth is rather that the sharp fall in British investment was initiated by bad news of returns in the colonies, and that its role is in greatly accentuating a slump already begun and so producing the dire disasters of 1842-43'.⁵² Fitzpatrick's point, however, was that while capital inflow continued in New South Wales through 1840, land speculation in South Australia was halted following the Bank of England's action. This 'deprived New South Wales stockowners

of an important market',⁵³ and, *in conjunction with* falling wool prices, dampened new capital investment in Australia, thereby disrupting capital accumulation in pastoral production.

The capital inflow issue is certainly not clear, because the data Butlin uses is distorted by the fact that it incorporates the great speculative importations of goods in 1840-41 that he refers to in his study of the ANZ Bank.⁵⁴ And Fitzpatrick cites only circumstantial evidence. Hence the dispute is reduced to the determination of limits to expansion of the pastoral industry. Fitzpatrick's limit is essentially profitability (a price squeeze), and Butlin's limit is a natural one, producing a cost squeeze through the impact of declining marginal productivity. If indeed crisis in the pastoral industry is a question of limits to expansion, it follows that, to avoid the pitfalls of arguments based on sequencing of events, attention should be directed to the method of analysis of the *sources* and/or *conditions* (and therefore *limits*) of expansion. This would avoid the geographical determinism of Butlin, and the one-dimensional tendency of Fitzpatrick's argument, ascribing external causality.

It has been argued that the conditions of expansion of the pastoral industry were comprised of: (a) the system of relationships whereby wool was grown to meet the reproduction needs of the English textile industry, and that the process of reproduction of pastoral capital was contingent on a continuous supply of commercial credit; and (b) a determinate supply of labour, in the absence of a viable local labour market, in order to match the expansion of colonial flocks, *qua* capital. These conditions will now be investigated in order to more fully understand the constraints upon pastoral capital accumulation.

Circulation constraints on pastoral capital accumulation

Fitzpatrick's framework of analysis is basic to an understanding of the *context* of boom and slump of the pastoral industry. In a general sense, its significance is affirmed by Hartwell who, noting Herbert Heaton's study of the fluctuating fortunes of the English woollen industry between 1835 and 1843, remarks: 'This chronology of events in the woollen industry, with a year time-lag, almost exactly parallels events in Australia'.⁵⁵

The time-lag mentioned by Hartwell would correspond to the time of circulation of money-capital (*qua* circulation credit), that is, the time lapse between realisation at London wool sales, and communication of price trends through the mechanism of the accommodation policy of English importers. This was the process by which the law of value⁵⁶ was mediated (with considerable delay) from the English textile industry to raw material supplier industry. Thus the declining wool price trend in London would, along with the general stringency of the London money market following 1839, raise the price of circulation credit (increased discount rate) and this would in turn lower the aggregate profits of grower and merchant-factor in the colonial economy. A useful illustration of this *mechanism* (of communication of loan-capital price rises) is an 1837 letter received by George Russell of Geelong, from his agents, Eddie, Walsh and Co., of Launceston:⁵⁷

We think you must be aware ere now of the serious fall which has taken place in the Wool Market at home, and the consequent large losses here. At this moment our best Wools are worth no more than 1/6, & the general run of Wools 1/- p. lb. Port Philip Wools will not bear this value, *unless very clean & strong in the staple*, which none of them were last year; and the same fault will apply, we fear, to all sheep sent over during last season, as the sea voyage rots the first clip completely.

We are amongst the largest buyers of & advancers on Wool in V.D. Land, but without inspection we would not venture on giving even 1/- p. lb. for any of the P.P. Clip; we shall, however, be happy to give you an advance on your Wool of 9d. p. lb., which we are confident is more than any one else would do.

This mechanism of restriction of credit by raising the price of discounting, highlights an aspect of the capital inflow issue which is confused and misrepresented. This concerns the actual *conception* of 'capital inflow', which is incomplete and therefore distorting—particularly in so far as debate concerns identification of the turning-point in capital inflow, and its effects on pastoral expansion. Both Butlin and Sinclair base their arguments on trade statistics, which register only capital on trading account.

There were three forms of capital inflow from Britain—the import of specie, the sale and issue of bills of exchange on London, and imported goods accompanied by a bill of trade drawn by the British exporter of goods on the colonial importer. The latter bill would normally be a three-month bill settled in London through the medium of the colonial mercantile or banking firm's London agency.⁵⁸ The condition of acceptance of bills of exchange and bills of trade in the London money market, was, therefore, the credit system established between metropolis and colony. Financial stringency—either in the London money market, or in the accounts of the wool importing agent, given the declining wool price—would necessarily be expressed in a rise in the rate of discount, thereby checking the flow of credit. It would therefore be normal to expect that the interruption of 'capital inflow' from metropolis to colony would be *initially* triggered by a rising metropolitan discount rate. For the colonial merchant the restriction of credit would accordingly be reflected in discounting advances to wool-growers—as illustrated in the foregoing letter to George Russell. Thus the rate of accumulation of both merchant and pastoral capital would be slowed, as realisation of value declined and was communicated back through the chain of credit. Because of the integral relation between grower and London money market, the dampening effect of declining prices and rising discount rates was bound to check pastoral expansion, even if there was a time-lapse of up to one year.⁵⁹ It stands to reason that Fitzpatrick's inclination to date the beginnings of economic downturn in the pastoral economy with the combination of falling wool prices and the Bank of England's action in 1839, is valid. The effects, of course, would be lagged for a sound structural reason, given the prominence of circulation time in the wool trade.

But this does not resolve the issue of capital inflow. What also requires attention is the import surpluses which Butlin and Sinclair focus on. The

trade statistics of New South Wales, 1836-45 (including Port Phillip), were as shown in the accompanying table.⁶⁰

Year			Surplus	
	Imports £	Exports £	Imports £	Exports £
1836	1 237 406	784 624	488 782	
1837	1 297 491	760 054	537 437	
1838	1 579 277	802 768	757 509	
1839	2 236 371	948 776	1 287 595	
1840	3 014 189	1 399 692	1 614 497	
1841	2 527 988	1 023 397	1 504 591	
1842	1 455 059	1 067 411	387 648	
1843	1 550 544	1 172 320	378 244	
1844	931 260	1 128 115		196 855
1845	1 233 854	1 555 986		322 132

Butlin's comment, unguarded as it is, goes:⁶¹

Recorded trade figures, for what guidance they give, show the great drop in capital transfer as occurring in 1842 with 1840 as the great peak. *These facts hardly point to stringency in the English capital market as a major circumstance.*

A strong case can indeed be made to the contrary of Butlin's view, as the high import surplus in 1840 and 1841 most likely represented a redirection of commodity stocks from depressed markets in both England (with high food prices in addition, due to poor harvests in 1838-9 and high grain imports) and the U.S.⁶² That is, with the difficulties of sales in these two markets, English exporters turned, with 'imperial impugntity', to the Australian colonies to unload their unsold stocks.⁶³ Butlin himself writes in his history of the Imperial banks (The Bank of Australasia and the Union Bank of Australia Ltd):⁶⁴

A general fall in import prices, the result of excessive speculative shipments from Britain, produced a liquidity crisis in the last months of 1840 and early 1841. Sales by auction of a wide range of goods were recorded because they were subject to duty; those of 1840 were two and a half times those of 1839, and those of 1841 nearly as great.

Contemporary evidence of dumping of British goods is provided by a statement of Sydney merchants in a January 1842 edition of the *Sydney Morning Herald*, entitled CUSTOM OF MERCHANTS:⁶⁵

Our attention has been drawn to a practice, which is anything but honorable, although we have reason to believe that it has been extensively acted upon by many *honourable men*. We allude to parties in London who receive orders for goods drawn up so as to suit this market, from persons resident here, sending out at the same time similar goods on their own account, thus availing themselves of the judgement of their constituents to meet them in their own market. A shopkeeper who called upon us on Saturday stated, that he had just seen an exact duplicate of the invoices sent from the same house that he

had employed to send him a particular description of articles, and the trade being a peculiar one, he considered that his goods were rendered almost valueless by the competition likely to be induced. Some time more the same person assured us that the goods sent out in accordance with his orders were lost by the wreck of the *Ocean Queen* in Bass Straits, and that shortly afterwards he ascertained that by another ship which left England about the same time, an exact copy of the goods was forwarded to Sydney and sold to a shopkeeper in town, who thus in fact reaped the benefit of another's tact and industry. We have no reason to believe that our Sydney merchants are implicated in this fraud, for such it really is, but they might do a good deal towards stopping its continuance, were they to write stringent letters to their London friends. Such breaches of faith are positively repugnant to the character of a British merchant, and we are surprised to find that men standing high in the professional world should be guilty of such conduct. But apart from the interest of the party sending for the goods the trade of the Colony is affected by this practice. If every person who receives an order for goods sends out as many on his own account as he sends to his constituents, it must disarrange the proceedings of the merchants here, and tend to bring about that great commercial evil—an overstocked market.

Evidently, the dumping of British commodity stocks was very much a response to stringency in the London money market, and English merchants tried to gain liquidity by drawing bills on their colonial counterparts, relying on the time-lag of shipments. The liquidity needs of imperial merchants in a tight money market were thus transmitted, again with a time-lag, to the colonies in the form of excess commodities, touching off the colonial liquidity crisis of 1840.

The point, then, is that because of the structural relations of the wool trade, forged by merchant capital between metropolis and colony, the depression in British capitalism was inevitably communicated to the pastoral economy. Not only did the import surplus reflect illiquidity in London, but also its contribution to a colonial liquidity crisis (manifested in the slump in land sales in 1841), was bound to affect further the wool-growers' supply of credit. Where pressure for settling accounts and generally for ready cash was increased by the import market glut, mercantile capacity to make advances to pastoralists would be threatened. The inevitable premium on credit to the producer was even higher interest charges, reaching up to a discount rate of 40 per cent.⁶⁶ The burden of increasing interest charges was an inherent problem for pastoral capital where production conditions were impermanent (lack of tenure security and fixed capital), thereby raising the risk premium on mercantile advances. The further the crisis developed the more untenable became the security of pastoral capital to the merchant, especially with declining wool prices.

Production constraints on pastoral capital accumulation

We have argued that pastoral capital was fundamentally dependent on a labour supply to match its accumulation of sheep, which constituted its productive capital. Contemporary evidence indicates that the scarcity and

high price of labour impeded pastoral capital accumulation to such an extent that the labour constraint appeared to some colonists a primary cause of depression.⁶⁷ A glance at the Minutes of Evidence in the various Committees of inquiry in the N.S.W. Legislative Council during these years attests to this. In the 1842 Committee on Immigration, for instance, Robert Scott was questioned about the effect of the scarcity of labour and its high price on the pastoral economy. His reply was:⁶⁸

Certainly, we are now suffering from that cause; the high rate of wages running away with all profits, no man would enter into pastoral pursuits, and in consequence there has been no sale for our surplus stock. This has, as a natural consequence, deteriorated the price of land, as the less the surplus derived from land, of the less value that land becomes, whereas, in the face of this, the Government have increased the price of their land from 5s. to 12s. an acre, and thereby, I am of opinion, disorganised the agricultural system, and the relation between land and produce. The squatting system also, has materially contributed to the effects, as it has deteriorated the price of land, and prevented its sale; I may say I am an extensive squatter myself.

Scott went on to say that the squatters, by employing labour without contributing to the land fund, were responsible for raising the price of labour. What is significant about his statement is his articulation of the nexus between land and labour—a nexus that was fundamental to the social basis of capital accumulation in pastoral economy. The supply of labour for capital was the object, and the condition, of operation of the law of value. Breakdown in the process of entry of labour into pastoral economy threatened the process of self-expansion of capital. Labour itself was capital, and the phenomenon of an emigration fund, tied to land sales, was basic to the system of accumulation.

Contemporary statements regarding causation of the depression often included a variety, or arbitrary cataloguing, of influences. However, in establishing the essential condition of breakdown in the process of accumulation of pastoral capital, bearing in mind that its basis was in the squatting system, the supply of labour becomes the key. Arguments that connected depression and the high price, or scarcity, of labour with the government's land price rise and the depletion of the emigration fund were, in assigning causality to institutional interference, or breakdown, in the supply of labour, merely expressing its fundamental importance. This is reminiscent of the difficulty Wakefield had in distinguishing, for his contemporaries, between the *theoretical* requirement of guaranteeing wage-labour for settler capital by pricing land, and the *practical* system of using revenue from land sales to finance emigration of labour. He wrote:⁶⁹

. . . as the only object of selling instead of giving is one totally distinct from that of producing revenue—namely, to prevent labourers from turning into landowners too soon—the pecuniary result would be unintended, one might almost say unexpressed.

The point was to emphasise simply that settler capitalism was nothing without a labour supply.

As far as timing and proximate causes of labour scarcity are concerned, witnesses at the Committee on Monetary Confusion of 1843 made pertinent comment. Thus Thomas Stubbs, auctioneer, attributed primary causality to the 'sudden stoppage of transportation, at a time, when the landed interest, spent immense sums of money in the extension of their estates, under the promise of assigned labour'.⁷⁰ And Charles Roemer, an emigré from Leipzig by way of London, colonial merchant and one-time Director of the Commercial Banking Company of Sydney,⁷¹ brought to bear his particular 'world-historical' perspective:⁷²

The distress has arisen from the failure of speculations on prices which were too high to be maintained; the value of wool in the Colony, had been regulated by prices which were obtained in England previously to the failure of the large American houses in about 1837; and the prices of Colonial produce were then notoriously driven up by the assistance of newly created Joint Stock Banks, in England, as well as in America. It must be remarked, that almost at the same time when persons flattered themselves with the continuance of high prices of wool, they also calculated on the continuance of prison labour, which has since been withdrawn; and under this impression, they made purchases of land, at prices which appear now quite preposterous.

The point was that the ending of the system of assignment was the ending of supply of cheap labour and, for the squatting districts particularly, the ending of a *reliable* supply of labour.

With respect to the price of labour, bond labour was a considerably cheaper proposition than free labour—Wentworth estimated the difference at £14 a year between employment of a convict for £22, and wages of £36 for a free labourer.⁷³ And this margin increased with rising wages in a scarce labour market, where the convict's wages-in-kind were a legally specified quantity of provisions. The conversion to free labour, in a mode of production where technical adjustment of labour in relation to capital was limited, necessarily became a formidable barrier to pastoral capital accumulation. Rural wages rose with the cessation of assignment, being highest at the perimeter of the squatting frontier.⁷⁴ The impact of this conversion was not confined to small and medium pastoral capitals, as the Australian Agricultural Company found:⁷⁵

. . . Much to their dismay the directors learned that the assignment of convicts to private individuals was soon to cease and that they would, therefore, be faced with greatly increased costs . . . Captain King found his most difficult task in the change from convict to free labour, and, whereas this was of no moment in the coal trade, where the company controlled prices, it was serious in the Stock Department, particularly as the necessarily increased expenditure was coincident with a drop in wool values.

The cessation of assignment affected wool-growers particularly, as they were compelled to seek labour on the open market, offering unattractive employment.⁷⁶ According to Coghlan, ' . . . when assignment was abolished in 1839 there were 25 322 convicts in assigned service in New South Wales, and these were reduced by the expiry of sentences at the rate of about 5000 a year.'⁷⁷ As far as the New South Wales squatting districts were concerned,

the accompanying table⁷⁸ indicates the extent of the conversion from bond to free labour.

<i>Year</i>	<i>No. of stations</i>	<i>Population</i>		<i>Cattle</i>	<i>Sheep</i>
		<i>Free</i>	<i>Bond</i>		
December 1839	694	4143	3144	371 699	1 334 593
December 1843	939	6277	1296	501 541	1 804 046

It is clear from this table (which, incidentally contradicts Butlin's physical limits to squatting) that labour requirements overall did not match the stock increase on squatting runs—even where many of the runs were small and some labour was provided by the squatters themselves (included in the 'free population' category).

Because of the labour constraint, and its exacerbation by the reliance on an undeveloped free labour market, the wool-growers developed the bounty system. This involved private contracting of immigrant labour, and the government paid a bonus, or bounty, out of the land fund for approved immigrants. This system initially paralled government-assisted immigration. Although begun in the latter half of the 1830s, and operated irregularly for the next twenty years, the most significant period of the bounty system was in the years 1840 and 1841, when it supplied 6675 and 20 103 immigrants respectively.⁷⁹ During this time, government immigration was suspended under pressure of the wool-growers through their influential representatives on the New South Wales Legislative Council. In spite of arguments about the superiority of the bounty system 'in terms of lesser cost, greater selectivity, proportionately more single persons and so forth,⁸⁰ the motive behind the Legislative Council's decision to rely primarily on the private bounty system was economic. Essentially pastoralists were compelled to regulate directly their labour supply in the interests of sustaining their enterprise. By concentrating on the bounty system they attempted to minimise the competitive forces of the labour market. That is, by seeking to contract for immigrant labour they could bypass the urban labour market and hold down wage costs as well as effect some control over the quantity and regularity of labour. This move to avoid the competitive forces of an open labour market constituted a rearguard action on the part of pastoral capitalists.

The prominence of the bounty system, as a method of control over supply of labour by pastoral capital, did not last. Its private character generated increased power on the part of recruiting agents and/or shipowners—causing unpredictable supply; and its increasingly speculative operation transgressed the principles of imperial land and emigration policy.⁸¹ In 1843, following intervention by British authorities, government-assisted immigration was resumed on a limited basis.

In spite of the short life of the bounty system as an initial attempt to control the supply of labour for the pastoral industry, its introduction was significant for the argument here; that is, heavy resort to bounty emigration was a form of substitution of quasi-indentured labour in place of a lapsed system of assignment of bonded labour. It was a logical response by pas-

toralists to intensification of the labour constraint on pastoral capital accumulation, with the ending of assigned convict labour.

Social constraints on pastoral capital accumulation

The concept of 'social' constraints on pastoral capital accumulation refers to the system of relationships within which pastoral capital was reproduced: the system of 'pastoral economy'. The primary relationships were those of merchant capital to the production unit, and the nexus between land, labour and capital. The discussion so far, in focussing upon the credit nexus and labour supply as the proximate vehicles of crisis, has carried an implicit assumption of the social context of reproduction of pastoral capital. It was in and through this particular social context that the character of crisis in the pastoral economy was determined.

The nexus between land, labour and capital was essentially a mode of establishing the social relations of settler capitalism. Colonial state policy (as arm of the imperial state) guaranteed a labour force for pastoral capital through discrimination against small farming, and assignment of bonded labour to private capitalists. The Wakefield principle of pricing land to generate a labour force formalised this policy.⁸²

The constraint in this social nexus was the assurance of a productive expansion of wool-growing to stimulate 'Wakefield's beneficent cycle' in order to maintain value in the pastoral economy. Many observers proceed from the position of considering land, labour and capital as 'factors of production', and therefore they pose the problem of crisis in colonial pastoralism as a breakdown in the supply of, or in the particular proportions among, these 'factors'. Thus, the raising of the price of land becomes a causal factor of the depression; or the cessation of convict assignment, or the physical exhaustion of the frontier, are singled out to explain crisis. These can only be, at the most, partial explanations because they ignore the fundamental social relation among these categories, through which the law of value operates. That is, capital accumulation, or the self-expansion of value, proceeds less on the basis of the empirical presence of these (discrete) factors, than on their *relational* quality in the process of reproduction of the social environment for capital.

Thus the 'land' component of this nexus was, through the medium of an artificially imposed price, the practical instrument of financing, and guaranteeing, a supply of labour for capital. This process of reproduction of the capital relation broke down only when the cycle was checked by the decline in profitability in wool-growing to a level at which insufficient new pastoralists were attracted to the industry. The profitability crisis meant not only insolvency of pastoral capital in relation to merchant capital, but also a rising cost of credit. Newcomers tailed off, causing a slump in the stock market: whereas sheep prices in 1838-9 ranged between 30s-60s a head, in 1843 they had fallen to 6s-7s a head.⁸³ The result was devaluation of pastoral capital, and a corresponding crisis in merchant capital accumulation.

With regard to the labour constraint on profitability, where pastoral expansion was checked, Benjamin Boyd's evidence to the Select Committee

on Immigration of 1843 is instructive. (It also directly contradicts Butlin's notion of the geographical limits to pastoral expansion.):⁸⁴

. . . it is well-known that nearly one-third of the ewes last year did not get the ram, not for want of room for increase, for plenty of runs in the back country were still open for new stations; but from scarcity of labour, and the consequent high prices demanded for it, which completely checked any inducement to increase. Stations far in the interior, but often most calculated for sheep, are almost considered valueless from distance, and difficulties attendant on getting up supplies, and forwarding wool; but this also proceeds from the same cause, namely, the want of labour in the interior, so much so indeed, that I have found it cheaper to purchase wheat in Van Dieman's Land, and to forward it two or three hundred miles into the interior, instead of growing it upon the stations, nor have I, at this moment, a single acre in cultivation. Had there been a supply of labour, however, every necessary might have been raised on the stations, and the only supplies for the return wool drays to bring back, would have been a few slops, tea, and sugar.

Boyd's remarks about the grain importing forced upon him by the scarcity of labour, draws attention to the contingent nature of the staple-producing economy. The issue of cheap supply of grain is clearly relative to the social conditions in the economy. In an immediate sense, the scarcity of frontier labour discriminated against local provision of subsistence needs in favour of wool-growing, causing grain-importing. But the pastoral economy generally was never self-sufficient in grain in this period.⁸⁵

The drain in foreign exchange due to grain importing was exacerbated by a severe drought in eastern Australia from 1838-40, which of course added to inflationary trends in the colonial economy. Prices of wheat in New South Wales, which fluctuated around 7s per bushel in the 1830s,⁸⁶ rose to between 20s and 30s in 1839, and 18s in May 1840 (although by the end of the year the price fell to 5s 6d per bushel with restored harvests).⁸⁷ Such price inflation of basic foods contributed to the rising wage trend at the turn of the 1840s, which was one of the checks to profitability of wool-growing (remember the grain component of the squatter's payment of wages-in-kind to his labour-force was an increasing market item according to Boyd's evidence). Price inflation was also engineered by the colonial merchants, who, in special credit relation with the banks, were in command of the market and able to 'demand double prices from the settler'. This was allegedly achieved through the establishment of trade monopolies for buying up commodity cargoes and raising prices, many settlers not having ready cash and access to the market.⁸⁸

The point here is that the limits to pastoral capital accumulation which were revealed in the 1840s crisis were not simply based on scarcity of labour and declining wool prices. The limits were inherent in the *character* of accumulation itself, which indeed dramatised the scarcity of labour precisely because of the particular labour *constraint* on this form of 'primitive' capital accumulation. The labour constraint in turn was a barrier to subsistence production on the sheep-farm, which would have held costs down. Grain import requirements were a result of the specialised character of the staple-producing economy. Here, mercantile promotion of staple commodity

production, and the pastoralist tendency to monopoly of the landed economy, retarded the settlement of a small-farming sector in the countryside. In consequence, the lack of a smallholder population exacerbated the problem of labour supply in the wool-growing regions.

In other words, the *limited* character of accumulation in pastoral economy — ‘limited’ in a twofold sense: in terms of specialisation in staple commodity production, and in the ‘primitive’ form of accumulation (quantitative, rather than qualitative, expansion of value)—*crystallised* in the phenomenon of scarcity of labour, which became most acute when the assignment of convict labour was terminated.

Subsequent transformation in the conditions of pastoral capital accumulation was foreshadowed in economic and political responses to the 1840s crisis. The crisis focussed the contradictory character of the ‘staple-producing’ economy, generating social divisions in the 1840s and 1850s around the issue of squatting and its contribution to colonial economic development.⁸⁹ While squatters won tenure security from the imperial state in 1847, this only intensified opposition from an emerging urban bourgeoisie to the patriarchalism and monopoly of landed economy of pastoralism. The second half of the 19th century witnessed a political struggle between urban-mercantile and pastoral capital, which transformed the shape of the settler economy. With land reform as their political weapon, and mortgage-finance and railways as their economic agent, urban capitalists loosened the impact of the imperial division of labour by re-integrating rural economy into the urban-based (local) economy. The political challenge to squatting compelled leaseholding pastoralists to *secure* their land through capital investment in land and fixed capital, such as fencing—financed by mercantile and banking interests.⁹⁰ The result was increased pastoral productivity, as wool-growing shifted towards a properly capitalist basis, dispensing with the pre-industrial system of shepherding, and systematically applying scientific techniques to production.⁹¹

Conclusion

This discussion of the 1840s depression has attempted to find the explanation for the particular crisis in the colonial economy in the conjunction of contradictions within the pastoral industry, and the cyclical downturn within the metropolitan economy. The approach has been to emphasise the analytical framework of the world division of labour, of which the pastoral economy was an integral branch, as well as to consider the crisis as a manifestation of the contradictions of the particular forms of capital accumulation in metropolis and colony respectively.

In Britain, ‘textile industrialism’ had run its course as the first phase of industrial capitalism, and the downturn in textiles production followed an overproduction based primarily upon speculation in the American market. Falling wool prices resulted, strengthening the declining trend of prices due to social change in the conditions of world wool production, as the latter was shifted to the Southern Hemisphere. This, in conjunction with the

strained London money market in 1839, checked and suspended the flow of mercantile credit to the colonial economy.

The dependence of pastoral capital accumulation on mercantile advances for its reproduction reflected the speculative character of wool-growing as industrial raw material. This, in conjunction with the lack of tenure security, placed pastoral capital accumulation on a 'primitive' basis, where technical change was not integral to the expansion process. Necessarily, labour productivity in pastoral production was stationary, and labour constituted the fundamental constraint on accumulation. This constraint asserted itself decisively, following the cessation of assignment of convicts, rendering labour sufficiently scarce and expensive to discourage further investment in wool-growing and threaten the value of pastoral capital. A crisis of profitability in this conjuncture was the outcome, and the foundation, of the 1840s economic depression.

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- 1 See, for example, S.J. Butlin, *Foundations of the Australian Monetary System 1788-1851*, Sydney University Press, 1968; T.A. Coghlan, *Labour and Industry in Australia*, Macmillan, Melbourne, 1969, vol. I; B.C. Fitzpatrick, *The British Empire in Australia 1834-1939*, Macmillan, Melbourne, 1969; S.H. Roberts, *The Squatting Age in Australia 1835-1847*, Melbourne University Press, 1970; and E.O.G. Shann, *An Economic History of Australia*, Cambridge University Press, 1930.
- 2 See R.M. Hartwell, 'Colonial Money and Banking during the Industrial Revolution', *Economic Record* XXX, 1954.
- 3 The 'circuit of industrial capital' refers to the process of purchase by textile manufacturers of wool (raw material), its subsequent fabrication in the labour process (with machinery), and its sale on markets as cloth. In this way the wool-grower is linked to the final consumer, and the economy of wool-grower and manufacturer, as well as mediating merchants, is dependent on the sale to the final consumer. Sale marks realisation of the value produced in the whole circuit.
- 4 Percentage volumes of wool imported into England from Australia and Germany were, respectively, in 1831, 7.9 and 70.7; and 28.4 and 34.2 in 1842. See P. Burroughs, *Britain and Australia 1831-1855*, Clarendon Press, Oxford, 1967, p. 383.
- 5 These were considered leaders of the squatting rush by Alan Barnard, *The Australian Wool Market 1840-1900*, Melbourne University Press, 1958, p. 135.
- 6 See Applications for Licences to depasture Crown Lands beyond the Limits of Location for one Year from the 1st January, 1837. (N.S.W. State Archives, 4/1117.1)
- 7 See Barnard, *op.cit.*, ch. 3.
- 8 However, the *staple* character of the colonial economy had a short life—the limits of it being determined by the competition among merchant capitals. Colonial merchants were drawn into the wool trade through their involvement with smaller pastoral capitals originally (1820s); they engaged then in consignment in the 1830s to retain their share of the trade, and in the 1840s, with engrossment by British mercantile capital following the 1840s depression, colonial merchants diversified into transport and urban commerce, mortgage-financing becoming more acceptable in the colonial economy also. These activities facilitated, alongside political changes, the demise of the staple economy.
- 9 Commercial ('circulation') credit is differentiated from 'investment' credit in the following way:
 Circulation credit is intended to realise in advance the value of commodities already produced; investment credit has for its purpose to increase the capital of an enterprise. In both cases the amount of surplus-value increases, either by reduction in the rotation-time or by growth in the amount of capital.
 Ernest Mandel, *Marxist Economic Theory*, Merlin, London, 1971, p. 223.
- 10 Colonial pastoralism was similar to planter capitalism, cf.:
 In the second type of colonies—plantations—where commercial speculations figure from the start and production is intended for the world market, the capitalist mode

of production exists, although only in a formal sense, since the slavery of Negroes precludes free wage-labour, which is the basis of capitalist production. But the business in which slaves are used is conducted by capitalists. The method of production which they introduce has not arisen out of slavery but is grafted onto it. In this case the same person is capitalist and landowner.

Karl Marx, *Theories of Surplus Value*, Progress Publishers, Moscow, 1968, part II, pp. 302-3.

- 11 Here we use the concept 'primitive accumulation' to characterise (world) commodity production not yet based on the full technical (fixed capital and the application of science to production technique), and social (wage-labour *market*) relations most adequate to 'capitalist' accumulation of capital. In this sense the concept also refers to the world-economic process of guaranteeing a (bonded) labour force for capital on the periphery, through political means. Passage through this state represents development of settler capitalism.
- 12 Even though labour scarcity was a basic constraint on pastoral capital accumulation, conditions were not yet ripe for pastoral capitalists to introduce capital-intensive means production. These were foreshadowed in the financial and legal security measures for pastoralists resulting from the 1840 depression.
- 13 This is dealt with at length in Philip McMichael, *Pastoralism and Capitalist Development in Nineteenth-Century Australia: A Study in Settler Capital Accumulation*, unpublished Ph.D. dissertation, State University of New York at Binghamton, 1979.
- 14 E.J. Hobsbawm, *Industry and Empire*, Pelican, London, 1969, p. 109.
- 15 J.A. Schumpeter, *Business Cycles*, McGraw-Hill, New York, 1939, vol. I, pp. 170, 252.
- 16 Hobsbawm, *op.cit.*, p. 69.
- 17 See W.W. Rostow, *British Economy of the Nineteenth Century*, Clarendon Press, Oxford, 1961, p. 8.
- 18 W.T.C. King, *History of the London Discount Market*, Frank Cass, London, 1972; and W.M. Scammell, *The London Discount Market*, Elek Books, London, 1968.
- 19 L.H. Jenks, *The Migration of British Capital to 1875*, Harper & Row, New York, 1973, p. 67.
- 20 See Ralph Hidy, 'The Organisation and Functions of Anglo-American Merchant Bankers, 1815-1860', *Journal of Economic History* Supplement 1, 1941.
- 21 E.g. '... in the post-Napoleonic decades something like *one half of all* British exports consisted of cotton products, and at their peak (in the middle of the 1830s) raw cotton made up twenty per cent of total net imports'. Hobsbawm, *op.cit.*, p. 69.
- 22 R.C.O. Matthews, *A Study in Trade-Cycle History*, Cambridge University Press, 1954, p. 43.
- 23 S.G. Checkland, *The Rise of Industrial Society in England 1815-1885*, Longmans, London, 1964, p. 119.
- 24 J. James, *History of the Worsted Manufacture in England*, (1857); Frank Cass and Co. Ltd., London, reprinted 1968, p. 433.
- 25 Checkland, *op.cit.*, p. 125.
- 26 James, *op.cit.*, p. 434.
- 27 *ibid.*, p. 470-1.
- 28 Hobsbawm, *op.cit.*, p. 69, 72.
- 29 Jenks, *op.cit.*, p. 84.
- 30 See Jenks, *op.cit.*, pp. 86-7; and Matthews, *op.cit.*, pp. 57-8.
- 31 Matthews, *op.cit.*, p. 43.
- 32 H. Heaton, 'Benjamin Gott and the Anglo-American Cloth Trade', *Journal of Economic and Business History* II, 1929-30, p. 147.
- 33 Data from Matthews, *op.cit.*, p. 153; and James, *op.cit.*, pp. 449, 493.
- 34 Robert Brooks & Co., London, *Papers 1822-1890*, Mitchell Library.
- 35 See G.J. Abbott, *The Pastoral Age: A Re-examination*, Macmillan, Melbourne, 1971, p. 64; and A.H. Imlah, 'The Terms of Trade of the United Kingdom 1798-1913', *Journal of Economic History*, November 1950.
- 36 Jill Ker, 'The Wool Industry in N.S.W. 1803-1830', part 2, *Business Archives and History*, 2, 1, February 1962, p. 27.
- 37 J.H. Clapham, *Economic Development of France and Germany 1815-1914*, Cambridge University Press, 1966, pp. 292-3; Werner Conze, 'The Effects of Nineteenth-Century Liberal Agrarian Reforms on Social Structure in Central Europe', in *Essays in European Economic History 1789-1914*, F. Crouzet, W.H. Chaloner & W.M. Stern (eds), Edward Arnold, London 1969; Herbert Heaton, *Economic History of Europe*, Harper & Row, London, 1948, ch. XIX; and A.S. Milward & S.B. Saul, *The Economic Development of Continental Europe 1780-1870*, Allen & Unwin Ltd., London, 1973, p. 393.

- 38 S.H. Roberts, 'The Australian Wool-Trade in the 'Forties', *Royal Australian Historical Society, J & P XVII*, VI, 1931, p. 352.
- 39 John McLaren (London) to Messrs Frew Bros & Co. (Adelaide), 19 September, 1843. *Frew Papers*, (ML A738), p. 137.
- 40 See F.J.A. Broeze, 'The Cost of Distance: Shipping and the Early Australian Economy, 1788-1850', *Economic History Review* 28, 4, November 1975, p. 587.
- 41 James, op.cit., pp. 485-6.
- 42 J. de L. Mann, *The Cloth Industry in the West of England from 1640 to 1880*, Clarendon Press, Oxford, 1971, p. 176.
- 43 Matthews, op.cit., pp. 154-5 (emphasis added).
- 44 M. Barratt Brown, *The Economics of Imperialism*, Penguin, London, 1976, p. 122.
- 45 See W.A. Sinclair, *The Process of Economic Development in Australia*, Cheshire, Melbourne, 1976, p. 73 (note 15).
- 46 E.g. Fitzpatrick, op.cit., p. 71-2; and Shann, op.cit., p. 105.
- 47 Fitzpatrick, op.cit., p. 73.
- 48 S.J. Butlin, op.cit., p. 318 fn.
- 49 *ibid.*, p. 317.
- 50 Lynette J. Peel, *Rural Industry in the Port Phillip Region 1835-1880*, Melbourne University Press, 1974, p. 31.
- 51 See Sinclair, op.cit., p. 73 (note 15).
- 52 Butlin, op.cit., p. 318.
- 53 Fitzpatrick, op.cit., p. 72.
- 54 S.J. Butlin, *Australia and New Zealand Bank*, Longmans, London, 1961, p. 90.
- 55 Hartwell, op.cit., p. 83.
- 56 The (Marxist) law of value refers to that determinate process whereby, in a system of commodity production and exchange, the competitive position of individual commodity producers is mediated to them through market phenomena such as price and profit. It constitutes an impersonal allocation of (world) society's labour.
- 57 P.L. Brown (ed.), *Clyde Company Papers*, Oxford University Press, vol. II, 1952, pp. 112-13.
- 58 See Butlin, *Foundations* . . . , pp. 237, 263, for discussion of the London agency.
- 59 Barnard, op.cit., p. 96 (delay estimates of 9-10 months).
- 60 Butlin, *Foundations* . . . , pp. 275, 325.
- 61 *ibid.*, p. 318 (emphasis added).
- 62 Checkland, op.cit., p. 17.
- 63 Cf.: 'In the pre-planning days of capitalism, the peripheries could play a crucial part in counter-acting cyclical crisis—by providing markets for the excess consumer goods which the perennial imbalance between production and consumption has created in the centres'.
- Anne Phillips, 'The Concept of "Development"', *Review of African Political Economy* 8, January-April 1977, p. 13.
- 64 Butlin, *ANZ Bank*, p. 90; and see R.F. Holder, *Bank of New South Wales. A History*, vol. 1: 1817-1893, Angus & Robertson, Sydney, 1970, p. 112.
- 65 *Sydney Morning Herald*, 10 January 1842.
- 66 E.g. in a letter to Henry Dangar from his agents, R. Campbell Jnr & Co., Sydney 1840, it is stated that the rate of discount was as high as 40 per cent in some areas. (M393 *Australian Joint Copying Project*, misc.)
- 67 See, e.g. Alexander Mollison, *Letters 1825-59*, LaTrobe Library, Melbourne. (M 57956656/A114)
- 68 *N.S.W., Votes & Proceedings*, 1842, Committee on Immigration, Minutes of Evidence, 10 June 1842.
- 69 M.F. Lloyd Pritchard (ed.), *The Collected Works of Edward Gibbon Wakefield*, Collins, Glasgow and London, 1968, p. 954.
- 70 *NSW, V&P*, 1843, Committee on Monetary Confusion, 21 September 1843.
- 71 *Australian Dictionary of Biography*, Melbourne University Press, 1967, vol. 2, p. 392.
- 72 *NSW, V&P*, 1843, Committee on Monetary Confusion, 22 September 1843.
- 73 Cited in D.N. Jeans, *An Historical Geography of New South Wales to 1901*, Reed Education, Sydney, 1972, p. 148; see also the Statement, 'Shewing the Comparative Difference between Convict and Free Labour', in 'Disadvantages of a Sheep Station out of the Boundaries of the Colony of N.S.W. in a North West Direction in 1837', *The Australian Magazine* I, ii, February 1838, pp. 143-5.
- 74 T.A. Coghlan, op.cit., pp. 427, 430.
- 75 W.E.R. Wilson, 'A History of the Australian Agricultural Company' (ML MSS. 1581), p. 10.

- 76 See, e.g. M. Roe, *Quest for Authority in Eastern Australia*, Melbourne, University Press, 1965, p. 71; and Coghlan, op.cit., p. 431, for a discussion of rural employment conditions.
- 77 Coghlan, op.cit., p. 424.
- 78 Compiled from 'Abstract of the Returns of the Commissioners of Crown Lands for the half year from 1st July to 31st December, 1839 . . .', (NSWSA, 2/2366, Treasury: Record of Boundary License Fees); and Enclosure no. 1 to Sir George Gipps' Despatch, no. 75 Sydney, 3 April 1844 (ML. A1639).
- 79 Figures from Coghlan, op.cit., p. 360.
- 80 See Chairman Pinnock's Report in the Committee on Immigration, *NSW, V&P*, 1838; and Coghlan, op.cit., p. 358.
- 81 See R.B. Madgwick, *Immigration into Eastern Australia*, Sydney University Press, 1969, ch. 9; and Coghlan, op.cit., pp. 359-361.
- 82 This is discussed at greater length in Philip McMichael, 'Foundations of Settler Capitalism in Australia', *Intervention* 13, 1979.
- 83 See Alexander Mollison, *Letters . . .*, 31 January 1843; and S.H. Roberts, *The Squatting Age . . .*, p. 203.
- 84 *NSW, V&P*, 1843, Select Committee on Immigration, Minutes of Evidence, 27 October 1843.
- 85 See Coghlan, op.cit., p. 251; and *NSW, V&P*, 1849, Statistics of New South Wales, 1837-1849.
- 86 Coghlan, op.cit., p. 281.
- 87 *ibid.*, pp. 460-1.
- 88 *NSW, V&P*, 1843, Committee on Monetary Confusion, Minutes of Evidence, William Bradley, 21 October 1843.
- 89 The most comprehensive treatment of this subject is that of T.H. Irving, *The Development of Liberal Politics in New South Wales: 1843-1855*, unpublished PhD thesis, University of Sydney, 1967; see also, T.H. Irving, 'Some Aspects of the Study of Radical Politics in New South Wales before 1856', *Labour History*, 5, November 1963.
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2

THE ABOLITION OF THE QUEENSLAND LABOUR TRADE: POLITICS OR PROFITS

A.A. GRAVES

INTRODUCTION

APPROXIMATELY 65 000 Pacific Islanders were imported into Queensland between 1863 and 1904, to work in the sugar industry. The abolition of this labour trade, by an Act of the Federal Parliament in 1901,¹ had wide-ranging ramifications in Queensland's economic, social and political history. Given its significance, there is a surprising amount of agreement as to the origins of abolition, for previous writers attribute it exclusively to political factors and, in particular, to the emergence of the White Australia policy.² Beyond descriptions of the political, constitutional or legislative development of the policy,³ explanations are couched in terms of Australian racial prejudice. In this latter context, there are two major arguments. Some writers assert that the White Australia policy was the culmination of racist attitudes to non-Europeans throughout all sections of Australian society.⁴ This racism stemmed from a belief that all coloured races were inferior to Anglo-Saxon people and the desire to build a society which was culturally and ethnically homogenous. Without denying that they were racist, other writers lay the blame for the White Australia policy at the feet of the working class, who organised against coloured labour out of economic motives.⁵

This essay takes issue with the extant literature on several levels. Firstly, it questions whether the abolition of the Queensland labour trade was exclusively political. The ending of Pacific Island immigration, it will be argued, was connected intimately with the change in the sugar industry from plantation production to farm-based central milling. Through this transformation, the need for large numbers of imported field workers was eliminated, a factor further reinforced by the increasing supply of unskilled white labour in Queensland by 1900. In this sense, the abolition of the trade cannot be divorced from the political economy of Queensland sugar production.

At the same time, political factors cannot be ignored. This analysis,

however, removes the issue of abolition from the generalised context of the White Australia policy and focuses attention on the origins of political opposition to the immigrants in Queensland. To this end the interdependent structural and ideological underpinnings of working class antagonism to the Pacific Islanders are examined in detail. Using this method, the essay questions the view that abolition was merely the culmination of Australian racial prejudice.

I

For the purposes of analysis, the growth and development of the Queensland sugar industry can be divided into several distinct periods.⁶ In its incipient phase, 1862-7, the industry was confined to the Brisbane area and the relatively small amount of sugar cultivated in the period was produced on small farms using primitive machinery. Between 1868 and 1878, the industry experienced its first major growth period during which sugar production moved into the northerly districts of the colony and plantation production emerged as the dominant form. In 1874, a natural disaster struck Queensland sugar cane in the form of downey mildew or 'rust', causing the withdrawal of credit from industry and a period of depression which lifted in 1879. In that year a number of factors, including the election of a Government in Brisbane within which planter interests were influential, and the lowering of interest rates to the unprecedented levels of between 5 and 7 per cent, led to a period of explosive growth in Queensland sugar production. This speculative phase was marked by a quadrupling of cane acreage over the period, an increase in the number of operational mills in the colony from 68 in 1878/9 to 166 in 1884/5, and the consolidation and extension of the plantation system. The entry of large-scale capital and a concomitant increase in the number and average size of plantations meant that plantations accounted for at least 85 per cent of Queensland's total cane acreage by 1887/8. For a number of reasons to be discussed below, the industry was plunged into a protracted depression between 1884 and 1892. But from 1893 to 1906, during its third major growth period, Queensland cane acreage expanded by a factor of 2.42. Significantly, this rapid growth in production was associated with the complete reconstruction of the industry on the farm-based central milling system. Statistically this is indicated in the dramatic fall in operational mills over the period from 166 in 1884/5 to 51 in 1906 and a concomitant rise in the number of cane farmers from 208 in 1887/8 to 3280 in 1905. The phase ended in 1906 with the massed repatriation of Pacific Island labour, the core of the plantation labour force.

Because the transformation from plantation production to farm-based central milling was fundamentally important in the subsequent abolition of the labour trade, its economic and political determinants are worthy of examination. In brief, the supplanting of plantation production was caused by the inability of the industry to cope with rising costs in the face of falling sugar cane prices and, to a lesser extent, the success to cane farmers in

mobilising the State to attain their objective of a cane market less controlled by big mill-owners.⁷

Perhaps the most conspicuous characteristic of plantation production in Queensland was its low productivity. It was estimated in the period that the profitable production of sugar cane under this system required a yield of at least 1½ tons of sugar manufactured per acre of cane crushed.⁸ Average yields, however, exceeded this limit in only three seasons between 1862 and 1885. This inefficiency was due to the nature of plantation production and, in particular, to the low level of mill technology and the inadequate cultivation techniques practised in the Queensland system. Before 1885 the average capacity of mills did not exceed 267 tons of sugar manufactured per mill per season. Contemporary observers attested to the generally primitive technology of both crushing mills and the sugar manufacturing plant during the era of plantation production.⁹ Cultivation practices were similarly backward, there being a complete absence of proper drainage and irrigation schemes till the late 1880s, a lack of the extensive deep ploughing necessary for productive cane growth, and a neglect of systematic fallowing and crop rotation.¹⁰ Evidence suggests that even routine cultivation practices, such as weeding and cane trashing, were not carried out on some plantations.¹¹

At the same time the labour-intensive nature of plantation production contributed to the low efficiency of the system. It is clear that planters did not invest in expensive machinery which would have raised plantation productivity while production was catered for through the employment of immigrant labour. Moreover, the supply of Pacific Islanders, who dominated the plantation labour force, was never sufficient to meet the needs of efficient cultivation, and the quality of the labour was low. Poor diets, long hours of labour, inadequate accommodation, and an absence of proper medical care on plantations led to appallingly high death-rates amongst this class of labour and seriously affected the capacity of the immigrants to labour productively.¹²

Against this background of low productivity must be placed the rising costs of plantation production to 1889. For the labour-intensive plantation system the most problematic of these overheads was labour costs. In order to understand how these costs operated, it is necessary first to delineate the three major categories of Pacific Island labour. The largest section of the workforce till the 1890s were 'first contract' workers or 'new introductions'. These people were recruited in the islands, and were indentured for three years labour on sugar plantations in return for a minimum wage and various payments in kind: food, clothing, accommodation, and medical care. A second category of workers were called 'time expired', 'walking about', 'overtime' or 'free' labour. These workers had finished their first contract and were thus free to change employers for higher rates of pay, shorter contract periods or to return home. 'Ticket of leave' Islanders comprised a third category within the immigrant population. This category arose as a result of a law passed in 1884 which confined all Pacific Islanders to labour in tropical industrial agriculture.¹³ Migrants who had been in the colony for at least five years prior to September 1884 were eligible for exemption from

the occupational restriction of this law and, upon application, they received a certificate or ticket to that effect. This group was quite small, however, and since for the most part they found employment outside the sugar industry, they are relatively unimportant in the following discussion.

The largest single component of the planters' labour overheads was the cost of importing new-introduction workers. Recruiting charges embraced the fare of the recruits, the cost of trade or bonus payments made to the workers or their families to induce the immigrants to sign indentures, and the ship-owners' profits. Called in the trade 'passage money', this category of costs rose from approximately £5 per recruit in the early years of the labour trade to as much as £30 per recruit by the late 1880s.¹⁴ This dramatic rise was caused by many factors, not the least of which was the excess demand for labour in Queensland, which was exacerbated by the steadily decreasing supply of workers in the islands. This caused longer voyages by the recruiting ships which, by the latter 1880s, often returned to port with only partially fulfilled quotas. At the same time, the immigrants were able to capitalise on the diminished supply of labour in the islands by demanding higher trade or bonus payments, and the predominantly Islander ships' crews were able to manipulate their wages upwards for the same reason.¹⁵

In addition to the recruiting costs of new introductions, employers had to meet two other major liabilities, the cost of the passage of workers who wished to return home at the end of their agreements and Government capitation fees. The return passage charge rose from about £3.10.0. in 1868 to about £10 in 1889.¹⁶ Compulsory capitation fees were levied against the employers because, throughout the period of the labour trade, the Queensland Government refused to bear any of the costs of supervising the system. The compulsory fees, set at 10s per indentured labourer in 1871, had risen by 1884 to 60s per head.¹⁷ Intensified administration of the labour trade, in response to national and international humanitarian pressure on the Queensland Government, was responsible for this rise. For the same reason, Pacific Islander Hospitals were established at Mackay, Geraldton, Maryborough and Ingham between 1884 and 1890. To meet the cost of these institutions, planters in the relevant districts were compelled to pay an additional per capita levy of 10s per annum, a fee which rose to 20s in 1885.¹⁸

Rising wages further exacerbated the cost burden of Pacific Islander employers during this period. First contract workers were guaranteed a minimum wage of £6 per annum, but this figure, by the late 1880s, had been steadily manipulated upwards to an average of between £8 and £10 on most plantations, and some new introductions, possibly reindenture workers, were able to command as much as £15 per annum.¹⁹ The most dramatic wage increase, however, applied to time expired labour. Within this category of Pacific Island worker, wages varied, according to cyclical or seasonal characteristics, from as low as 5s per week to as high as 30s per week, in addition to the provision of accommodation and rations.²⁰ A survey of plantations and farms during the depression years of the late 1880s suggests that free labour was receiving wages of around 25s per week, even in such adverse times.²¹ The overall significance of these wages is not simply their

high rate compared with the first contract workers, but the increasing proportion of time expired labour in the plantation work-force through the 1880s. At the beginning of the decade, 'time expireds' comprised approximately 10 per cent²² of the workforce whereas by 1888 the numbers within the two categories of immigrant labour were about equal.²³

The important structural change within the industry's work-force derived from a decreasing supply of new recruits to the plantations against the continued expansion of cane acreage and the shortage of unskilled labour in Queensland. Planters were thereby forced to induce workers to re-engage at the end of their contracts in order to maintain the size of the plantations' labour supply. Despite the higher wages commanded, however, time expired labour was regarded as being more useful than first contract workers. Employers did not have the expense of passage money or capitation fees when they engaged free labour, their employment could be confined to the six months of the cropping season, and the experienced worker was more productive than the new introduction. As one contemporary explained, 'for the first twelve months, the South Sea Islander is of very little use and requires great care and consideration'.²⁴ By the late 1880s, the relevance of this factor was reinforced by increasing numbers of young or infirm workers being introduced into the labour force. At this stage one planter summed up the difficulties of importing new recruits as follows:²⁵

The class of Kanakas is not as good as it ought to be, nor can we get sufficient of them; the supply is too uncertain. The way in which they are recruited does not seem to be satisfactory. A great many of our boys are of poor physique and under-age; the consequence is that a great many of them die. Out of one lot of seventy-eight boys that we got last year, twenty-three were dead within ten months after they came. That, of course, is a very heavy loss to us. We lost their labour and what we had to pay for them in the beginning.

II

Faced with the crucial problem of rising labour costs, planters invoked a wide range of strategies to counteract the impact of this central constraint on profits. Recruiting costs were lowered by some employers through chartering or buying vessels in the labour trade to carry out their own recruiting and by passing the burden of some of the compulsory fees onto their workers.²⁶ It proved possible to lower wages during depressions. In 1874 and 1884 for example, wages were cut by 10 per cent, and workers were sacked.²⁷ In some areas, planters colluded to set a maximum price for labour rather than compete against one another.²⁸ Workers' subsistence costs proved to be another very flexible sphere of plantation overheads. Since the provision of clothing, accommodation, medical care and food did not directly affect the production process, planters cut down ruthlessly in this area.²⁹

In addition to manipulating their overheads downwards, planters tried to raise alternative supplies of labour. Aborigines were mobilised to a small

extent in the northerly sugar districts and laboured generally in clearing operations or minor field work tasks, but they did not prove to be a satisfactory source of labour. Forced out of gold-mining after 1875 by a series of restrictive laws, local Chinese workers sought employment on sugar plantations. But this category of labour proved very expensive to hire and following the enactment of anti-Chinese immigration laws, the number of Chinese available to the industry fell off dramatically. An expanding European immigrant population in Queensland during the 1880s led to the increased employment of skilled workers, but they commanded excessively high wages, up to £300 per annum in some cases. Unskilled white workers were employed in field and factory work, although at this level, wages were often little better than the earnings of the best-paid coloured labour. At the same time, these unskilled whites had the reputation amongst planters of being 'unreliable' because of their tendency to organise or abscond at will.

In addition to the varied forms of local labour employed on Queensland plantations, limited numbers of workers were imported from countries as diverse as India, Ceylon, Canton, Singapore, Java, Malaya, Germany, Scandinavia, Japan, Italy, Malta and Portugal. None of these overseas sources proved a serious alternative to Pacific Island labour. In the first place, the newly-imported workers proved unsatisfactory, for they absconded, went on strike, or simply refused to work on allotted tasks in response to the bad working conditions to which they were subject. Secondly, all attempts by the Queensland Government to formalise labour treaties with foreign governments failed, thereby cutting off countries such as India and some European centres, as lucrative sources of cheap labour.

Apart from attempts to alleviate their labour problems, planters were forced to adopt other strategies to make plantation production profitable. One of these, the manufacture of rum, to cut down on the wastage of molasses, was not an enduring practice. It required costly, skilled labour and machinery beyond the means of most small producers, and the demand for rough rums had collapsed by the mid-1890s, as the larger distillers had by that stage taken over the market. Some success was achieved through the introduction of new canes to the industry which were more disease-resistant and produced greater yields; and within the parameters of their limited finances, planters attempted to improve the technologies of their mill and cultivation processes. This latter range of strategies was, however, confined mainly to a limited number of big capitalists who entered the industry during the speculative phase. Other planters diversified into such products as brewer's crystals, fruit growing and even beef production.

Nevertheless, any success which planters achieved through their cost minimising strategies was challenged in 1884 by a crucial determinant of profitability which could not easily be manipulated, the falling international commodity price of sugar. In that year, it fell dramatically on the London market from 19s 0d per cwt to 13s 3d per cwt.³⁰ The immediate reasons for this lay with the burgeoning European beet-sugar industry. Following the blockade of French ports during the Napoleonic wars, Napoleon's scientists developed a technology for the manufacture of sugar based upon the beet

root. To encourage farmers to turn to this crop, the State subsidised the cultivation of sugar beet. As a result, the proportion of beet sugar to cane sugar on the international market rose from 7 per cent in 1840 to 50 per cent in 1880. During the 1880s this proportion increased further because the European market was flooded with cheap, prairie-produced American wheat. This forced European wheat-growers to turn to subsidised beet cultivation and a chaotic crisis of over-supply developed, resulting in the dumping of huge quantities of beet sugar on the British market. This in turn produced the dramatic fall in sugar prices which was to dominate the industry for the next thirty years.

This fall in price, plus the other cost factors already discussed, plunged the Queensland industry into a protracted depression, a plight which was further exacerbated by other factors. During the speculative phase, planters added huge tracts of land to their holdings. In the northern areas of the colony alone, more than one million acres of land were selected and another 250 000 acres were held in freehold, of which only 67 000 acres were under cultivation.³¹ This meant that the industry carried a heavy mortgage burden which, in addition to working expenses, was entirely chargeable to a small area of cultivated land. During the 1880s depression, the financial institutions aggravated this problem by increasing interest on outstanding loans and refusing further advances. In addition, the marketing system governing the disposal of sugar on Australian markets seriously disadvantaged Queensland producers. Just at the point in the harvesting season when planters disposed of the bulk of their sugars, the price of the commodity on the Sydney and Melbourne markets tended to drop. Middlemen were able to capitalise on this feature by purchasing sugar from planters at low prices and by holding onto it for disposal when the prices rose again.³² At the same time, a cartel arrangement between the two major sugar shippers passed high transport and insurance costs on to the Queensland producers.³³

III

The condition of rising costs against falling prices forced Queensland planters and the State to re-assess their strategies, for it became clear that the problems facing plantation owners were not temporary. In the widest terms, the crisis was rooted in the plantation system of production and its structural features of excessive labour costs and production inefficiency. To that extent, plantation production in Queensland had, by the late 1880s, approached its quietus, and the remedy was comprehensive structural change. To that end, the industry was reconstructed over the next twenty years on the principle of central milling and farm-based cane cultivation.

This system offered many advantages. Firstly, it proved possible under central milling to increase the productive capacity of mills and improve their technology, a factor which brought considerable economies of scale to the industry. At the same time a system of cane cultivation based on small farms considerably lowered labour costs. In the immediate changeover

period, for example, it was estimated that the labour necessary to cultivate a standard forty-acre farm was half the number of workers that the equivalent plantation acreage required.³⁴ It also obviated the extremely expensive item of supervision so necessary in plantation production. But while it is true that fundamental economic determinants forged the central milling system in Queensland, the political role of cane farmers cannot be ignored.

Cane farmers argued for a State-funded co-operative central milling system. These demands arose out of the subordinate role they held in the sugar industry, for the cane farmer was entirely dependent upon the mill owner to buy and crush his cane. This dependency was reinforced by the peculiar nature of sugar manufacture which demands that cane be crushed within twenty-four hours of harvesting. Because of transport limitations farmers *had* to dispose of their cane to the nearest miller. The consequent lack of competition between millers resulted in greatly deflated prices for farm-produced cane. Moreover, mill owners gave the top priority to their own plantation-cultivated cane in good years and frequently repudiated contracts for farm cane in bad years. Naturally, this state of affairs meant that farmers led a precarious existence and it produced a great deal of conflict between the two groups. Farmers believed that they would benefit by fair prices and reliable cane purchases in a co-operative central milling system.

In political terms the farmers' arguments had great appeal. With the rapid growth of towns, industry, and agriculture in Queensland between 1860 and 1890, political activity was split broadly between two camps. On the one hand conservative or bourgeois parties were dominated by big pastoralists, planters, city bankers and middlemen. Against these stood the working class and petit-bourgeois elements including shopkeepers, prospectors, small farmers and other small producers. At first this group was active under the mantle of liberal politics, but parts of it regrouped later into the Labor Party. In Queensland, the franchise was universal and by the late 1870s, the liberals controlled the colonial Government. Throughout the 1880s, the number of cane farmers steadily increased, a fact which was mirrored in the formation of Agricultural Associations distinctly serving farm interests. The emergence of farmers' pressure groups and a viable political party to serve those interests resulted in the establishment of the first co-operative central mills in Mackay in 1885. By the late 1880s, the political appeal of central mills was reinforced by the economic considerations which have already been outlined.

And it was not lost upon the State, that central milling was a system which stabilised the sugar industry's labour force. The reconstruction of the industry around small farms turned agricultural workers into farmers. Attracted by the opportunity to own land and acquire a stake in the profits of sugar production, the farmer became effectively tied to his occupation as a cane cultivator both by the obligation to pay off his newly acquired debts and the need to subsist. To that extent, the mills were guaranteed a reliable supply of cane and the industry was presented with an operable basis for its future development.

It was in the context of these circumstances that the Queensland Govern-

ment enacted *The Sugar Works Guarantee Act of 1893*,³⁵ which encouraged the co-operative manufacture of sugar by companies, the members of which undertook to grow specified areas of cane and shared in the profits of manufacture. With loan funds freely available from the State, companies of farmers were quickly established and, by 1894, thirteen co-operatives had been set up under the Act in the Moreton Bay, Burnett, Mackay, Bowen, Wide Bay and Cairns districts.

The reconstruction of the industry was achieved very rapidly. Between 1888 and 1905 the number of cane farmers in Queensland rose from about 230³⁶ to nearly 3500.³⁷ Concomitantly, there was a rapid decline in the number of plantations such that by 1905 there was a mere handful in operation, mainly in the most northerly districts of the state. Over the same period Queensland cane acreage tripled, and sugar output expanded at an even faster rate due to the increased efficiency of central milling.

Since the massed repatriation of Pacific Island labour took place at the point where plantation production had all but been supplanted by central milling, it is evident that reconstruction, was itself a crucial factor in the final abolition of the trade. The *raison d'être* of the trade was the supply of cheap labour for plantation production. When plantations passed, so did the need for the large scale importation of field labour. But to explain the decision solely in such terms would be to ignore the origins and role of important political determinants of the abolition.

IV

Until around 1890, unionists' opposition to cheap labour in Queensland had been confined politically and locally to specific industries within which the employment of cheap labour had posed a direct threat to the wage levels or job security of white workers.³⁸ The major opposition to the Chinese, for example, came from miners, shearers, seamen, and skilled workers such as those in the furniture trade.³⁹ In contrast, there was no movement aimed at ousting the Chinese from such pursuits as market gardening, tropical fruit growing, or service industries. In some sectors, a Chinese presence was positively encouraged.⁴⁰

Similarly, before the 1890s, worker opposition to Pacific Island labour in Queensland was small scale, sporadic, and confined to groups of workers adversely affected by the employment of immigrant labour. For the most part, organised opposition to the Islanders in Queensland was confined to periods of high unemployment in the sugar districts.⁴¹ Indeed, the absence of general working class opposition to the immigrants was a source of great irritation to the humanitarian groups who were opposed to the labour trade.⁴²

During the 1890s, however, the opposition of the labour movement to Pacific Islanders in Queensland became at once more organised, fervent and widespread, expressing itself at all levels of labour organisation. In 1890, the General Labourers Union of Mackay, the Amalgamated Shearers Union

and the Sydney Trades and Labour Council expressed their opposition to the cheap labour.⁴³ Similar sentiments even became incorporated into the constitutions of some unions.⁴⁴ During the same period, Queensland trade unions were organising politically, and moved towards the capture of political power in confrontation with the State and industry. Opposition to cheap labour, as one of many working-class demands, became incorporated into the platform of the early Labor Party.⁴⁵

As early as 1892, the question of Pacific Islander immigration had emerged as a clear issue in Queensland politics. Sparked off by the declaration by Premier S.W. Griffith in 1892,⁴⁶ that the introduction of indentured labour would continue for at least another ten years, the working-class opposition to the enabling act was extremely vigorous, resulting in the election of working-class members to the Queensland Parliament. By 1899, the Labor Party had enough members in the lower house to secure the overthrow of the Government and to form a ministry, the first (albeit short-lived) Labor Government in the world.

Through the Australian Labour Federation, and supported by liberals like Edmund Barton, who wanted to obtain the backing of the labour movement, working-class opposition to cheap labour in every form became an important issue in the arguments for a federated Australia. While it must be stressed that it was by no means the only factor in the movement for Federation, it is significant that the White Australia issue was a prime concern in the referendum on Federation held in Queensland in September 1899. Despite a solid 'No' vote in the south of the colony, the sway of 'Yes' votes in the northern districts, where coloured labour was concentrated, resulted in the affirmation of the referendum with a clear majority. In the following federal election, Queensland sent five out of its seven members to the new Parliament, avowed to support the White Australia policy.⁴⁷

But why, in stark contrast with its previous position on Pacific Island immigrants, did organised labour's antagonism to the labour trade become so concerted and effective after 1890? In answer to this question, the evidence suggests that the fervour, organisation, specific goals and expression of trade union opposition to Pacific Island workers, articulated directly with the transformation of the sugar industry from plantation production to the farm-based central-milling system.

During the era of plantation dominance, Pacific Islanders were employed almost exclusively as field workers in the cultivation of sugar cane. While the immigrants were confined to unskilled tasks and under the restrictive conditions of indentured labour, they posed no serious threat to the wages and conditions of white workers in the northern districts of Queensland. While their numbers remained few and their privileged position in the plantation's hierarchy was maintained, white workers absorbed the planters' ideology which stated, on the one hand, that hard labour in tropical conditions was harmful to whites, and on the other, that the employment of immigrants on menial tasks created jobs and elevated the position of white workers.⁴⁸

As the basis of sugar production changed during the 1890s, however, so

did the structure of immigrant labour employed in the industry. The dramatic increase in the number of cane farmers in this period was accompanied by an almost parallel rise in the number of employers of Pacific Island workers. While the population of Islanders remained relatively stable throughout the 1890s, the ratio of employers to Pacific Islanders rose from approximately 1:44 in 1892 to 1:7 in 1899.⁴⁹ These figures suggest a remarkable shift in the Islander workforce from plantation labour to farm work.

Just as significant was the change in the internal structure of Pacific Island labour. Whereas in 1888 the number of first contract workers and re-engagement or 'free' workers in the immigrant population were about equal, the proportion of new introductions comprised barely 20 per cent of the contracts entered into by 1898.⁵⁰ Because of their influence in the labour market, the remaining plantations monopolised the cheaper but diminishing proportion of new contract workers, leaving re-engagement labour to farm employment. As has already been suggested, the high wages which this latter category of workers commanded meant that their employment was increasingly confined to the peak period of the season.⁵¹ In the slack season, Pacific Islanders sought employment in other industries such as timber-cutting, fishing and contract fencing or, as it was called in Queensland, 'walked about' taking odd jobs when the need arose.

The transformation of Pacific Island labour from indentured plantation workers to the higher paid status of seasonal farm worker, in turn precipitated a new attitude on the part of the increasing numbers of white unionised workers in the north of Queensland, for the immigrants were no longer the 'generators' of employment but direct competitors with white workers for jobs, and potential strike breakers. In 1882, during the period of plantation dominance, a meeting of white workers at Mackay protested at the proposed introduction of coolies on the grounds that it was 'premature... there being sufficient Kanaka labour available for plantation work', and even suggested that more vessels be put into the labour trade.⁵² By 1895, *The Worker* complained bitterly that the unemployed in the sugar districts were offered 'wages and conditions on a par with those paid to inferior aliens'.⁵³

As part of this changing attitude on the part of the white workers, the predominant popular racial stereotype of the immigrants as expressed in the press, pamphlets, general literature and political rhetoric, underwent a remarkable change. Before 1890, such a worker was perceived largely as:

... a peaceable, law-abiding, kindly disposed savage, wonderfully responsive to any act of benevolence, suited to the work for which he was imported, moderately industrious, astonishingly faithful to those who gained his confidence and with no ambitions in regard to inter-marriage with the white race.⁵⁴

During the 1890s it emerged that the typical Islander was '... a pronounced blackguard—truculent, addicted to gambling and frequently to drink... (and a) great social menace'.⁵⁵

These views were not, as at least one writer has claimed, an accurate or real description of the so-called 'early' immigrant as against the 'late' ones,⁵⁶ but rather were ideas rooted firmly in the prevailing ideologies, inasmuch as they were historically specific ideas which justified, legitimised or ex-

plained a course of social or political action. The former stereotype was projected mainly by employers of Pacific Island labour, to legitimise the importation of cheap labour supplies.⁵⁷ The view of the immigrant as a 'social menace' derived from, and served the cause of, the white worker's opposition to the Islanders. The generally acknowledged predominance of one stereotype over another after 1890 simply reflects the increased fervour of working class antagonism to the workers and its expression through a growing range of publications which served the labour movement's cause.⁵⁸ Interestingly, the historically specific and ideological nature of their ideas was recognised by elements of the labour movement for, as *The Worker* observed at this time:⁵⁹

To despise a man on the basis of his skin is opposed to every principle of fraternalism, humanity and justice. Only we are entitled to safeguard our standards of social living . . . Coloured skins happen to coincide with low wages and still lower morality. When the coincidence no longer exists, the Chow and Jap will be welcome to our shores and we will fold the Polynesian to our bosoms.

Explantations which concentrate on the racist content of worker resistance to coloured labour or which see it simply as a defence against the potential lowering of wage levels, gloss over an equally important facet of the class conflict which this opposition represented.

In short, the employment of coloured labour in Australia was considered inimical to the very existence of the trade union movement. This view was bound up directly with the issues in the fierce conflicts between labour and capital during the 1890s which led to the formation of the political wing of the labour movement. In this period, the growing ranks of organised labour struggled to establish recognition of unionism against the concerted attempts of the state and industry to crush the fledgling unions.⁶⁰ To counter unionists' claims to the closed shop, union rates of pay, and a united labour movement, the employers invoked strategies which turned on the principle of freedom of contract, the importation of large numbers of workers to flood the labour market, the mobilisation of non-union labour and eventually, the outlawing of trade unions.⁶¹ In the context of this conflict, unionists believed that the importation of coloured labour was central to the employers' tactics.

In general terms, coloured labour was cheap, plentiful and, in the words of V.G. Childe, 'seemingly non unionisable'.⁶² Moreover, the immigrants were immutably associated with forms of unfree labour. With the exception of some types of apprenticeship indentures, the Australian trade union movement was implacably opposed to all forms of bonded or indentured labour. Contract labour was perceived to be a form of class oppression and, especially in the case of the notorious Masters and Servants Acts, an instrument designed to frustrate the development of unionism.⁶³ The connection between coloured workers and unfree labour was considered so close that in the constitutions of some unions, protests against bonded labour were included in the same clause as the expression of opposition to coloured labour.⁶⁴ One of the principal objects of the Queensland Workers Political

Association was the 'exclusion of coloured, Asiatic and contract of indentured labour'.⁶⁵ As the ditty which was published in *The Worker* proclaimed:

Its just as clear as fygers
 Sure as one and one make two
 Folks as make slaves of niggers
 Want to make slaves of you.⁶⁶

Of all the categories of coloured immigrant labour, Pacific Island labour in Queensland represented, par excellence, forms of unfree labour. In contrast, with say, Chinese immigrants, Pacific Island labour entered Queensland *only* under the contract of indenture. Even at the end of their agreements, the immigrants were obliged by law to re-engage under contracts of at least six months duration, and after 1884 this employment was confined exclusively to unskilled tasks in the sugar industry. For these reasons, working-class opposition to Pacific Islanders was as much a struggle to establish the integrity of the trade union movement as antagonism to the immigrants on the grounds that they were direct competitors in the labour market.

V

In addition to its structural and political underpinnings, subsequent economic factors contributed to the abolition of the labour trade. Throughout the 1890s and early 1900s the costs of Pacific Island labour continued to rise over the high levels of the late 1880s. Wages and subsistence overheads steadily increased, as did the costs of introduction. After 1893, the recruiters became increasingly dependent upon the Solomon Islands for labour supplies and this consistently involved long, costly recruiting voyages. Furthermore, in 1902, British administrators in the Solomon Islands began to levy heavy charges against the recruiters and imposed conditions on the ships which added an average of three weeks extra to each voyage.⁶⁷ The changing internal structure of Pacific Island labour in Queensland, which has already been discussed, carried with it increased wage costs.

At the same time, the supply of unskilled labour in Queensland was increasing throughout the period. Indeed, by 1906, the argument that Pacific Islanders were vital to the sugar industry because of a lack of local labour supplies, was no longer true. The evidence of a Royal Commission in that year amply demonstrated that there were more than adequate numbers of local workers to service the industry after the repatriation of the Islanders.⁶⁸

Another writer has suggested that the new Federal Government was anxious to dispose of the system because of its potential drain on State finances.⁶⁹ In 1887, the London Premiers' Conference agreed that the colonies should accept responsibility for part of the prime cost and maintenance of the Australian squadron. Since the squadron was engaged in duties related to the labour trade, the new colonial commitment represented a subsidy on the costs of recruiting Pacific Island labour for Queensland.

Abolishing the labour trade meant, therefore, a substantial reduction in state expenditure on policing the South West Pacific.

Commercial development in the South West Pacific also warranted the end of the Queensland labour trade. Anglo/Australian and other companies had, by the end of the 19th century, made substantial inroads in a wide range of trading, agricultural and mining activities in the region. It was argued that in abolishing the labour trade, a large, experienced labour force would be made available to these concerns for their future growth and development.⁷⁰ This was particularly important to the needs of settlers in the New Hebrides. Here, depopulation, restrictive legislation and fierce competition for workers between the Queensland and Fiji labour trade and French and German inter-island recruiters, meant that, by the turn of the century, commercial development in the group was severely hampered by inadequate local labour supplies.⁷¹ It was envisaged that Queensland repatriates would be accommodated into the New Hebridean economy in two ways. Firstly, it was suggested that 'respectable planters' be invited to inform the Resident Deputy Commissioner of their labour requirements and that he would direct the returned Islanders to the areas of greatest labour need.⁷² Secondly, 15 000 acres of land in the group were set aside to establish a 'farming settlement' so that the returned workers could engage in cash cropping and food production.⁷³ These proposals were designed specifically to promote and consolidate Anglo/Australian imperialism in the New Hebrides, but the argument was used also to defuse the humanitarian criticism that the deportation of Pacific Islanders from Queensland would deprive the workers of essential personal income.

CONCLUSION

Hitherto, the abolition of the Queensland labour trade has been attributed exclusively to political factors or to the rise of Australian racism. In contrast with the former works, this analysis has sought the explanation for abolition in the complex interplay of conflicts and change which took place in sections of the economy and society of colonial Queensland.

Fundamental to the analysis is the reconstruction of sugar production during the 1890s, on the foundation of farm-based central milling and the concomitant withering of the system of plantation production. This change, combined with an adequate supply of white labour in Queensland at the end of the century, supplanted the economic need for the importation of Pacific Island immigrants to work in the sugar industry. That is not to deny the role of white working-class opposition to the Islanders in the abolition of the system. On the contrary, the antagonism of the labour movement to Pacific Islanders emerged and developed as farms displaced plantations and as the immigrants were transformed from their status as indentured plantation workers into short-contract farm labourers. But working-class opposition to the Pacific Islanders did not arise only because the immigrants increasingly represented a threat to the conditions or job security of white

workers. Pacific Islanders were bonded workers and the emerging labour movement was resolutely opposed to unfree labour on the grounds that it was a form of production relation which threatened the growth and development of trade unions. Opposition to the Islanders, therefore, was part of the trade union movement's struggle to establish its integrity. The racist expression of the white workers' antagonism to the Islanders was ideological. By stereotyping the immigrant as a 'social menace', workers were invoking an idea which justified or legitimised the expulsion of Pacific Islanders from Queensland, and thereby the achievement of their immediate economic and political goals. Other, less significant, factors including the needs of Australian imperialism in the south-west Pacific had, by 1900, been added to the formidable grounds for the abolition of the Queensland labour trade.

The instructive lesson in this episode of Australian history is that no one element of the historical process can be isolated from the others and be ascribed as the exclusive cause of events. For in the last analysis it was the interrelationship and interdependence of the economic, structural, ideological and political components which forged the final downfall of the labour trade. There is much in Australian historiography which requires re-evaluation in these terms, and the plethora of writing on the history of Australian racism might be a good place to begin.

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- 65 J.T. Sutcliffe, *op.cit.*, p. 141.
- 66 *The Worker*, 30 March 1901.
- 67 Ev. Caulfield, *Q.P.P.*, 1906, II, 497, Qs. 1204-9; Ev. Reynolds, *ibid.*, Qs. 1549-1562.
- 68 See Report of the Sugar Industry Labour Commission, *Q.P.P.*, 1906, II, 460-1; Ev. Wilson, *ibid.*, 468, Qs 43-4; Ev. Ellis, *ibid.*, 737, Qs. 9383-9.
- 69 S. Rosewarne, 'Racism in Colonial Queensland', *Intervention* 7, 1976, 70.
- 70 Rider to the Majority Report of the Sugar Industry Labour Commission by C.F. Nielson, *Q.P.P.*, 1906, III, 466.
- 71 Secretary's memorandum to the Prime Minister on the Pacific Islands, 1904, in Prime Minister's Department, Volume of Correspondence and Papers Relating to External Affairs, 'Australia and the Pacific Islands (General) 1901-1915', Australian Archives, C.R.S., A. 1108, Volume 61.
- 72 *ibid.*, and Secretary of State for the Colonies to Governor General (Australia), 27 May 1903; Prime Minister to Governor General (Australia), 28 July 1903, General Correspondence file, Australian Archives, C.R.S., A. 1., 03/3957.
- 73 The schemes were meant to articulate with preferential treatment on Australian markets for New Hebrides products, see Burns Philp to McMaster, 23 June 1906; *ibid.*, 03/4593 and Paton to Prime Minister, 25 September 1905, *ibid.*, 05/6194.

3

PLENTY MORE LITTLE BROWN MAN! PEARLSHELLING AND WHITE AUSTRALIA IN QUEENSLAND 1901-18.

LORRAINE PHILIPPS

*Wearer of pearls in your necklace, comfort yourself if you can.
These are the risks of the pearling—these are the ways of Japan;
‘Plenty more Japanee diver, plenty more little brown man!’*

A.B. Paterson, *The Pearl Diver*

STUDY OF THE origins and development of the White Australia policy has been a recurring theme of Australian historical research. Little remains to be learnt of the developments in the late nineteenth and early twentieth centuries that culminated in the passage of legislation to restrict the immigration of Chinese and other Asiatic races, and for the deportation of one of the country's largest immigrant, coloured populations—the Kanakas. Nevertheless, there have been few attempts to analyse the implications of the adoption and legislative enforcement of the principles of White Australia in one industry which, at the turn of the century, contained the largest concentration of Asian immigrants in Australia, namely the pearlshelling industry.

At the same time as the Queensland sugar industry was being alternatively compelled or encouraged to adapt itself to white labour, arrangements were made to permit the continued employment of coloured labour on the shelling fleets. Under paragraph (j) of Clause 4, the shelling industry was exempted from the main provisions of the Immigration Restriction Act of 1901. In the years immediately following, a permit system was introduced whereby the shellers were granted continued access to the Asian labour market. The pearlshelling industry thus came to enjoy the unique privilege of becoming Australia's sole exception to the policy of excluding indentured coloured labour.

Existing explanations of these developments are not entirely satisfactory. In general, they tend to illustrate briefly some aspects of the industry's weak economic position that militated against the employment of well-paid European labour. These factors no doubt help to explain the failure of the many attempts to effect a transition to white labour, but they are not suf-

ficient to account for the industry's continued ability to employ cheap, coloured labour at a time when all other industries were being denied this concession. Attempts have been made to account for this situation in terms of the superior lobbying ability of the shellers,¹ and as the result of diplomatic pressures exerted by Japan on behalf of her overseas nationals in the industry, leading to the granting of special concessions for this particular group of coloured immigrants,² but neither of these arguments is well substantiated.

Moreover, some writers appear to have completely misinterpreted the special arrangements made for the shelling industry. They seem to assume implicitly or explicitly (in the same way as did many Labor politicians of the period) that any departure from a programme of total exclusion of coloured aliens necessarily entailed a departure from the aims of White Australia. It is for this reason that Dr Beckett argues that 'the Torres Strait pearlers . . . along with their colleagues in Western Australia and Port Darwin, remained exempt from the provisions of the White Australia policy'.³ A close examination of the reasons for the permit system and the way in which it was established reveals, to the contrary, that these arrangements were fully in accord with that policy's objectives.

This essay offers a reinterpretation of the shelling industry's experience during the years in which White Australia became a dominant consideration in national affairs, with particular reference to the Queensland branch of the industry. A brief examination of the origins of the industry's dependence on cheap, coloured labour forms the background to the analysis of its subsequent experience in attempting to come to terms with repeated demands for the industry's conversion to European labour. These demands were connected with a competitive struggle within the industry in the late 1890s, in which the dominant capitalist interests were able to exploit successfully the prevalent anti-alien feeling of the country to win protection from the competition of an alien capitalist class. The failure of the many attempts by Labor politicians to extend the ambit of this campaign so as to exclude coloured labour as well, will be examined in the light of the industry's many structural weaknesses that necessitated continued access to a low-wage labour force. Economic considerations are also central to an understanding of the industry's subsequent exemption from the provisions of the Immigration Restriction Act and to the institution of the permit system, but it is important to note that the policy objectives of White Australia strongly influenced administrative developments with respect to this industry. The economic, technical and political obstacles to the reconstruction of the Queensland pearlshelling industry, that was attempted in 1908, are then examined; while the final part of the essay deals with the last major attempt to convert the industry to white labour, in 1911-16.

1868-1900

Queensland pearlshell was first exploited commercially in 1868 on the Warrior Islands in the Torres Strait. Within weeks of the initial venture,

shore stations, financed by Sydney firms and employing local native labour, dotted the islands of the Torres Strait in search of the valuable gold-lipped shell that had hitherto been in world-wide shortage. In the ensuing decades, favourable conditions of demand and supply encouraged rapid expansion, and Queensland pearlshelling quickly assumed importance both within the local economy and the international market—Queensland supplied approximately 20 per cent of total world supplies of shell.⁴ By the 1890s, however, years of unchecked development, coupled with the sudden collapse of the European market for shell, upon which Queensland shellers were almost completely dependent, exposed many structural weaknesses within the industry. By that time neither geographic expansion nor technological improvement could solve the problem of declining yields. As a luxury commodity, subject to fashion whims and with numerous cheap substitutes, shell was subject to considerable market manipulation of prices that local shellers could do little to control, given the need to remain competitive with other cheap labour sources. Wage costs thus became the principal constraint on profits and it came to be felt that the industry's survival depended on continued access to a low-wage labour force.

Although instability in production and prices later assumed an important bearing on the industry's dependence on cheap coloured labour, this was not the case initially. The practice of obtaining local natives—principally Torres Strait and Pacific Islanders—to do the work of diving largely reflected the fact that they represented the only available labour force with the necessary skills for swimming-diving operations. With the advent of dress-diving in 1874, these Islanders were quickly relegated to subordinate positions as crew members of boats manned by white, South Sea or Norfolk Island divers. Despite high earnings, few of the newcomers remained long in the difficult and dangerous work of diving and from the 1880s onwards, shellers increasingly turned towards the fishing populations of Asia for the recruitment of divers and tenders. The Filipinos, Manillamen and Malays were not only more capable and reliable than their predecessors but were willing to work for lower wages than were paid to whites, and in consequence the few remaining white divers, and later the Norfolk and Pacific Islanders, were supplanted by Asiatics.

During the 1890s keen competition associated with the industry's economic crisis prompted further wage reductions, and the Malay divers were in turn rapidly displaced by poorly paid Japanese indentured workers. Indeed, by 1897 the Japanese already held a position of numerical dominance in shelling, and their number at Thursday Island, for the first time, far outstripped that of the resident white population.⁵ Furthermore, with the aid of the shore-station owners, the Japanese had acquired an interest (by rent and ownership) in approximately one-third of the total Queensland shelling fleet in the five years since their arrival.⁶

Given the industry's unstable economic position, a section of the larger companies (the floating-station owners, who each operated a fleet of luggers serviced by a schooner at sea) felt that this competition could not be tolerated and quickly took the initiative in demanding discriminatory legislation

against the Japanese. Following a Royal Commission in 1897, in which the fleet owners exercised a decisive influence, Queensland enacted legislation which both prohibited boat-renting and restricted the issue of all further boat licences issued under the Pearlshell Act to British subjects.⁷ The floating-station owners thus succeeded not only in eliminating the threat of Japanese ownership but also in dealing a serious blow to their shore-station competitors. More importantly, they had skilfully manipulated the opportunity afforded by the Royal Commission to present a strong case for the industry's continued access to cheap Asian labour, which could soon provide the basis for the industry's exemption from the provisions of the proposed Immigration Restriction Act. However, if the more orthodox exponents of the White Australia policy were sometimes embarrassed by the shellers' success in confining the principle of protection to the propertied class, the latter clearly underestimated the determination with which Labor politicians, both state and federal, would fight to ensure the exclusion of all coloured peoples. What had seemed a complete victory for the floating-station owners in 1899 thus proved to be merely the first episode in a bitter twenty-year struggle to bring the pearlshelling industry completely within the ambit of White Australia.

1901-05

It has been said that the desire to deal effectively with the threat of Asian immigration was the most important single influence upon the achievement of Federation in 1901. As all parties and all classes were agreed that the time had come for concerted action on the principle of White Australia, the new Federal Parliament lost no time in introducing legislation to prohibit further Asian immigration. This is not the place for a detailed analysis of the origins and development of the Immigration Restriction Act of 1901. Suffice it to say that diplomatic pressures exerted by the British government and, to some extent, Japan, coupled with the knowledge of Queensland's unfortunate experiences in attempting to pursue an independent immigration policy in the late 1890s,⁸ culminated in the Commonwealth's acceptance of a legislative model that would ensure the desired restriction without provoking diplomatic repercussions. Hence under Section 3 of the Immigration Restriction Act, any person who failed to pass a dictation test of fifty words in a European language could be declared a prohibited immigrant.⁹ One might expect that the passage of this Act would have doomed the pearlshelling industry to extinction. On the contrary, the very industry that contained the largest concentration of Asian immigrants soon achieved a unique position in Australian affairs by becoming the sole exception to the policy of excluding indentured coloured labour.

The pearlshelling industry received very little attention during the Immigration debates despite its obvious commitment to the employment of coloured labour. Indeed, most of the details had already been worked out when Parliament was first asked to consider exempting the industry from the provisions of the Bill. Speaking on behalf of the shelling interests in

Western Australia, Mahon presented a strong case for the industry's continued access to the Asian labour market. He argued that it could not provide attractive returns for either the white divers themselves or those who offered them employment. There could be no real question of Asian competition with whites once it was recognised that the industry could not be carried on at all without coloured labour. Nor was there much danger of 'racial contamination'. By the nature of their work the coloured men engaged in the industry spent very little time on shore, while regulations compelling the repatriation of indentured labour meant that few, if any, would become permanent residents of Australia. More importantly, as operations were largely conducted outside the three mile limit, it was feared that a new base would be established in Dutch colonial territory, beyond Australian control, and the benefits of revenue and export income would be lost to the Commonwealth forever.¹⁰

Arrangements had already been made to allow for the temporary exemption from the Bill's provisions of the master and crew of any vessel during its stay in port.¹¹ Although this was originally intended to meet the needs of foreign rather than domestic shipping, the shellers soon became aware of the loophole, and this left only the diver's position in doubt. Mahon suggested that the difficulty could be overcome if this clause were altered so as to include any 'other persons engaged in the vessel'¹² but in doing so he opened up a contentious debate between those who were prepared to make some concessions and those who demanded rigid enforcement of the Bill's provisions. Opposition members immediately attacked the amendment on the grounds that it would create a dangerous leakage 'through which a stream will ultimately pour', whilst providing sugar-growers with an unfortunate precedent for the maintenance of kanaka labour. As there seemed no way to placate these fears, Mahon eventually decided to withdraw the amendment in the hope that those responsible for the Act's administration would not willingly destroy the industry by a too literal interpretation of its provisions.¹³

Shellers were less than satisfied with this uncertain arrangement and lost no time in informing Parliament of their plans to place their vessels under foreign flag and to work outside the three mile limit if they were not granted full and permanent exemption.¹⁴ In the following months Prime Minister Barton received numerous deputations representing shelling interests at Thursday Island and Port Darwin—some declaring their intention to establish a new base of operations in the Dutch port of Merauke in New Guinea and others insisting that this was merely a threat which could never be carried out. Unable to ascertain the truth of these conflicting allegations and anxious to prevent the fishery from falling into the hands of a foreign power, Barton decided in January 1902 that for three months, short exemptions should be granted to divers during their vessels' stay in port, pending the outcome of a special inquiry which could ascertain the true facts of the situation.¹⁵

News of his action provoked sharp criticism in the House of Representatives, particularly from Labor quarters. While some objected to the incon-

sistencies that had arisen between the treatment of the shelling and sugar industries, both of which professed a need for coloured labour, Labor members decried the undermining of an Act, which had received universal support, for the advantage of a 'few monopolists who happen to control the pearl fishing industry'.¹⁶ Bamford argued that not only was Merauke a bluff but white labour was both available in sufficient quantities and capable of profitable employment in shelling. He even went so far as to suggest that at one time the industry had been almost solely conducted by white labour, which was patently untrue. Watson urged that the country would be well rid of the unpatriotic shellers, and his supporters added that an industry which could not be carried on without the 'infernal system of "truck"' and serious loss of life should be afforded no special treatment.¹⁷ Barton remained unmoved.

In April 1902, Judge Dashwood was appointed to investigate conditions in the shelling industry at Thursday Island and Port Darwin, particularly with a view to ascertaining the practicability of conducting the industry with white labour and the suitability of Merauke as an alternative base of operations. Though conducted in some haste, Dashwood's inquiry was a little more impartial than the previous Commission, with labour spokesmen being given their first opportunity to present their position officially. Evidence was also taken from a number of local employers not connected with the industry, but the fleet owners continued to exercise a dominant influence.

The old hostility between the floating stations and the shore owners remained, but news of the inquiry had prompted attempts to achieve a uniform stand on the question of coloured labour to which all parties would pledge themselves before the Commission. According to F. Hodel, manager of one of the largest remaining shore stations and a firm devotee of White Australia, a meeting of the major floating-station interests had been held at the offices of Burns, Philp & Co. a few days before Dashwood's arrival, at which they agreed to give their support for the employment of white divers if the shore owners and labour spokesmen would recommend the continued employment of coloured crews. A deputation was appointed to wait upon Messrs Hodel and Gummow, representing the shore interests, and R. Cohen and C. Ashford, representing the Labor Party. However, as regulations restricting the number of licensed boats to those currently engaged in the industry had been passed in the previous year,¹⁸ Hodel suggested that it was useless to recommend white divers until licences for new boats were again thrown open to the public. As the floating-station representatives would not agree to permit new competition, the conference eventually terminated without any understanding having been reached.¹⁹ In the absence of a compromise all parties were left free to lobby as they desired, and the fleet owners now seemed determined to use their numbers to press for total exemption from the Immigration Restriction Act.

The Queensland shelling industry had undergone little change since the Hamilton Royal Commission of 1897. If the question of foreign ownership no longer remained contentious, the industry was still heavily dependent on Asian labour. Of the 255 divers employed in 1902 there were 190 Japanese

and only one European. All but 42 of the 1773 men employed as crew were coloured.²¹ Shell prices had made some improvement in recent years (see Table I), but due to a surplus of labour the benefits had not been passed on to the employees in the form of wages.²² Despite some efforts to prevent depletion of the beds, the average catch per boat had declined markedly and divers were being driven further and further afield in their search for shell. It was estimated that approximately five-sixths of the shell was currently obtained outside the three mile limit.²³ In addition, the enthusiastic hopes of the previous decade for a re-establishment of the industry on the basis of cultivation of shell by white lessees were now nowhere to be found; James Clark had long since abandoned his early experiments in this field.

With these facts in mind, Dashwood attempted to gauge the probable results for the industry of an enforced conversion to white labour. Like Barton, he received highly conflicting reports. Of the nineteen witnesses examined at Thursday Island, nine men (including all eight floating-station representatives) suggested that the industry could not be carried on without coloured divers and crew. Only a matter of days after they had given Hodel private assurances that they were willing to support white divers, the fleet owners insisted that there was not sufficient profit in the industry to employ European labour. In order to attract white divers they would be compelled to grant wage increases of £5 to £15 per ton, as well as making costly improvements to the scale of rations and the accommodation supplied on the boats, which would leave no margin for profit. They pointed to the industry's history of failure with white labour as evidence of its unsuitability and added that the hard work and the oppressive climate made the life extremely unattractive to whites, whilst their employment under such conditions created disciplinary problems that were not experienced with coloured workers.²⁴ A further five witnesses accepted these arguments in relation to crews but felt that the industry could well afford to pay white divers and tenders, even at substantially higher rates.²⁵

Hodel led the opposition stand with a call for complete conversion to white labour. He presented the Commission with a detailed plan under which a gradual conversion to white labour could be effected without serious dislocation to the industry. Under Hodel's scheme both divers and tenders would require licences, which would in future be restricted to Europeans. Restrictions forbidding the issue of further boat licences would be immediately withdrawn so as to give white divers some opportunity of obtaining their own boats. A bonus of £10 per ton on shell raised by vessels carrying white divers and tenders would be made available in the first three years of the scheme; thereafter it would be granted only to vessels entirely manned by white labour.²⁶ This scheme already had the support of Cohen, the local secretary of the Waterside Workers Union, and a number of local merchants and labourers, many of whom believed that the shellers would have no difficulty in obtaining sufficient white labour from the south.²⁷

Hodel's plan was supported by figures which purported to show the feasibility of employing white labour. He estimated that the monthly running cost of a boat with white tender (£6), four white crew at £5 each (£20),

provisions (£5), dresses and upkeep etc. (£5), would be £36 per month, or £432 per year. To this he added £40 for depreciation, taking the total expenses to £472. With a catch of four tons of shell, valued at £165 per ton, and £50 worth of pearls, receipts per boat would total £710, leaving a surplus of £238 from which to pay divers' wages and extract profits.²⁸ But if these figures are adjusted in line with the actual value of pearlshell in 1902 of £139 per ton, receipts per boat would only amount to £606. If we then deduct running costs, as stated above, and diver's wages at £30 per ton (which was quoted by many as the minimum wage acceptable to whites) the profit margin would be very small indeed.

In the absence of any satisfactory information as regards actual profits,²⁹ Dashwood concluded that the industry probably 'could afford to employ white divers at a remuneration up to £30 a ton—if the present price of shell continues'³⁰ but that it was not practicable to employ white crews. Not only were the conditions of employment such as to make the life extremely unattractive to whites, but the associated costs would be prohibitive:³¹

With a substantial advance on the current rate of wages, an improved scale of provisions and better accommodation, it is possible, notwithstanding the nature of the life, men might be obtained to undertake the work; but, with such an increase in the working expenses, I am satisfied, after a very careful consideration of the figures, that the trade could not be profitably carried on.

Dashwood was much more definite on the question of Merauke. Although the floating-station owners were 'quite satisfied as to its suitability and practicability as a base for the shelling industry . . . [to which they would go] to prevent ruin, which the proposed Immigration Restriction Act would effect',³² Dashwood could see 'little prospect indeed of the removal of any part of the pearlshelling trade from Thursday Island to that Settlement'.³³ Merauke was without fresh water, communications or modern banking facilities. It possessed a bar harbour that could only be entered at certain states of the tide; Dashwood himself experienced a twenty-four hour delay before his steam launch could safely enter the port. In addition, the settlement was 140 miles distant from the centre of the pearling grounds and the pearling luggers would have to beat up that whole distance against a strong south-east wind. In view of these difficulties he felt it would be more expensive to work from Merauke with the cheapest of coloured labour than to remain at Thursday Island under existing arrangements.³⁴

At the same time as Dashwood was making his inquiries, M. Warton, the Resident Magistrate at Broome, was conducting a similar investigation into the shelling trade in the north-west of Australia. It is not necessary to detail the whole of Warton's findings but, as they were equally significant from the point of view of future Commonwealth action, a few points are worth noting. Warton concluded that 'the general effect of regulations making the use of white labour only compulsory would be to make it impossible for the British vessels to carry on the trade at a profit at all'.³⁵ His estimates showed that the cost of production in ordinary seasons and for average takes would be greater than the value of the article produced. For example, Warton estimated that to raise four tons of pearlshell, valued at

£150 per ton (the current average), would cost £127 per ton using coloured labour and £191 per ton using white labour.³⁶ Warton also felt that great difficulty would be experienced in getting a sufficient number of suitable whites to work the trade, particularly as the Immigration Restriction Act prevented the importation of persons—even British or European—under arrangement (such as indenture) for manual labour. This meant that it was not possible to augment the local labour supply with British and Scandinavian seamen as was sometimes suggested. Finally, in addition to the climatic and physical objections to employing white labour, Warton felt that the industry was almost certain to fall into the hands of foreigners if the restrictive regulations were enforced, as the British vessels to which they would alone apply would be severely handicapped.³⁷

As both Commissioners were agreed that the shelling industry could not possibly be continued on the basis of white labour alone, steps were immediately taken to introduce a more permanent arrangement for the importation of alien divers and crew. Late in 1902 a new system was introduced under which Asians with approved passports were granted admission for short terms under certain strict conditions. They could not enter the Commonwealth except for the purpose of being signed on; they could not engage in shore work not connected with the luggers and they were to be repatriated, at their employer's expense, as soon as their contracts expired. Responsibility for compliance with these regulations rested with the shellers, who were required to enter a bond of £100 for each man imported.³⁸ Three years later the Senate approved a resolution for the cessation of the importation of coloured labour for the shelling industry, 'except to replace existing crews, but so as not to increase the number of Asiatics now employed'.³⁹ The Department of External Affairs adopted this principle as a general guide for issuing permits and this system has remained the basis of Asian employment in the shelling industry until this day.

Clearly, the special treatment granted to the shelling industry under the Immigration Restriction Act owed much to economic considerations. Detailed investigations had shown that a complete conversion to white labour was not economically viable. Evidence which purported to show the feasibility of employing white divers and tenders was based exclusively on the inflated shell prices of the early twentieth century—prices which proved to be an unreliable guide to future returns. As a luxury commodity subject to changing fashions, shell continued to fluctuate dramatically in value. Experience had shown that even the highest rates of remuneration that could be offered were not sufficient to attract an appropriate supply of white labour. In addition, neither state nor federal governments were prepared to commit themselves to an expensive bonus system to assist a transition to white labour, given the industry's limited revenue earnings and the unknown but potentially high cost of such a scheme.⁴⁰ Finally, despite Dashwood's assurances, fears remained that the imposition of restrictive labour regulations would lead to the establishment of a foreign base of operations and the consequent loss of a valuable domestic industry.⁴¹

These considerations remained the basis of the shelling industry's continued

exemption from the provisions of the Immigration Restriction Act, but it is important to note that once it was recognised that the industry could not afford to employ white crews, arguments of a more racist character were often used to supplement the economic objections to employing white labour. This is particularly evident in the report presented by N. Lockyer to the Minister for External Affairs in August 1904. Lockyer's investigations into the shelling trade at Thursday Island reiterated exactly the earlier findings of Judge Dashwood on the question of the industry's ability to employ European labour. But though he believed that shellers could well afford to engage white divers and tenders, Lockyer concluded that 'the labour in connexion with the pearling industry, whether that of diver, tender or crew, *is not suitable for white men*'⁴² (emphasis added).

This decision was based on two considerations. Firstly, the nature of the occupation was such as to cause grave injury to health and risk to life. The more serious results of diving, even in shallow water, included interference with circulation, general strain, rheumatism, deafness and troubles with urinary organs. Medical officers stated that 'the average life of usefulness of a diver may safely be taken as eight years'.⁴³ In all, 56 divers had died from accidents resulting from their calling between 1898 and 1903, an average of nearly 3 per cent of the number of divers employed.⁴⁴ Lockyer had no desire to subject white men to such dangers. In addition, he expressed concern over the 'constant and inevitable association' of white divers and tenders with the alien crews if only a partial transition to white labour was effected. Lockyer felt that the cramped conditions on the luggers would make it almost impossible for the white men to lead a separate existence, 'and if this feature is not an insurmountable hindrance, it is certainly a source of discomfort'.⁴⁵ Hence he concluded that no amount of remuneration would be 'sufficient to recompense a white man for the risk he may incur to his life, the injury to his health and the monotonous and unsatisfactory conditions under which he will have to live'.⁴⁶

It is thus evident that administrative developments with respect to the shelling industry strongly reflected the policy objectives of White Australia. The question of alien competition with white labour in shelling activities did not really exist once it was recognised that the industry could not be carried on at all without coloured labour. The permit system, under which Asians obtained entry to work in shelling, had been designed in such a way as to confine their employment to this industry alone; under no circumstances were they to compete with whites for work in other sections of the economy. The same system, with its stringent conditions of repatriation and segregation, ensured the least possible danger of 'racial contamination'. It further permitted the settlement and development of the northern parts of the continent by coloured workers, under white supervision, and the supposed creation of a barrier against potential aggressors. Finally, these arrangements reflected the feeling that, in the case of shelling, the most effective way to protect the living standards of Australian workers was to permit the continued employment of coloured aliens in this difficult and dangerous occupation. It remained to convince those who equated a programme of

total alien exclusion with a successful White Australia policy that the overall aims of that policy were not endangered by the employment of coloured labour on the shelling fleets.

1906-10

The achievements of the Queensland shellers during the previous decade were quite remarkable. In an atmosphere of intense anti-coloured feeling, they succeeded in the 1890s in gaining protection from the competition of an alien capitalist class whilst, at the same time, securing unrestricted access to cheap Asian labour. With the passing of the Immigration Restriction Act in 1901 it seemed certain that the industry would be forced to abandon its current labour practices, but within a few years the shellers not only convinced the Commonwealth that a transition to white labour could not be effected but won approval for the continued introduction of indentured coloured labour. This was a concession of which no other Australian industry could boast. Initial satisfaction with this solution to the industry's problems soon turned to dismay, however, as the shellers realised that whilst the employment of cheap, coloured labour had made it possible to continue shelling profitably in the short term, in the long term it tended to obscure deep-seated structural problems within the industry, which by 1908 could no longer be ignored.

In that year, alarm over the serious diminution in the take of shell and in the price obtainable for the diminished output prompted many of those engaged in the fishery to appeal again to the government for assistance. A number of factors had contributed to this development. The high price demanded for pearlshell in the early part of the century had encouraged the use of numerous cheap substitutes, with the result that shell prices dropped considerably.⁴⁷ Although, in 1905, an association of Queensland, West Australian and Aru Island shellers had been formed in London, in an effort to secure a regional reserve price, it proved unable to advance returns much beyond the cost of production.⁴⁸ During the same period the price of pearls fell to such an extent that they were almost unsaleable. In addition, despite some improvement in both the total take of shell and the average catch per boat in 1907, the bulk of evidence seemed to indicate that the fishing grounds had been seriously depleted in recent years. There were many causes. Shellers had shown a general disregard of the possibility of the beds becoming exhausted, since the prevailing belief was that the supply of pearlshell was inexhaustible. The introduction of floating stations had permitted more thorough and systematic working of the beds but there had been no attempt to enforce the periodic closure of the fishing grounds, with the object of maintaining a steady supply of shell. Furthermore, apart from a brief interlude in the early 1890s, the number of vessels engaged in the industry had tended to be excessive. Finally, the reduction in the size limit of exportable shell from six to five inches in 1896 was regarded by many as a retrograde step, as the weight of scientific evidence seemed to indicate that the smaller shell had not yet reached maturity.⁴⁹ Clearly some immediate

action was needed to place the industry on a more permanent and profitable basis.

TABLE I: TOTAL AND AVERAGE TAKE OF SHELL PER BOAT EMPLOYED

Year	No. of boats	Total take Tons	Av. take per boat			Av. value per ton			Total value £
			Tons	cwt	qrs	£	s	d	
1890	92	632	6	17	1	102	0	0	64 666
1891	126	769	6	2	0	102	0	0	78 841
1892	190	931	4	18	0	97	0	0	92 598
1893	210	1214	5	15	2	87	0	0	106 564
1894	203	1190	5	17	1	79	0	0	94 350
1895	204	873	4	5	3	80	0	0	71 708
1896	207	1089	5	4	3	87	0	0	94 836
1897	223	1223	5	14	2	103	0	0	126 042
1898	307	1061	3	10	0	103	0	0	109 401
1899	319	1200	3	15	1	109	0	0	130 105
1900	341	1060	3	2	1	110	10	0	125 294
1901	331	867	2	15	3	119	0	0	105 403
1902	276	910	3	5	3	139	0	0	—
1903	311	908	3	0	1	179	0	0	—
1904	353	777	2	4	0	138	10	0	107 434
1905	348	527	1	10	0	118	10	0	62 386
1906	125	444	3	11	0	110	0	0	47 061
1907	135	567	4	4	0	122	9	0	70 513
1908	129	414	3	4	1	140	0	0	57 960
1909	135	501	3	14	1	140	0	0	70 140
1910	141	571	4	1	0	145	0	0	82 795
1911	136	444	3	5	1	185	0	0	82 410

Note: The average take for 1905 is of no value, as 109 boats left for the Aru Islands at different times during the year. Column 4 is also slightly misleading as the average value per ton has been taken as the declared value to the Customs at the time of shipment, although in reality the shell often realised considerably more in the London market.

Source: R. C. 1908, pp. XLIX, 274; *Evidence, R. C. 1913-16*, p. 192.

Early in 1908 the Sub-Collector of Customs at Thursday Island was instructed not to issue any further licences under the Pearlshell Act after 31 May,⁵⁰ but the State government seemed reluctant to go any further. However, it responded to a suggestion by Douglas, the member for Cook, for a full investigation into the industry, with a view to subsequent action.⁵¹ Accordingly a Royal Commission, chaired by Captain John Mackay, was appointed in May 1908 to inquire into the workings of the industry; H. Douglas and G. Bennett assisted Mackay. Although the principal tasks of the Commission were to find the best means of working the industry in such a way as to avoid depletion and make it permanent and regular, and to re-examine the possibility of scientific cultivation of the pearl-shell, it was also asked to report on the possibility of 'encouraging white divers with a view to their gradual substitution for Aliens in that capacity'.⁵²

There were a number of reasons for this re-opening of the long debate on the question of the industry's ability to employ European labour. Firstly, criticism of the industry's dependence on indentured, coloured labour continued to be heard from those who believed that the practice violated the

principle of White Australia. Secondly, the discovery that the Japanese alone (791 persons) outnumbered Europeans (656 persons) in the Prince of Wales group in 1907 was noted with alarm at a time when Australian publicists were writing of the undefended and unpopulated north as the Achilles heel of the continent. In the words of the Commissioners: 'Steps should be taken to reduce this vast preponderance of aliens, and to have this outpost guarded by a hardy population of loyal and patriotic Australians'.⁵³

In addition to these defence considerations it was considered desirable, for economic reasons, to conserve the industry for Australians. The Commissioners observed the air of general depression in European retail stores at Thursday Island, caused, it was said, by the Asiatic employees' tendency to import their own national foods and to send or take their earnings to their own countries upon repatriation.⁵⁴ At the same time, shellers expressed concern over the current Japanese monopoly in diving (164 of the 165 divers' licences were held by Japanese in 1908), particularly given their recent experience of Japanese strike action to obtain improved pay and conditions.⁵⁵ Finally, as the Commission was charged with the task of devising a comprehensive scheme for the reconstruction of the industry, it was hoped that this could provide a new basis for European employment in shelling, and render obsolete many of the old objections to white labour. The Commissioners' task was thus to develop a scheme which 'will render the prosecution of the industry more attractive and congenial to our own race and to Europeans generally, and will conserve for them an avenue of productive enterprise which is now largely despoiled by Japanese and other alien races'.⁵⁶

The report they eventually tabled in August 1908 was based on the most detailed and thorough investigation of the Queensland shelling industry ever conducted. In all, 282 pages of evidence were taken from 78 witnesses in twelve different centres, stretching from Brisbane to Darnley Island. Although the great majority of the witnesses examined were directly interested in one or both of the pearlshell and *bêche-de-mer* industries, evidence was also taken from a number of local merchants, government officials, Japanese spokesmen, missionaries and journalists. Despite the exhaustive nature of the evidence collected, it is not necessary to analyse it in any great detail. Not only did it contain little that had not already been amply considered in previous inquiries but it brought no response at all from the State or Federal Parliaments.

It need only be noted that by this time almost all those connected with the industry were agreed on the need for some form of state assistance to place the industry on a more secure footing, even though there was substantial disagreement as to the detail. Suggestions ranged from the payment of a bonus of £100 per ton on shell raised by white labour to the straight-out purchase of the entire shelling fleet by the government and the subsequent resale of the boats to small, white entrepreneurs.⁵⁷ At the same time, if the owners were now generally willing to admit the 'desirability' of employing white labour, the great majority still believed that no amount of assistance

could alter the industry's dependence on cheap, coloured labour. With over forty years experience in the industry, Frank Jardine declared that 'there is as much chance of the pearl-shell industry being worked by white labour as there is of the Queensland Parliament being run by a black man'.⁵⁸

In order to understand the failure of this fourth attempt to effect a transition to white labour, it is necessary to examine the Commissioners' three-part programme of reconstruction. As the main cause of the industry's depression seemed to lie in the unchecked depletion of the beds, the Commissioners recommended immediate remedial action to ensure a stable and permanent supply of shell. To prevent further depletion of the beds, it was suggested that there should be no increase in the number of vessels licensed for shelling unless investigation could show that the supply of pearlshell had been augmented. But to avoid creating a monopoly in favour of existing owners, and to encourage men of small means into the industry, it was recommended that no individual or company be allowed to obtain a beneficial interest in more than five boats, or obtain more than five licences.⁵⁹ The number of divers' licences could exceed the number of boat licences, to meet cases of sickness and accident, but by no more than 25 per cent. The re-introduction of the floating-station system was to be rendered impossible by refusing to license any vessel over 25 tons.⁶⁰ Deep-water areas in the vicinity of Darnley and Mount Adolphus Islands, which were considered important areas of spat dissemination, were to be permanently closed and all remaining beds were to be periodically rested. Any such closures were to be rigidly enforced by patrolling officers with full powers to deal with poachers and trespassers. Finally, to increase the number of oysters of a reproductive age, the six-inch size limit was to be restored.⁶¹

In addition to these measures to prevent depletion of the natural supply of pearlshell, the Commission recommended a programme to encourage the scientific cultivation of the pearl oyster. Experiments begun in February 1908 had offered some hope that cultivation in shallow waters would become the system of the future. But as the expense, and the uncertainty of success, had hitherto deterred private individuals from engaging in the experiment, it was suggested that the government immediately secure the services of a thoroughly competent marine biologist, who could research all aspects of artificial cultivation. Students could then receive instruction in the new technology at a School of Marine Biology, under his direction. Portions of the foreshores in the Torres Strait and along the east coast as far south as Cape Melville could be reserved for the purpose of cultivation by Europeans and thrown open to selection under lease, on liberal terms as regards rental, and for periods of not less than twenty-one years. Statutory reform was also recommended to remove existing difficulties in relation to trespass and larceny on cultivation sites.⁶²

It was felt that these two programmes would provide a satisfactory basis for the re-introduction of white divers in the Torres Strait. The first would ensure a stable and permanent supply of shell that would enable white divers to secure a take sufficient to make reasonable earnings.⁶³ Those who obtained their own boats, under the new licence regulations, could expect

to make at least £200 per annum, exclusive of what they might realise on pearls. In addition, cultivation in shallow water would eliminate much of the tedium and many of the financial and physical risks of shelling, and promote the settlement and development of the islands by white men working from the shore.⁶⁴

In the light of these possibilities the Commissioners proposed that the present restriction on the number of divers' licences be removed so far as to permit of licences being granted to white men, but that no further licences be issued to alien divers. Over a period of five years a sufficient number of new recruits should pass through a newly established Training School for White Divers to meet all the industry's labour requirements. In the event of a shortage of Australian recruits, efforts could be made to attract British, Scandinavian and New Zealand seamen. While it was hoped that these measures would facilitate the introduction of white divers and tenders, the Commissioners recognised that the current rate of crew wages of £1 to £2 a month was unlikely to be increased, or to attract sufficient white labour to man the boats. Hence they could see no reason why the Papuans and Torres Strait Islanders, who had already demonstrated their 'special aptitudes in the handling of the vessels' and who possessed 'certain natural rights of employment' in the fisheries, should not be 'continued in these capacities'.⁶⁵

It is perhaps not surprising that no action was taken to enforce these recommendations. Although a Bill on these lines was prepared by the Queensland Treasury department, it was never submitted to parliament. William Fowles, Secretary to the Treasury, cited the cost and the belief that it was 'not possible to carry out some of the recommendations' as the main reasons for not proceeding with the Bill.⁶⁶ Given the industry's limited contribution to government revenue, it was considered unwise to pour state funds into research and training programmes that offered no certainty of success, or to lay out sums for the purchase of a patrolling fleet to enforce the closure of fishing grounds in areas where the state's jurisdiction was open to considerable dispute. Nor had the Commissioners been able to suggest any practical course to encourage new entrants into the industry, once the limit on the number of boat licences was enforced. Existing owners of more than five boats could not be expected to part with their property so easily, especially since experience had shown that the smaller operations were the most uneconomic.⁶⁸ Furthermore, whilst the rejection of these recommendations to prevent the depletion, and encourage the cultivation, of pearlshell, seriously undermined the basis for a reintroduction of white divers, Mackay later discovered that there was no basis for the belief that a sufficient supply of white divers could be obtained from the fishing population of northern Europe.⁶⁹

I found that the suggestion for these men to come out to the Torres Strait to get pearlshell was treated with scorn, because the men there were earning much better money under far more comfortable conditions.

Quite apart from these problems, a final stumbling block to the reconstruction of the Queensland shelling industry lay in the division of state/federal powers. As the Commonwealth controlled the importation of

labour, while the State Government held all powers with respect to licences, regulations in regard to fishing grounds and other matters of a local character, there was some difficulty in co-ordinating legislation affecting the industry. At least one sheller suggested that a further reason for the Queensland government's reluctance to reform the shelling industry lay in the growing uncertainty over the possibility of the federal government assuming full control in this area. Indeed, in 1913 it was recommended to the federal Labor government that the Queensland government cede to the Commonwealth the whole of the islands and reefs of the Torres Strait, under Section 111 of the Constitution.⁷⁰

By the adoption of this course the industry would at once be removed from the Queensland government control, and the Commonwealth Parliament would become responsible to Australia for the initiation, and the subsequent administration, of the policy calculated to place an important Australian industry entirely in the hands of our own people.

The Commonwealth in fact resumed responsibility for the future direction of the Queensland shelling industry. Despite overwhelming evidence to the effect that the employment of cheap, coloured labour was essential to maintain the industry in its present economic structure—a structure which could not be altered without considerable financial and technical assistance—the incoming federal Labor government of 1910 lost no time in taking 'some definite steps . . . to give the benefit of labour in that industry to people of our own race'.⁷¹ It remains only to analyse its failure to do so.

1911-18

In April 1910, Queensland shellers had no special reason to fear that the new Commonwealth Labor government would be any more willing, or able, to divest the industry of its coloured labour force than were its predecessors. Some years earlier, the Labor Party had responded favourably to Senator Staniforth Smith's suggestion that 'our "White Australia" policy is not endangered by the employment of coloured crews on the pearling fleets; provided the Acts and regulations in existence are firmly and strictly administered',⁷² by officially declaring its intention not to alter existing arrangements.⁷³ In addition, numerous investigations into the industry had achieved little more than to demonstrate the many practical problems in the way of such an attempt. Queensland shellers were thus shocked to learn, in January 1911, of the Minister for External Affairs' decision not to issue any further permits for the introduction of Asian labour after 31 December 1912, except in cases where the diver and tender of a boat were European.⁷⁴ Shellers protested bitterly, but succeeded only in obtaining an extension to December 1913, and again to December 1914, in order that the government might have the benefit of a further report on the industry.⁷⁵ On the occasion of this inquiry some of the most tireless critics of coloured labour were to learn that the achievement of the aims of White Australia did not necessarily depend on the blanket exclusion of all coloured aliens.

It is not difficult to explain the Labor Party's change of attitude towards

the shelling industry. As Professor Yarwood has noted, the Parliamentary Labor Party had always represented Australian political opinion on the question of White Australia 'in its most emphatic and uncompromising form'. When out of office, 'they probed administrative deficiencies and drew attention to loopholes in the law through which a number of Asians had gained admission'.⁷⁶ For ten years, sections of the party had constantly questioned the sincerity and efficiency of the administration that permitted the continued exemption of coloured labour for the shelling fleets.⁷⁷ By 1910, they had managed to convince the party's leaders that as long as permits for coloured labour continued to be granted, it would not be possible for white men to gain control of the industry. It is also probable that the recent boom in the shelling industry encouraged those who sought a transition to white labour to believe that it was now quite possible to implement their plans.

Between 1908 and 1911, European demand for shell improved to such an extent that the average price of shell rose from £140 per ton to £185 per ton. Although most shellers stated that their profit rate in recent years was approximately 10 per cent,⁷⁸ official estimates showed that the percentage of profit in the total value of shell raised at Thursday Island rose from 12.1 per cent in 1908 to 34.7 per cent in 1911. Due to the tight labour market,⁷⁹ most employees received some benefit from these improvements. Divers currently received a standard 'lay' of £85 per ton, with additional bonuses for larger takes and clean shell.⁸⁰ Tenders averaged £48 per annum and crew wages varied from 30 shillings to 50 shillings a month, depending on the man's country of origin.⁸¹

TABLE II: VALUE PROFIT AND EXPENSES OF SHELL PRODUCTION

<i>Year</i>	<i>Total value of shell</i> £	<i>Total expenses</i> £	<i>Profit</i> £	<i>Percentage of profit</i> £
1907	69 429	64 630	4 799	6.8
1908	57 960	50 918	7 042	12.1
1909	70 140	58 688	11 452	16.3
1910	82 795	65 048	17 747	21.4
1911	82 140	53 655	28 485	34.7

Source: Evidence, R.C. 1913-16, p. 192.

Nevertheless, the many recent investigations into the industry and the longstanding threat of legislative change had given rise to a great deal of uncertainty and unrest on the part of the shellers, which affected the industry adversely. A small group of shellers had taken plant worth approximately £80 000 and probably a further capital of £20 000, away from Thursday Island in 1905 to engage in fishing in foreign waters.⁸² In 1907, business confidence was at its lowest ebb for over a decade and was only just beginning to recover when news reached Thursday Island of the government's

plans to alter drastically the permit system. In the circumstances, shellers were not only reluctant to inject new capital into the industry, but many abandoned their usual practice of giving extended orders for shelling equipment, in the belief that adverse legislation would soon bring the industry to a halt and leave them with large stocks of unsaleable equipment.⁸³

In view of these difficulties, the Torres Strait Pearl-Shellers' Association appealed to the Commonwealth in November 1910, and again in February 1911, for a more moderate approach to the whole labour question. They stressed the disruptive impact of 'immediate substantial changes' and suggested an alternative scheme whereby the Commonwealth would provide a bonus of £25 per ton to white divers as well as assistance with the establishment of a training school for white divers and the recruitment of European labour. When these proposals, and subsequent appeals to the state government for assistance to avert 'the downfall of this port', were ignored,⁸⁴ the shellers could do little more than await the opportunity of a fifth Royal Commission to repeat their former arguments.

They did not wait long. In April 1912, Prime Minister Andrew Fisher appointed a six-man Commission to investigate conditions in the shelling industry throughout the Commonwealth, particularly with a view to ascertaining the best means to encourage the employment of white labour on the boats. F. W. Bamford, one of the most outspoken critics of the industry's use of indentured, coloured labour, was given the task of Chairman. Initial hopes for a speedy solution to the industry's problems were, however, soon destroyed by the frequent changes of government and the outbreak of world war. As the recommendations of the Progress Report presented in October 1913 were subsequently reversed in the Final Report of July 1916, it will be useful to analyse them separately.

The initial results of this investigation were perhaps not unexpected. Of the 48 witnesses examined by 1913, most of whom were Queenslanders, only 4 favoured the unconditional reintroduction of white labour; 10 witnesses felt that it could be achieved with some form of state assistance; 19 witnesses were either opposed to the idea in principle or felt that it was totally impractical, and the remaining 15 witnesses expressed no opinion on the subject. Few of their arguments had not been heard before.

Although Cohen, the local secretary of the Waterside Workers Union, enthusiastically asserted that 'white divers and tenders are both able and competent, and are easily procurable for the industry . . . we number a good few divers and tenders amongst our members',⁸⁵ close questioning by the Commissioners revealed that he knew of only two white men who were actually available to replace the several hundred alien divers, if permits were suddenly stopped. Furthermore, a number of recent appeals for trained white labour, widely advertised in the southern states and in New Zealand, had not resulted in a single new recruit for the industry. Shellers recognised that part of the problem lay in the ready availability of 'more attractive and congenial work on land for any of our people who may be seeking employment'.⁸⁶ Indeed in 1910, the Government Resident at Thursday Island, Mr Milman, concluded that 'owing to the hardships of life on board these

small boats . . . no white men worth their salt will be procurable to work on these frail and most uncomfortable vessels'.⁸⁷

Recent experience with white labour tended to confirm this belief. One sheller who had employed 3 different white divers in 1911 found that, at the end of their terms, their combined take was only slightly above the individual takes of some of his Japanese divers. As this sheller was forced to write off bad debts totalling £332 in respect of the three white divers, he was extremely reluctant to continue his experiments with European labour.⁸⁸

In addition to the problems of the general non-availability of trained white labour and the unsatisfactory performance that was typical of the industry's few white recruits, shellers continued to stress the economic obstacles to the introduction of European labour. Under no circumstances could the industry afford to employ white crews at the suggested rate of £7 10s a month—the rate of wages paid to seamen on the coastal steamers.⁸⁹ Nor could shellers guarantee that the high rate of wages currently paid to divers would be maintained in future years, given their inability to control price fluctuations. As Joseph Mitchell, the local manager of Burns, Philp & Co., put it:⁹⁰

. . . the cost of production, on the average, would exceed the earning power. It would not be right, in forming an estimate, to have regard only to the return in respect of one or two years. High prices might prevail for a year or two, but speculators in London manipulate the market and secure, at their pleasure, high prices or low prices.

At the same time, government authorities still had no power to prevent the loss of the greater part of the trade to foreign vessels working outside the three mile limit, if the restrictive regulations were enforced.

While the government should have already been aware of most of these problems, it had not yet heard a great deal about the issue which eventually became the most decisive factor in the whole debate, i.e. the extraordinary human cost involved in shelling. As steady depletion of the shell forced divers into deeper and deeper water to maintain their output, the risks and the death-toll mounted.⁹¹ Between 1906 and 1911, diving accidents in the Torres Strait claimed 72 lives.⁹² To put this into perspective, whilst the general death rate in Queensland remained at approximately 1 per cent per annum,⁹³ the death-rate amongst Torres Strait divers rose from nearly 3 per cent in 1903 to a little over 11 per cent in 1911.⁹⁴ One company that engaged exclusively in deep water diving lost 7 of its 26 divers in 1911, or approximately 27 per cent.⁹⁵ Divers' paralysis continued to be the major cause of death, but the recently-introduced practice of suspending the diver in tow lines while the boat drifted with the tide, instead of the diver searching on foot for the increasingly scarce deposits of shell, led to a sharp increase in the number of accidents resulting from fouled lines and broken air-pipes. It is also worth noting that a further 50 divers (and an unknown number of crew members) died from beri-beri in the six-year period 1906-11.⁹⁶ As boat provisions rarely contained the fresh fruit and vegetables essential to combat this vitamin deficiency disease, these deaths were also, in a sense, work-related.

These figures only touch the surface of the divers' problems. G. Bennett, a member of the 1908 Royal Commission, later wrote that:⁹⁷

. . . the limit of a pearlshell divers' working life is from five to seven years, and then he too often retires with a legacy of paralysis, rheumatism, or pulmonary disease which materially shortens his life, and too often leaves him a mental and physical wreck.

Nor could divers expect to obtain any financial compensation for their injuries. Although shellers were generally careful to insure themselves against the loss of their boats, not one of their employees was covered under the Queensland Workmens' Compensation Act or the Commonwealth Seamen's Compensation Act.⁹⁸

In a nation instilled with the importance of White Australia 'as a necessary condition of a high standard of living for the working classes . . . but (where) the promise and the material well-being were reserved for white men',⁹⁹ there could only be one response to this situation. To use the words of a local Customs official:¹⁰⁰

I should not like to see white men entering an industry in connexion with which the death-rate is so frightfully high . . . Such a high death-rate as that to which I have referred as relating to coloured divers would be cruel in the case of white men.

Shellers could not stress too strongly their belief that it was 'inadvisable to send white men to the depths that a Japanese will go'.¹⁰¹ Reginald Hockings stated:¹⁰²

The high rate of mortality is one of the reasons why I am not in favour of forcing white divers into the industry . . . but if it be the will of the people that more whites shall enter this industry, let it be determined that they should engage in work other than diving; let them become boat-owners, men in charge, tenders or managers.

Lest any doubts remain as to whether these men were motivated by humanitarian rather than racist considerations, it is worth quoting a final excerpt from the evidence:¹⁰³

Senator Givens: If the life is so awfully bad, and the hardships so great, would it be any more Christian to subject the coloured races to it than to subject the white race?

John Mackay: To the natives I speak of, the sea is their playground.

Givens: But diving . . . does not suggest much of a playground?

Mackay: . . . the Japanese is a fatalist, and does not care.

The determination of the original team of Commissioners to abolish the importation of indentured, coloured labour initially blinded them to the significance of these remarks. Indeed, the recommendations of the Progress Report suggest that the Commissioners not only ignored the greater part of the evidence they had collected, but that they had learnt nothing from the shelving of Mackay's earlier report. Despite the obvious difficulty, if not impossibility, of implementing Mackay's 'programme of reconstruction' (difficulties which Bamford had been well informed about), Bamford's first set of recommendations repeated verbatim the first part of Mackay's

programme, dealing with the preservation of the beds, and largely reiterated parts two and three, dealing with cultivation and the introduction of European labour. Recognising that the Commonwealth did not have the power to implement most of these proposals, he added only a recommendation for the cession of the Torres Strait to the Commonwealth (referred to earlier)—a proposal which no-one outside the Commission seriously entertained.¹⁰⁴

The real reasons for the non-implementation of these recommendations do not bear repeating. This scheme to encourage a transition to white labour was already sufficiently bankrupt to invite rejection before Parliament was suddenly thrown headlong into preparations for war. The collapse of the European market for shell at the outbreak of the war, and the consequent complete disorganisation of the Australian shelling industry, did however result in a decision to suspend the investigation until the termination of hostilities. In the meantime, the Government extended the time during which permits for the introduction of Asian labour might be issued, making the issue permissible up to 30 June 1918, after which date permits for Asian labour were only to be granted to shellers who employed European divers and tenders.

This determination created much alarm amongst those engaged in the industry, and representations were made to the Minister for External Affairs to the effect that the shellers were so deeply interested in the question of indentured labour, that general relief would be felt if it were at once decided whether or not the Government intended to adhere to its decision in regard to the issue of permits. In the light of this demand, and as the industry had regained some of its former buoyancy by April 1916, the Commission was instructed to resume its inquiries and furnish a Final Report, as originally designed. Three months later, the new team of Commissioners tabled the report which finally closed this long and contentious debate.¹⁰⁵

Since presenting the Progress Report, the opinion of the Commissioners had undergone a change of considerable importance, particularly in regard to the labour question. Having carefully weighed the evidence and noted the conditions under which the industry was conducted, they decided that 'diving for shell is not an occupation which our workers should be encouraged to undertake'.¹⁰⁶ This decision was based on a number of considerations.

A recent experiment, in which nine white divers and three white tenders were brought to Western Australia under twelve-month agreements, had proved a dismal failure. Although these men were all competent divers, having been recruited from the British Admiralty, they were not successful in obtaining shell. The result of this small experiment with white labour was that one diver died from paralysis, another was badly paralysed and the contracts of the remaining divers were broken by mutual consent. In the circumstances, the Commissioners were at last inclined to accept the shellers' claims that white divers 'were not possessed of some special faculty which enabled the Asiatic diver to discover shell on the ocean bottom'.¹⁰⁷

By 1916, the Commission had also come to recognise the constraints

imposed by the industry's dependence on an overseas market. In a situation where shell prices could not be controlled locally and where there was a very real danger of competition from cheap substitutes, it was essential to minimize production costs, and hence the labour costs which were the principal component. Any increase in the rate of wages, with a view to attracting white labour, would thus be potentially fatal to the industry. Only by subsidizing the industry by means of a bonus could the wages and conditions be raised sufficiently high to permit the employment of Europeans, but despite the success that had attended the granting of a bonus or bounty for white-grown sugar, the Commission could not support a similar arrangement for the shelling industry.¹⁰⁸ Indeed it could see no analogy between the conditions under which the two industries were prosecuted.

Unlike the case of sugar, which was a basic commodity, the demand for pearlshell fluctuated in accordance with the caprice of fashion in a luxury market that was largely controlled by a handful of speculators, with the result that shell prices often bore no relation to the cost of production. At the same time, the non-existence of a local market for shell meant that it was not possible to finance the cost of a bounty out of revenue collected from excise duties imposed on locally-consumed shell, as had been done in the case of sugar. Furthermore, labour conditions in the two industries were entirely different. The men engaged in the Queensland sugar industry enjoyed social conditions that were quite impossible to reproduce in the shelling industry. The living conditions of the sugar workers were controlled by Act of Parliament; their pay was fixed by a Wages Board and their working conditions defended by a powerful union. It must also be recognised that, unlike the shelling industry, European labour was always available and offering for work in the cane-fields, although for a time it had not been acceptable because of its high cost as compared with South Sea Islanders.¹⁰⁹

A recent paper by A.A. Graves suggests that the changeover from plantations to farm-based central milling that began in the mid-1890s, and the consequent displacement of the Kanaka labour force by a white population, was the direct result of an economic reconstruction that 'was forced on the Queensland sugar industry by its inability to cope with rising costs in the face of falling sugar prices'.¹¹⁰ The conditions forced on the planters by the Kanaka labour Acts raised the cost of indentured Kanaka labour by more than 50 per cent between 1883 and 1889,¹¹¹ with the result that the plantation system became much less profitable than before. In the case of shelling, the industry could not survive without continued access to cheap, coloured labour. Moreover, quite apart from economic and technological constraints, Queensland shellers did not have the political weight, nor their industry the economic significance, to demand the high level of financial assistance required to reconstruct the industry on the basis of small-scale operations by white owner-divers.

As a result, the Government was left with only two options in regard to this industry, in terms of the practical application of the White Australia policy. It could either prohibit the entry of coloured aliens altogether, or it could continue to control and regulate the introduction of a limited supply

of coloured labour, through the mechanism of the permit system, in a manner consistent with the aims of White Australia. The first choice would almost certainly have resulted in the destruction of a local industry which, if not large, at least generated a modest revenue and export income.

The second arrangement, and the one that was adopted by Parliament,¹¹² had much more to recommend it. It entailed no disruption to the utilization of valuable Australian resources, whilst it facilitated the existence of an industry that maintained a European population in centres where no other industry was likely to develop.¹¹³ Controls built into the permit system denied Asians the right to compete with whites for work outside the shelling industry, and hence removed the threat of economic competition that might result in the deterioration of the pay and working conditions of Australians. The same system, with its stringent conditions of segregation and repatriation, ensured the least possible danger of 'racial contamination'. Experience had also shown that the presence of large numbers of coloured people in the shelling districts had not had 'a degrading effect on the white section of the community'.¹¹⁴ There had been no upsurge in the consumption of liquor and opiates, or in the level of theft, vice and lawlessness.¹¹⁵ Finally, the adoption of this course was consistent with the belief that, in the case of the shelling industry, the most effective way to protect the living standards of Australian workers was to permit the continued employment of coloured aliens in this unhealthy and unrewarding occupation. To use the Commissioners' words:¹¹⁶

The life is not a desirable one, and the risks are great, as proved by the abnormal death-rate amongst divers and try divers. The work is arduous, the hours long, and the remuneration quite inadequate. Living space is cramped, the food wholly preserved . . . and the life incompatible with that a European is entitled to live.

Australia was thus satisfactorily assured that the economic, social, racial and military aims of the 'White Australia policy will be neither weakened nor imperilled by allowing the pearlshelling industry to continue as at present conducted'.¹¹⁷ Apart from the years 1942-52, when hostilities resulted in the exclusion of Japanese divers, there has been no significant alteration to the permit system that was developed in 1905 to allow the controlled introduction, employment and repatriation of a stable and permanent supply of Asian labour for the shelling fleets.

Conclusion

In all, there were six separate attempts to effect a transition to white labour in the Queensland shelling industry between 1897 and 1916. That none of these attempts was successful must be attributed primarily to the industry's unsound economic position. Chronic overproduction coupled with technological constraints served only to reinforce the industry's tendency towards periodic crisis as prices fluctuated dramatically in accordance with fashion whims and the availability of cheap substitutes in an overseas luxury market. Keen competition made it essential to restrict new

entrants to the industry, particularly small European boat-owners, while white labour was further discouraged by the need to reduce wage costs to a minimum in this labour-intensive industry. These problems were compounded by the state and federal governments' refusal to provide the financial and technical assistance required to place the industry on a more secure footing. Continued access to cheap, coloured labour was thus essential to the industry's survival but this solution to the industry's problems did not become acceptable until Parliament had received the strongest assurances that it would entail no threat to the achievement of the aims of the White Australia policy. The exclusionist approach so prevalent in other industries proved unacceptable and unnecessary in the case of the pearlshelling industry.

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- 8 A. Yarwood, *op.cit.*, pp. 15-18; M. Willard, *History of the White Australia Policy to 1920*, Melbourne, 1923, p. 121.
- 9 No. 17 of 1901, Clause (a) of Section 3. In 1905 this clause was altered to read 'fifty words in any prescribed language'.
- 10 *Commonwealth Debates*, House of Reps., 1 October 1901, p. 5373. Queensland's jurisdiction in territorial waters, i.e. 3 miles from the Queensland coast and 3 miles from any island within the Barrier, was complete but in the case of extra-territorial waters its jurisdiction was limited to British ships only.
- 11 See paragraph (j) of Clause 4. *Comm. Debates*, House of Reps., 27 September 1901, p. 5313.
- 12 *Comm. Debates*, House of Reps., 1 October 1901, p. 5374.
- 13 *ibid.*, pp. 5376-82.
- 14 *ibid.*, 3 October 1901, p. 5583.
- 15 *ibid.*, 23 April 1902, p. 11898.
- 16 *ibid.*, pp. 11896, 11901-4.
- 17 *ibid.*, pp. 11893-904. Between 1 January 1896 and 1 October 1897, 41 Torres Strait divers died as the result of accidents and divers' paralysis. *R.C. 1897*, p. xxxvi.
- 18 Following pressure from local residents these restrictions were removed in 1903. *R.C. 1908*, p. 28.
- 19 'Inquiry into the Pearlshelling Industry', *Commonwealth Parliamentary Papers*, 1901-2, II, pp. 22-3. Referred to below as Dashwood Inquiry, 1901-2.
- 20 *ibid.*, p. 4.
- 21 *ibid.*
- 22 Divers were paid 1s a month (to bind them on articles) and a lay of £20 to £25 per ton, depending on their ability; tenders received from £4 to £4 10s and crew members from £2 to £2 10s a month. Wages were being held down by an influx of Kanakas from the southern plantations, who sought crew work as a means of avoiding deportation. *ibid.*, pp. 5, 67.

- 23 *ibid.*, p. 5.
- 24 *ibid.*, pp. 46-57, 63-4.
- 25 *ibid.*, pp. 58-62, 73-4.
- 26 *ibid.*, pp. 22-68.
- 27 *ibid.*, pp. 20, 72.
- 28 *ibid.*, pp. 21-2.
- 29 Two witnesses stated that their profits were about six per cent on invested capital; *ibid.*, pp. 10, 21, 62.
- 30 *ibid.*, p. 12.
- 31 *ibid.*, p. 11. All 11 witnesses questioned at Port Darwin insisted that the industry would be destroyed if the coloured labour force on which they had always exclusively relied was compelled to depart.
- 32 *ibid.*, p. 15.
- 33 *ibid.*, p. 13.
- 34 *ibid.*, pp. 13, 22, 69.
- 35 'Report on the Pearl-Shelling Industry in North-West Australia', *Commonwealth Parliamentary Papers*, 1901-2, II, 43, p. 11.
- 36 *ibid.*, p. 15. These estimates were made on the basis of a lay of £22 per ton and £2 per month for coloured divers and a lay of £30 per ton for white divers. White tender at £9 per month. Four crew at £7 each.
- 37 *ibid.*, pp. 9-11.
- 38 *Comm. Debates*, House of Reps., 10 October 1902, p. 16736; *Comm. Debates*, Senate, 2 November 1905, p. 4465; J. Bach, *loc.cit.*, pp. 205-6. The bond was later altered to a maximum of £1000 per employer.
- 39 *Comm. Debates*, Senate, 30 November 1905, p. 6043.
- 40 *ibid.*, p. 6047.
- 41 *ibid.*, p. 6051. In 1905 a fleet of 109 boats left Thursday Island and established a new base of operations in the Dutch Aru Islands but the move was largely unsuccessful.
- 42 'Report by Mr N.C. Lockyer Respecting the Employment of White Labour in the Pearling Industry', August 1904, reprinted in 'Minutes of Evidence of the Progress Report of the Royal Commission on the Pearl-Shelling Industry', *Commonwealth Parliamentary Papers*, 1913, III, 56, p. 191.
- 43 *ibid.*, p. 190.
- 44 *ibid.*
- 45 *ibid.*, p. 191.
- 46 *ibid.*
- 47 Trochas shell could be obtained for £15-16 per ton at a time when pearl-shell averaged £180 per ton. *R.C. 1908*, p. 31.
- 48 *ibid.*, pp. 95, 117; Burns, Philp & Co. Ltd, Minute Book No. 3, 9 February 1905, 16 January 1906.
- 49 *R.C. 1908*, p. Lii.
- 50 *ibid.*, p. 85.
- 51 *Queensland Parliamentary Debates*, Leg. Assem., 14 April 1908, p. 872.
- 52 *R.C. 1908*, p. 1.
- 53 *ibid.*, p. Lxi.
- 54 In the 10 years up to June 1908, a total of £93 315 was remitted from Thursday Island to Japan (*ibid.*, p. 277). In addition, all indentured Papuans were required to be paid off in Daru, on the termination of their contracts (*ibid.*, p. 37).
- 55 *ibid.*, pp. Lviii, 265.
- 56 *ibid.*, p. 1.
- 57 *ibid.*, pp. 5, 72, 136-7.
- 58 *ibid.*, p. 230.
- 59 In 1906 the average number of vessels per owner was over eighteen. *ibid.*, p: Lv.
- 60 The floating station system had been abandoned in 1905.
- 61 *R.C. 1908*, pp. Liii-Lvii, Lxxv.
- 62 *ibid.*, pp. Lvii-Lxi, Lxxvi.
- 63 Divers' earnings currently averaged £120 to £140 a year but it was stated that divers who did not get 3½ tons of shell ended the year in debt (*ibid.*, p. 93).
- 64 *ibid.*, p. Lviii.
- 65 *ibid.*, pp. Lxi-Lxx, Lxxvi-Lxxvii.
- 66 'Minutes of Evidence of the Progress Report of the Royal Commission on the Pearl-Shelling Industry', *Commonwealth Parliamentary Papers*, 1913, III, 56, p. 162. Referred to below as *Evidence, R.C. 1913-16*.
- 67 Between 1902 and 1908 the gross revenue collected at Thursday Island fell from £13 220 to £6 028, *ibid.*, p. 37.

- 68 *ibid.*, pp. 164, 176.
- 69 *ibid.*, p. 176.
- 70 'Progress Report of the Royal Commission on the Pearl-Shelling Industry', *Comm. Parliamentary Papers*, 1913, III, 54, p. xi. Referred to below as *Progress Report, R.C. 1913-16*.
- 71 *Evidence, R.C., 1913-16*, p. 182.
- 72 *Comm. Debates*, Senate, 2 November 1905, p. 4467.
- 73 For policy of the Labor government in 1904, see *ibid.*, p. 4464.
- 74 *Evidence, R.C. 1913-16*, p. 182.
- 75 *Progress Report, R.C. 1913-16*, p. vii.
- 76 A.T. Yarwood, *op.cit.*, pp. 22, 152.
- 77 Question of McDonald (Labor), *Comm. Debates*, House of Reps., 18 April 1902, pp. 11, 843-4; motion by Bamford (Labor), *ibid.*, pp. 11, 893-917; question of Mann (Labor), *Queensland Parliamentary Debates*, Leg. Assem., 5 November 1909, p. 54.
- 78 *Evidence, R.C. 1913-16*, pp. 47, 66, 78, 107.
- 79 In 1912 the Papuan government ordered the cessation of the recruitment of Papuan crews. Shellers attempted to obtain Filipinos instead but found that all available labour in the Philippines was being directed towards the sugar plantations in Hawaii. As the number of permits for Japanese was limited, the Malaysian labour market was the only other avenue still open to shellers but recent experiences left them reluctant to recruit from this area. Six months after the arrival of 91 Malays in November 1911, 14 had died from beri-beri, 26 had been returned to Koepang in a dying condition and 12 were still in hospital suffering from the disease. *ibid.*, pp. 33, 83.
- 80 *ibid.*, p. 51.
- 81 *ibid.*, pp. 36, 52. It was established practice to rate Thursday Islanders below Asians and Kanakas but above Papuans and Aborigines.
- 82 *ibid.*, p. 132.
- 83 *ibid.*, p. 49.
- 84 *ibid.*, pp. 181-3.
- 85 *ibid.*, p. 183.
- 86 *ibid.*, p. 130.
- 87 *ibid.*, p. 99.
- 88 *ibid.*, pp. 72-3.
- 89 *Progress Report, R.C. 1913-16*, p. ix.
- 90 *Evidence, R.C. 1913-16*, p. 80.
- 91 No instructions were given to divers as to where they should fish, and consequently divers selected the locality where, in their own opinion, the take of shell would be greatest, irrespective of the risks involved. The contents of a report issued by the British Admiralty in 1907, showing the safety limit for stoppages at various depths, were well known to divers in Australia but had done little to prevent the taking of extraordinary risks. It is not surprising that divers paid on a piece-rate system ignored safety regulations. A diver working at 34 fathoms, for example, could not safely remain below for more than 12 minutes and required 32 minutes for the ascent. Anyone who had been down in 25 fathoms or more, for a quarter of an hour or less, could not safely go down again on the same day. As divers' paralysis usually struck without pain or warning, many divers risked their lives rather than accept these constraints on their working time. To make matters worse, decompression chambers were unknown in Australia before 1916, when the first was established at Broome. *R.C. 1908*, p. 281.
- 92 *Evidence, R.C. 1913-16*, p. 97.
- 93 *ibid.*, p. 116.
- 94 *ibid.*, p. 97.
- 95 *ibid.*, p. 81.
- 96 *ibid.*, p. 98.
- 97 *ibid.*, p. 177.
- 98 *ibid.*, pp. 81-2.
- 99 Manning Clark, *A Short History of Australia*, Sydney, 1969, pp. 197-200.
- 100 *Evidence, R.C. 1913-16*, p. 36.
- 101 *ibid.*, p. 72.
- 102 *ibid.*, pp. 97, 131.
- 103 *ibid.*, p. 177.
- 104 *Progress Report, R.C. 1913-16*, pp. xiv-xv.
- 105 Signatories to the Progress Report included F.W. Bamford, T. Givens, H. Mahon, W.E. Johnson and W.J. McWilliams. Givens and Mahon were subsequently replaced by H. Gregory and H. DeLargie. Johnson's position was left vacant.
- 106 'Final Report of the Royal Commission on the Pearl-Shelling Industry', *Comm. Parlia-*

- mentary Papers, 1916, V, 326, p. 6. Referred to below as *Final Report, R.C. 1913-16*.
- 107 *ibid.*, p. 3.
- 108 *ibid.*, pp. 7-8.
- 109 *ibid.*, p. 6. *Evidence, R.C. 1913-16*, pp. 30, 158.
- 110 Paper read at Conference of Economic History Society of Australia and New Zealand, 1978. See also A.A. Graves' contribution to this volume of essays, 'The Abolition of the Queensland Labour Trade: Politics or Profits?'
- 111 M. Clark, *op.cit.*, p. 168.
- 112 Permits continued to be issued in accordance with the Senate resolution of 30 November 1905.
- 113 *Final Report, R.C. 1913-16*, p. 7.
- 114 *Evidence, R.C. 1913-16*, p. 25.
- 115 *ibid.*, pp. 25-6; *Final Report, R.C. 1913-16*, p. 4.
- 116 *Final Report, R.C. 1913-16*, p. 6.
- 117 *ibid.*, p. 9.

4

THE CREATION AND CONTAINMENT OF THE PAPUA NEW GUINEA PEASANTRY

PETER FITZPATRICK

IT DOUBTLESS APPEARS too simple in summary—and may well be so in elaboration—but the argument of this essay is that the creation and containment of the Papua New Guinea peasantry can be explained largely in terms of two aspects of Australian colonial penetration. One is the maintenance of traditional society in the subsidising of capitalist production and in the countering of potentially disruptive class organisation. This aspect is contradicted in some ways by the second, which involves the promotion, with the advent of neo-colonialism, of compliant class elements—something of a resident ‘ruling class’. All this is not to deny the recent trend in political economy which stresses the centrality of traditional society.¹ Rather, such a trend dominates this essay. The peasantry in Papua New Guinea can only be comprehended in the conjunction of traditional society and colonial penetration, but in this conjunction the part of traditional society is subordinate and adaptive.²

After a note about terminology, the essay begins by accounting for the virtual non-existence of the peasantry prior to the second world war. It then looks at the emergence of the peasantry after the war and during that period which the colonist labelled one of gradual development. The effect of the so-called accelerated development of the 1960s in the further emergence of the peasantry is then described. But the story was not simply one of the peasantry’s unhindered emergence, for the colonist took measures to contain and restrict the peasantry and these are described next. Then an overall assessment is offered of the shape and direction of the peasantry’s formation in Papua New Guinea. The essay concludes with something of a postscript on the post-colonial period.

The ‘Peasantry’

‘Peasantry’ as a class category is a disputed and difficult one. No elaborate attempt will be made here to justify it theoretically, and the following account is close to arbitrary. The peasantry is usually defined in terms of

some exploitative relation to an overlord or the state or the market or to any combination of these. In terms of this element, the peasantry produces surplus for others. But a peasant also has significant independent control of the means of production. The basic production unit is usually the household but this unit tends to be maintained in the context of a wider peasant community. In the Papua New Guinea context—as with much of the Third World—the peasantry can be further delineated as having an operative commitment to both the capitalist mode of production and the traditional mode.³ Production for use, or subsistence production, takes place in the traditional mode, and production for the market is realised in the capitalist mode. One who produces wholly within the traditional mode is not a peasant—although the term is so extended by some. Nor is one who operates wholly within the capitalist mode a peasant although the term ‘big peasant’ is applied by some to include certain members of the bourgeoisie. But the term ‘big peasant’ is used more generally to describe something like a stratum of comparatively wealthy peasants. As a class category, and in the context of this essay, the big peasantry can be seen as having a ‘contradictory location’ within the bourgeoisie:⁴ although having a significant operative commitment to the traditional mode, the big peasant will often hold property within the capitalist mode and employ labour on a proletarian basis. Some see peasant production as so bounded by externally-imposed conditions that the peasant is considered a proletarian selling his or her labour power rather than an independent producer.⁵ This view is illustrated later.

Finally, there are some points about terminology which are no more than ones of convenience. In line with common usage and with most analyses, ‘peasantry’ is confined to rural producers: that is, ‘peasants in cities’, to use Mangin’s valid and arresting phrase,⁶ are not included in this essay nor are the urban-based economic activities of the big peasantry and the rural bourgeoisie. The bourgeoisie may be conceptually indivisible, but for convenience it is divided here into ‘the rural bourgeoisie’, which is included in the ‘national bourgeoisie’ which, in turn, is to be contrasted with ‘the foreign bourgeoisie’. If such terms are not clear at this stage the context should make them so.

The peasantry before the Second World War

Prior to the second world war the peasantry in Papua New Guinea had little room within which to exist. An illuminating exception is provided by the latter part of Germany’s occupation of New Guinea, during which time cash-cropping by New Guineans was extensively encouraged. This was done over the objections of the German settlers. The supply of plantation labour was a serious problem and settlers were concerned that cash-cropping would provide a preferred source of money to meet tax payments and to acquire introduced goods.⁷ However, the Imperial government, representing as it did a strong and burgeoning industrial power, was more interested in increasing the overall volume of raw materials produced by its colonies than in deferring to its settlers. Australia, on the other hand, was in terms of industrialisation, weak and backward and was basically a producer and

exporter of raw materials itself. Hence, it had little comparable interest in a more intensive exploitation of New Guinea, and as a colonial power it deferred to its settlers on the issue of peasant production. As a result, the growing and processing of cash-crops by New Guineans was restricted or prohibited in various ways.⁸

In Papua the end-result was the same but the circumstances were different. Unlike New Guinea, there was no Germany to build a settler economy which Australia could latch onto. Despite efforts by an over-extended Britain and by Australia to attract settlers, the attempt was largely unsuccessful. Under Australian rule, the colonial authorities then discovered a commitment to 'native development' and sought to realise this through a scheme of compulsory production on 'native plantations'.⁹ Basically, the system was used to finance colonial rule in the supplementing of Australia's niggardly contribution to the colony's government. However, what was left of the profits of the scheme for Papuans was meagre in the extreme. This, combined with their resentment of compulsion and with official ineptitude, meant that the scheme was very far from successful.¹⁰ Apart from this bonded outlet, there were quite simply almost no opportunities for Papuans to engage in production for the market.

Although the Papua New Guinea peasantry was at this time close to non-existent, this period brings forth historically a factor that becomes one of central importance in the formation of the peasantry—the need for Australian colonialism to preserve traditional society. This is the dominant focus of state action, for traditional society maintains and subsidises the supply of labour for capitalist production, and the preservation of traditional society serves to uphold 'primordial loyalties' thereby countering class organisation that would threaten the colonists' domination.¹¹

The peasantry in the period of 'Gradual Development'

The post-war world was such that the Australian colonist had to realise that independence would come—he hoped later, rather than sooner. In this, and in the changes in its colonial rule, Australia was following trends initiated elsewhere, especially by the British. The colonist begins to promote new structures that can be most comprehensively described as neo-colonial; a start is made in the 'indigenisation' of colonial bureaucracies; compliant class elements are fostered; and policy as well as some resources are committed to economic 'development'.¹² This emphasis on development coincides with, and serves to justify, greatly increased capitalist investment in the third world, and the greater integration of the third world into the international capitalist economy.

In line with this and with its own increasing industrialisation, Australia's involvement in Papua New Guinea after the second world war increased greatly and the colonist set about promoting hopefully compliant class elements. In so doing, Australia was responding in part to efforts at liberation on the part of the colonised—efforts usually located by scholars in the 'unrest' of the war period but, if the Papua New Guinea experience was like that of many other colonised people, these efforts probably had their

roots in the economic depression of the 1930s.¹³ But the accumulation of wages earned during the war and the receipt of war damage compensation gave Papua New Guineans capital resources which many were anxious to use.

The economic basis for promoting compliant class elements did not then exist in the towns, which had been maintained strictly as enclaves of the colonist. Any attempt to create such a basis would confront the colonist's pervasive penetration of the urban economy. But a basis existed in rural areas where the traditional mode of production and cash-cropping for the world market could be judiciously combined in the creation of a peasantry. True, for this purpose some expansionist settlers would have to be restrained, but overall economic domination by the colonist could be maintained by retaining a monopoly of the processing and marketing of cash-crops.¹⁴ In this way, a peasantry could emerge in co-operation rather than confrontation with the colonist.

Thus, after the second world war, the colonist broadened agricultural extension activities to include Papua New Guineans, and removed many restrictions on cash-cropping. But this, and Australia's greater involvement generally, did not mean that it suddenly changed into an intensely exploitative colonist. On the whole, and unlike many other colonial situations, there was no introduction of coercive, large-scale and highly regulated schemes for agricultural production. This continuing lack of metropolitan pressure for more intensive exploitation left room, as it were, for the comparatively relaxed policy of 'gradual development' associated with the long reign, beginning in 1951, of Hasluck as the Australian Minister for Territories. An effective policy of restraining but not completely preventing further Australian settlement was implemented by Hasluck early in the piece.¹⁵ The policy of gradual development was considered appropriate to Papua New Guineans, Hasluck foreseeing that the process would stretch 'over a number of generations'.¹⁶ The process would be lengthy also because it was, in terms of the policy, to be one of 'uniform development'; this was supposed to mean an egalitarian raising of the mass rather than a precipitate development of the few in advance of the many.

Although the policy of general development did not survive the end of Hasluck's reign at the end of 1963 and had been crumbling for some time before—'the steeper upward climb to achievement began about 1960-61',¹⁷ it was far from a spitting into the wind. As with the pre-war colonial administrations, Hasluck and various official reports emphasised again and again that traditional society must be preserved.¹⁸ Papua New Guinean development was to be built 'on the foundations of native society' or on 'native social organisation' and the 'native' was to remain attached basically to his land and to his village.¹⁹ In 1946 the Director of the Department of Agriculture anticipated that 'the basic unit of the community will be the rural family securely settled on its small-holding, and producing food and other crops for its own and local consumption and export', thus foreshadowing later state action explicitly aimed at this end.²⁰

Fundamentally, then, traditional society was still to be preserved and the peasantry was to operate from within it. It was hoped that traditional society

would thus remain to subsidise and maintain the supply of labour for capitalist production on settlers' plantations and in the towns. But—and this is a new dimension—traditional society can now serve to subsidise also the peasants' production for the market. Within traditional society a peasant's subsistence, or much of it, will be provided for and functions of social security will be performed. This element of subsidy enables the peasant to endure the competition of more 'efficient' capitalist production and to endure widely fluctuating commodity prices. Further, if the peasantry can produce for the market within the setting of traditional society, potentially disruptive class elements could continue to be contained: there would be no 'landless proletariat', as official reports so often put it, and the peasantry itself would have difficulty organising across ethnic barriers. Hence the thrust of colonial polity at this stage continues to be the preservation of traditional society. This is done in numerous ways, but mainly through regulating the supply of labour and through controlling dealings in land.²¹ But there were other indicative aspects of this polity. It was even the case with early agricultural extension efforts by the colonist that communal production was emphasised because it was thought this would fit the traditional mode of production.²² Such thinking, as we shall see, was somewhat wide of the mark. So strong was the effective emphasis on preserving traditional society that state action which might have weakened traditional society was severely circumscribed in operation. Examples of this are presented later, but taking one from this early stage, there is Hasluck's repeated insistence on the need to formalise individual rights which, if it had been effected, would have upset the pivotal and sensitive balance between individual and group rights in traditional society. The Native Land Registration Ordinance of 1952 was intended as a first step in effecting Hasluck's purpose but it was hardly used to any practical purpose at all.²³

Having used the policy of gradual and uniform development to justify the conventional foundation of an exploitable peasantry, the colonist then did little to ensure that 'development' was in fact uniform, even if simply by doing little he ensured that 'development' was indeed gradual. There were two potent aspects making for unequal development. The pattern of colonisation in Papua New Guinea had resulted in widely separate centres of Australian plantation activity.²⁴ Transport and marketing factors were oriented towards serving these centres; these factors could easily be extended to Papua New Guineans in the vicinity, but not at all easily to others. The other source of inequality arises within traditional society itself. Basing production for the market 'on the foundations of native society' means, because of the nature of that society, that some are in a better position than others to engage in and benefit from this production. This point is basic to the formation of the big peasantry and, to understand it, one must understand certain aspects of traditional society. Such an understanding is essential also if one is to grasp the adaptive and supportive part traditional society plays in the formation of the peasantry generally.

In traditional society production was largely a matter of shifting agriculture. Perhaps, as de Lepervanche argues, since this type of agriculture

requires relatively large amounts of land 'too many people [in a group], and thus too great a dispersal of gardens, would prevent convenient assembly for communal tasks and defence'.²⁵ Whatever the reason or reasons, enduring groups were small in scale—ranging from fifty to eight-hundred members in different parts of the country. Communal tasks involved clearing of cultivation land, fencing, house building, canoe making and, on the coast, fishing. These were activities carried out by men. Defence of the group was primarily also a male function. Land was owned by the group collectively, with the small family unit having access to it. Cultivation, harvesting and the maintenance of gardens were matters for the small family unit and were carried out mainly by wives on land allocated to husbands. Women did the bulk of child-rearing. Overall, the cast of groupness was male. Woman's role and her base in the group and its economy were disjointed or fragmented. This feature was accentuated in women usually being outsiders marrying into the group. Women were, in all, quite comprehensively subordinate.

As well as the accessibility of land, the simplicity of the technologies of production made them widely accessible also. Every male was a generalist, and specialisation—for example, as leader in canoe building or as the possessor of knowledge of ritual—was incidental. The available technologies did not allow of the preservation and accumulation of necessities except that there was some scope for such accumulation with pig-husbandry. Generally, however, and excepting the position of women, enduring relations of domination could not be grounded in production. Accumulation and domination were more marked in relations of exchange, but exchange itself did not provide a basis for institutionalized domination.

Most production was distributed within the group—exchanged in varying degrees of formality on the basis or in the idiom of kinship. A person relates to property through personal relations of reciprocal exchange. Exchange was the social cement which maintained the group as the ultimate provider and guarantor of social security. The group was basically self-sufficient. Wider exchange and trade were marginal and with nearby groups, except for some great trading networks and immense ceremonial prestations. Wider exchange and trade could only in exceptional cases be considered impersonal commodity-exchange; fictive kin relationships were extended to trade partners and personal and spiritual elements permeated the economic relationships. As well as through wider exchange and trade, groups were linked through marriage, military alliance and, somewhat perversely, through warfare attended with ritual restraint. They were linked sometimes by wider groupings such as the following of a 'big man' or the overarching 'clans' of the Trobriands and Buka Islands.

Relations between and within groups left people with considerable leeway in establishing and maintaining their own relations. Within groups, kinship genealogies did not usually run far back in time and they could be vague and adaptive. This left room for maintaining relations in various group contexts and for criteria of group membership besides kinship, such as residence location, and participation in exchange and in group activities.²⁶ There were

many reasons why people would take advantage of this flexibility. Their own group may have been decimated in warfare, or they may see further or better opportunities for political and economic advance in another group, or a big man may wish to have his followers from other groups incorporated into his own. In any case, the big man will manipulate this flexibility to advance politically and economically through relations of exchange within and outside his group. But of course exchange does not just provide an abstract opportunity; it binds the parties and integrally involves the performance of obligations. Those who come out 'on top' economically and politically are those who maintain the element of opportunity in significant advance of the element of constraint.

This maintenance of significant advance in exchange relations basically indicates the achieved status of the big man—although skills in oratory, combat, sorcery and dispute-settlement can be relevant. Even in that minority of societies where ascribed, hereditary status was important; personal achievement, it seems, was still necessary to attain operative leadership.²⁷ Production can also be important in this context particularly at the outset of the big man's climb: if a big man can produce more—or rather have others, especially wives, produce more for him—he has more to exchange and hence is better placed to put others in his debt and to support his followers. But exchange, including the exchange of women and bridewealth, is more determinatively significant; and the more eminent the big man, the more exchange provides the basis for his advance, the apogee probably being the vast ceremonial exchanges in the Highlands. There immense amounts of wealth were manipulated with consummate skill. More generally, and usually more modestly, the big man will obtain much of his wealth through the organising and funding of intergroup exchanges especially exchanges of brides and bridewealth.

In this process, the big man built up exchange partnerships with other big men and developed a following not confined to his group. We can call this following the 'big man cluster'. Although it was the foundation of his exalted position, the big man was expected to distribute wealth among, and in other ways assist, members of the big man cluster. Distributive demands were bolstered by a strong ideology of equality which had a realistic basis in relations of production and by the possibility of sorcery directed against the big man.²⁸ Some see the big man as being subject to quick removal if he acted arbitrarily whilst others see him as having despotic power.²⁹ Whatever the case—and it probably varied from one situation to another—these distributive demands as well as the claims of his exchange partners and heirs all tend to the dissipation of the man's empire on his death; its reality and coherence as an ongoing system focuses and depends on him personally.³⁰ This casual and unstable nature of economic and political leadership militated against the formation of enduring systems of political rule and social stratification. There was a possible but seemingly never fully realised element of continuity, in that sons of big men could sometimes use and take over their father's wealth even during his lifetime and so be in a stronger position than others to become big men themselves.³¹ But even so

it was probably the case that one could not become a big man on that basis alone but would also have to prove oneself independently.

This general account of aspects of traditional society deals only vaguely with a matter that is central in the present context: the balance between the rights of the group and the rights of the individual to land. The vagueness covers an illuminating diversity. Some say that there are simply no individual rights in land.³² But it is clear that in a great many societies individual rights are well developed and well defined.³³ This situation is usually related to greater population density.³⁴ The matter has recently been incisively investigated and analysed by Brown and Podolefsky.³⁵ They find a greater practical definition of individual rights—more precisely a tendency towards individual inheritable rights to specific marked plots—with greater agricultural intensity but, naturally enough, there was also a high correlation between agricultural intensity and population density. Hence, to anticipate later argument, one could posit that intensive cash-cropping, even in areas of low population density, would lead to a development and greater definition of individual rights.

There are three broad ways in which traditional society responds to production for the market. First, traditional society provides a basis for the big man to assume a position of advantage in production for the market. Second, traditional rights in land adapt to give the peasant greater individual rights. These two aspects can be seen as making for the undermining of traditional society. The third restores something of a balance, for it is the general strengthening of traditional society in its adapting to production for the market. Each of these aspects will now be examined briefly, and then related to the increased involvement of the colonial state in the period of 'accelerated development' and to the ensuing shape of the formation of the peasantry. This analysis can be seen as a particular application of the thesis that capitalist penetration in the Third World tends both to the dissolution and the conservation of traditional societies, leaving them in a state of stunted transition.³⁶

Even in its earliest phase the policy of gradual and uniform development was being undermined by the activities of big men. The big man cluster was an adaptive and sometimes extensible source of capital accumulation and labour.³⁷ Academic observers have seen the big man as operating a system of 'primitive capitalism' or one 'preadapted to capitalism'.³⁸ These are one-sided exaggerations—traditional society would fit no rigorous definition of capitalism and in many respects it is just as 'preadapted' to socialism—but they do underline that some big men became big peasants and some became members of the rural bourgeoisie by using traditional relations.³⁹ But success in this does not result from continuing to rely on the 'capitalism' of traditional society. Success entails a containing or even a rejecting of traditional distributive obligations.⁴⁰ These obligations, it will be recalled, result from exchange relations on which the big man's position in traditional society is predominantly based. Such exchange relations are used by the big man in engaging in production for the market, including the provision of services. Because of this and because such production is often 'mixed' with the ful-

filling of traditional exchange obligations, exchange has some purchase on production for the market. But production with a nexus to the market really provides a base for the big-man alternative to traditional exchange—a base for an economic expansion potentially much more extensive than anything required to meet traditional obligations. Production for the market breaks the tie that contains the big man's wealth within obligation-bearing relations of exchange. Wealth is no longer purely personalised but becomes capable of abstracted expansion.

The second way in which traditional society adapts to production for the market consists in its system of land tenure changing to provide land rights characteristic of a peasantry. With the extension of cash-cropping and, later, cattle-raising there is a greater awareness of land as having a reified value, and there is effective pressure for more clearly defined individual rights in land.⁴¹ This awareness and these pressures are doubtless contributed to by the actuality and the potentiality of land shortage in many areas.⁴² The greater definition of land rights that results is vividly illustrated by the work of land demarcation committees under the Land Titles Commission Act of 1962 which were charged with the ascertaining and marking of land boundaries: in areas of extensive cash-cropping, the committee's work proceeded with much greater ease and rapidity than in other areas.⁴³ There is evidence from many societies that a person must have strong rights in land before planting cash-crops—before establishing the more enduring individual-land relation involved in the long cycles of use typical of cash-crops in Papua New Guinea.⁴⁴

As this last point indicates, the group appears to maintain control over land despite the strengthening of individual rights. This can be seen as part of the third way in which traditional society responds to production for the market—a way which involves its strengthening or at least its adaptive survival. Overall group control of land use appears to persist.⁴⁵ There is evidence, however, that with the wider acceptance of cash-cropping, individuals try and succeed in asserting their rights to land independently of group control.⁴⁶ The extent and strength of this tendency, if it be such, seems doubtful. The extensive and recent investigation by the Commission of Enquiry into Land Matters led to the conclusion that group title to land would serve as the basis of a nation-wide formal tenure system.⁴⁷ And even strong individual rights and powers over land do not, as yet anyway, seem to be inconsistent with the maintenance and continued relevance of wider group relations.⁴⁸ Such a general assessment hides important variations: the mass of the peasantry may well continue to rely on group relations as a necessary guarantor of social security but a big peasant and, more so, a member of the rural bourgeoisie may seek to minimise the efficacy of these relations and to minimise group control over land. But traditional society, as well as promoting the big peasant, seeks to restrain him in the interests of the collectivity: distributive demands continue to be made in the new context and continue to be backed by the use of sorcery.⁴⁹ Traditional society also continues to set the context and content of the subordination of

women and although some women, through production for the market, surmount the situation, this is not done on a disruptive scale.

More generally, traditional society survives because the effects of production for the market are contained within it. To a great extent this is possible because of the limited penetration of production for the market and this point is taken in more detail later. Thus the influx of new goods and new currencies was largely absorbed in traditional exchange and for the most part did not flow into productive investment. More particularly, it was absorbed in a displacing of some traditional trade goods, in an inflation of exchange values and in a general intensification of exchange activities.⁵⁰ New forms of exchange in gambling and prostitution became increasingly common but were accommodated within the traditional context. An array of imported consumption goods soaked up the proceeds of cash-cropping as well as wages. More recently alcohol has become a significant item of wasteful consumption and it seems to play an increasingly important part in exchange activities. Colonial penetration also helps in more direct ways. State action aimed at the preservation of traditional society has already been mentioned. As well, the suppression of warfare and the introduction of technologies—such as the steel axe—that were simple but immensely saving of labour, created more time for exchange activity and released labour for production for the market and also for work on the colonist's plantations and in towns.⁵¹

But the adaptation of traditional society contains an ambiguous element in that this society includes the big man who can, as we have seen already, develop in ways that undermine the efficacy of traditional social control. The extension of exchange also strengthened the position of big men since they were the organisers of major exchange activities and, building on their position in traditional society, they took advantages of various opportunities presented by colonial penetration to bolster their position generally.⁵² But the direction in which such advantage took them was not invariably away from traditional society. Some big men aspire to break away and be of the rural bourgeoisie but many, and probably most, will use the new opportunities to improve their standing in the traditional context. The scope for a big man to do this can be vast—especially it seems within the exchange networks and inter-group alliances of the Highlands. This has resulted in 'combined' forms of economic venture—forms which combine investment in production for the market with elements of traditional distribution and organisation. These are considered in more detail later.

The Peasantry in the period of 'Accelerated Development'

The period of 'accelerated development' is one of greatly increased state involvement in the formation of the peasantry. This involvement builds on apt elements of traditional society in their conjunction with production for the market. But the involvement is not merely a response to these factors: its explicit orientation is towards the purposive creation of a rural bourgeoisie or at least of a big peasantry. The political aspect represented by the state acts in advance of the economic, so far as the national bourgeoisie and

the big peasantry are concerned; it is access to state benefits and state power that secures economic advance. But this state involvement has some contradictory characteristics which will have to be taken account of also.

The period of accelerated development is usually dated from the early 1960s when a particularly persuasive combination of events impelled Australia to anticipate independence 'sooner, not later', as Prime Minister Menzies put it.⁵³ There was the castigation of Menzies at the Commonwealth Prime Ministers' Conference in 1960 for Australia's 'reactionary' colonial policy; there was the pressure of the decolonisation—or reconcolonisation—of West Papua New Guinea; 1960 saw the adoption by the United Nations General Assembly of the declaration for the abolition of colonialism, and this reflected numerous contemporary liberation struggles; there was the report in 1962 on Papua New Guinea of a particularly influential visiting mission of the UN Trusteeship Council recommending accelerated political and economic development; and it seems also that the debacle in the Congo was particularly influential.⁵⁴ It is difficult to locate the change in terms of general policy pronouncements and it seems probable that these events gave a push to the direction Australian involvement was taking anyway.⁵⁵ But the acceleration was nonetheless highly significant. Established positions in the Department of Agriculture increased from 408 in 1963 to 1919 in 1968 and the number of Papua New Guinean state employees rose by over 40 per cent between 1962 and 1964 compared with an increase of one-quarter over the previous decade.⁵⁶ The main ideological impetus for, and affirmation of, acceleration came from the World Bank Report.⁵⁷ This, in line with what passed for general development theory of the day, recommended a building on the best, a concentration of effort where financial returns would be highest or, in the agricultural sphere, the promotion of the 'progressive farmer' in advance of his fellows—all this being in polar opposition to the idea of gradual and uniform development. But gradual development as a policy was undermined well before this. Production concentrated itself around existing centres of plantation activity, as it was bound to do without massive infrastructural investment spreading opportunity more evenly. There was also the development from within traditional society of the big man as an incipient big peasantry or as an incipient bourgeoisie. It is this development which has to be examined more closely here since it is the basis on which the state promotes the rural bourgeoisie and the big peasantry and since it also helps explain constraints on the emergence of these class elements.

Initially however, some qualifications are necessary. Most of the studies of big men in their relation to production for the market are set in areas of existing plantation activity, where big men could rely on the existing infrastructure of such production and be seen plausibly as an emergent big peasantry or rural bourgeoisie. As we will see later, this position cannot be generalised for the whole country. There are also related effects of academic bias. T.S. Epstein's influential work on one group of the Tolai leads her to generalise that traditional relations are incompatible 'with success in business ventures' whereas Salisbury, having studied another Tolai group, reaches a

conclusion that seems quite opposite.⁵⁸ Finney's especially influential work on Gorokan society is oriented by a concern with individual 'entrepreneurship' which leads him to disregard 'mere examples of clan business or communal enterprise'.⁵⁹ Radical accounts show a similar bias in their implicit yet basic assumption that the emergence of the peasantry nationwide can be described adequately in terms of big men bursting into bourgeoisdom.⁶⁰

In moving into production for the market the big man at first takes the big man cluster with him and, indeed, uses the new economic activity to extend and sustain these group ties; within the context of traditional relations of exchange, the big man cluster provides labour and capital contributions and the big man will rely usually on traditional access to land.⁶¹ Within this traditional context also, distributive demands on the big man continue to be made but there is a tendency for the big man to resist or to seek to minimise them in the interests of capital accumulation.⁶² He will seek to control and allocate returns so that he obtains a disproportionate share.⁶³ In this he can be assisted by the uncertainties and complexities that attend the extension of traditional relations into new activities—the nature and diversity of understandings involved in contributions to a venture can be complex in the extreme.⁶⁴ But most significantly there is now production with a nexus to the market as a base alternative to personalised exchange. There seems to be a tendency for many big men to seek to subordinate, transform or replace traditional relations in favour of relations typical of the new base. They will seek to assert the discontinuous nature of relations involved in the venture: labour and capital contributions rather than being part of a continuous personal relationship give rise to obligations that the big man attempts to extinguish by reciprocal assistance or repayment.⁶⁵ There is a propensity to employ outside, paid, labour instead of labour from within the traditional context.⁶⁶ Big peasants take to living in a more splendid isolation outside their area of traditional residence.⁶⁷ And it is being increasingly recognized that the loan from the government or from a finance company is a less troublesome alternative to capital contributions from the big man cluster.⁶⁸ Despite these various moves, the big man may try to accommodate group pressures and to still group recrimination by making some distributions, by conferring patron-like favours, by emphasising the community nature of the venture and by fostering an ideology that 'businessmen' deserve more.⁶⁹ Underlying this is the fear of group reprisal through sorcery or physical attack.⁷⁰

The outcome of the conflict between these forces will be examined later, once the wider setting in which it operates has been sketched. The immediate concern here is with the relation of these forces to state action in the period of accelerated development—more particularly with the ways in which state action promotes a big peasantry and a rural bourgeoisie. Broadly, state action here takes two forms: a system of combined agricultural extension and government lending on the one hand and, on the other, supportive and protective legal intervention. To deal with the first, extension and lending cannot be looked on as something incidental to the big man's rise—as something like advice and ancillary assistance. A big

peasant or member of the rural bourgeoisie is not necessarily or even usually the vigorous 'entrepreneur' beloved of many development theorists. Progress has to be thrust upon him. Agricultural extension officers will be closely and continuously involved in the management of the venture often to a greater degree than its profitability could warrant.⁷¹ The Development Bank—the government lending agency—often gives big men loans of close to 100 per cent of the capital needed for a venture and indeed has to 'persuade' many 'applicants' to borrow at all.⁷² The overall picture then may approximate less to ventures set up and run by big men assisted by the state and more to ventures set up and run by the state assisted by big men—but with the state-subsidised profits going to the big men.

Despite the policy of gradual development, agricultural extension work after the second world war had from the start largely focused on the big man.⁷³ This is partly explainable in organisational terms for, as McKillop's acute analysis has shown, it is easier to measure success and hence easier to evaluate promotion through the ranks of officialdom by focusing extension activity on a few farmers and pastoralists.⁷⁴ But it was with the period of accelerated development that this approach was given a more explicit emphasis and impetus. The end-result was an almost exclusive attention to the ventures of a wealthy few.⁷⁵ To further assist the big peasantry and fledgling rural bourgeoisie, the Department of Agriculture helped them form pressure groups and marketing bodies.⁷⁶ Group ventures sometimes pushed their claims for agricultural extension assistance and for loans but officials processing these claims took the view—with justification as we shall see later—that only individuals or small partnerships should benefit because group ventures were illegal.⁷⁷

Almost half of agricultural extension work is taken up by the administration of supervised credit.⁷⁸ After the small amount of lending undertaken by the Native Loans Board in the period of gradual development, the extent of government lending increased dramatically with the setting up of the Development Bank as a state corporation in 1967. In terms of the effect of lending, the activity of the Development Bank is crucial because loans by commercial banks to Papua New Guineans are close to insignificant and only one finance company lends to Papua New Guineans to any great degree, and this is hire-purchase lending for acquiring passenger trucks. The Development Bank provides loans that are heavily subsidised in the charging of low interest rates and the acceptance of close-to-negligible security. The actual costs of lending are very many times the interest rate charge.⁷⁹ Characteristically, Development Bank lending has been to the few rather than the many, the wealthy rather than the poor, the individual rather than the group and, in a significant degree, to the literate and the formally educated.⁸⁰ It also helps to be a member of the national legislature.⁸¹

As for legal intervention, the most explicit case is the Land (Tenure Conversion) Act of 1963 which, in terms of its 'long title', provided for 'the Conversion of the Tenure of Native Land into Individualised Tenure'. A person could apply for a conversion order and, subject to restrictions which are described later, such an order conferred absolute legal ownership

of the land and, as the Act's preamble says, the land would then 'cease in all respects to be subject to or regulated by native custom'. To ensure that conversion was basically in favour of individuals and as something of a counter to fragmentation, ownership of the converted land could not be vested in more than six owners. A conversion order was not to be made unless all persons with interests in the land agreed to the conversion. It was common for a big man wishing to convert land to secure consent by giving various undertakings on the side, as it were—undertakings that some traditional interests would continue to be recognized or that some benefit would be forthcoming for giving them up; but it was not unusual for a big man to ignore these undertakings once conversion was secured.⁸² Legal provision was made for conversion to be subordinate to present and future need for land for subsistence cropping, but this restriction does not seem always to have been effective: the leading British exponent of individualisation was moved to 'view with misgiving the carving of large personal holdings out of fully occupied tribal lands, as at Mt Hagen'.⁸³ A tenure conversion in this area in favour of one person covered 265 hectares.

However, this law was of limited effect in practice, and other methods of individualisation were also used. Probably the most significant is the 'Clan Land Usage Agreement' created and widely used by the Development Bank.⁸⁴ The Bank often makes such an agreement the basis of a rural loan. In terms of the agreement, traditional land authorities representing group interests acknowledge and agree to the loan applicant's 'right under native law and custom for the whole of his lifetime to use the land'; the use is not confined to the period of indebtedness to the Bank. The making of the agreement is often attended with some pomp and a surplus of official presences and signatures but the agreement is not considered enforceable in terms of the national legal system. But doubtless it is not basically this stratagem which accounts for the remarkable success of the Clan Land Usage Agreement—only one agreement had been disputed when the matter was checked in 1974;⁸⁵ rather, the agreement reflects and builds on the adaptation, described earlier, of traditional society to production for the market: there is a strengthening of individual rights in land but a retention of some overall group control.

People have also sought a secure title by entering claimed individual rights in informal or semi-official registers operated by several Local Government Councils and some government officers.⁸⁶ Pressures to record individual rights will probably grow with what seems to be an increase in land dealings between different land-owning groups.⁸⁷

In a somewhat similar if more oblique vein, T.S. Epstein has described how a law requiring registration of cocoa-growers as a disease control measure was used to bolster ownership claims among a Tolai group because they were said to believe that the 'licence' resulting from registration represented a legal title to ownership.⁸⁸ Epstein has also noted how, in the competition between sons and nephews amongst the matrilineal Tolai—the rights of nephews and the matrilineal element can be taken here as a representation of the group interest—fathers would seek to favour sons in

preference to the traditional rights of nephews by putting vehicles in a son's name under vehicle registration laws, by putting cocoa proceeds in bank accounts in sons' names and by buying land in their names.⁸⁹

The most effective legal avenue to individual ownership is the obtaining of a long-term lease of government land. Some large areas have been leased to members of the big peasantry and rural bourgeoisie and the government lease can be an effective way of avoiding group claims based on land.⁹⁰ Much government leasing has involved resettlement schemes, either to ease particular population pressures or to provide something of a captive labour force for foreign plantation companies in 'nucleus estates'—that is, estates where the nucleus of the company's plantation and processing facility is surrounded by small blocks leased and worked by Papua New Guineans. Although these schemes usually involve smallholder blocks, members of the big peasantry or of the rural bourgeoisie sometimes operate them either directly or as absentee landlords.⁹¹

Inheritance laws were changed in the period of accelerated development to facilitate the passing and accumulation of the new property created in production for the market. In one way, traditional legal mechanisms of inheritance have already adapted to this situation. It is the case in many Papua New Guinea societies that a person can indicate who is to succeed to property on his death and this mechanism has been extended to the new property.⁹² A person can, it seems, so indicate also through the informal registration systems and the various ways of evidencing legal title to property that have just been described.⁹³ The Wills Probate and Administration Acts of 1966 and 1970 enabled Papua New Guineans to will property except, broadly, land that has not officially been taken out of the traditional context and other property still dealt with in that context. This exception means that the great bulk of land, even if it is used in production for the market, cannot be passed by will but remains subject to traditional inheritance laws. This new law was seen officially as a needed response to 'the growth of commerce and economic enterprise in the Territory'.⁹⁴ It is too early to gauge its effect. Many Papua New Guineans have shown that they want to depart from or restrict the range of traditional obligations of inheritance and to focus succession more on the nuclear family or on a favoured son.⁹⁵ This tendency could lead to an adaptive change in traditional inheritance laws. A small survey of state employees showed it to be a common view among them that people should be able to will new property and should make a will if they have a large amount of such property.⁹⁶ Many block-holders on one resettlement project have made wills, and the Development Bank provided them with 400 completed wills to help them in this.⁹⁷ But wills do not seem to be at all widely used nor is their use promoted by extension agencies or, normally, by the Development Bank.

Not without qualification, the concern so far in this section has been to show how the state, through supportive measures, encourages the emergence of a big peasantry and a rural bourgeoisie. These supportive measures, together with the general legal protection and upholding of property rights and of contract, provide something like a system, alternative to the tradi-

tional relations, that the budding bourgeoisie can opt into. People, Uyassi notes, perceive that laws work for those involved in production for the market.⁹⁸ In addition, laws and state action seek to counter challenges and competitive alternatives to the emergence of the big peasantry and of the rural bourgeoisie.

Sorcery has already been viewed as a traditional restraint on the dominance of the big man and as a restraint that continues to be relevant in the context of production for the market. In 1971, the Sorcery Act discerned a 'widespread belief . . . that sorcerers have extra-ordinary powers which can be used for good purposes but more often for bad ones' and proceeded to strengthen prohibitions against sorcery. Although sorcery is a weapon of the powerful as well as the weak, Uyassi makes the point in the context of sorcery that big men expect 'courts and the police' to protect them effectively.⁹⁹

Various group ventures producing for the market or organising such production were competitive with the emerging big peasantry and rural bourgeoisie. To some extent these ventures were contained and constrained within official corporate forms—a matter taken up in more detail shortly. The types of restraint considered at this point involve pure prohibition. Prohibition was justified in such official and academic terms as the inherently unsatisfactory nature of these ventures because of their involving distributive demands.¹⁰⁰ There were in the colonial period numerous prohibitions and restraints on group ventures.¹⁰¹ Although by the mid-1960s some of these had either been repealed or were only occasionally applied, several remained.¹⁰² To take one example, but probably the most significant, there is a legal provision, standard in corporate laws derived from the British, prohibiting 'an association or partnership consisting . . . of more than twenty persons which has for its object the acquisition of gain' unless the body is incorporated as a company; the cost and complexity of incorporation and of continuing compliance with corporate law were such as to make this avenue impossible for almost all Papua New Guinean groups. By the end of the 1960s only a very few companies controlled by Papua New Guineans had been incorporated.¹⁰³ It was this prohibition which justified the view of extension officials, including those processing loan applications, that only individuals or small partnerships were 'legal'. A loan to a group operating in breach of the prohibition could not be recovered, and this restrained the Development Bank—if restraint were needed—in lending to groups.¹⁰⁴ In 1971, the senior legal official in the government advised the extension officers responsible for 'business development' that they could be committing the serious criminal offence of conspiracy if they assisted groups operating in breach of the prohibition.¹⁰⁵ When some larger-scale groups attempted to incorporate in the early 1970s, they were met by official obstruction in a pedantic and sometimes erroneous insistence on points of law. On one occasion such a group, after incorporation as a company, was prosecuted for failure to lodge the annual return required by corporate law; a search of the official records of various companies at about that time showed that some significant foreign-owned

companies were likewise in breach of this requirement¹⁰⁶—yet they were not prosecuted.

Containment of the peasantry

However, containment and restraint extend further and include the big peasantry and the rural bourgeoisie. In promoting these class elements, the colonial state begins to assume a more complex dimension. The state not only 'lets the Kulaks run' but carries them along as well. In doing this the state is responding basically to the interests of the foreign bourgeoisie, but the embryonic national bourgeoisie and big peasantry are, as part of this process, given some political power and use this power to further propel their own emergence. The more complex dimension now assumed by the state involves mediating between the national bourgeoisie and the big peasantry on the one hand and the foreign bourgeoisie on the other.¹⁰⁷ This does not necessarily mean that the state is now in some way autonomous or above these class elements; in the Papua New Guinea context, state action continues largely to reflect the dominance of the foreign bourgeoisie. This is not the case of a dynamic and restless national bourgeoisie chafing at foreign constraint. Rather, the colonial state as an agent of the foreign bourgeoisie takes the leading role in promoting the national bourgeoisie as well as the big peasantry and in so doing it seeks to mould these class elements in a way conformable to the interests of the foreign bourgeoisie. On the whole, and not without qualification, the national bourgeoisie and the big peasantry emerge in a subordinate relation to the foreign bourgeoisie.¹⁰⁸ The mass of the peasantry are somewhat similarly subordinate, and become in several ways subordinate also to the big peasantry and the rural bourgeoisie.

The wide range of ways in which different agricultural products are marketed makes a generalised illustration of this argument difficult. Although detailed structures of surplus extraction differ from one product to another, the general orientation is the same for each, so it is proposed here to examine one product in some depth. Coffee has, in recent years, been the major export crop and coffee provides perhaps the most dramatic example because much more than any other crop, its cultivation is in the hands of nationals. The position described here is that prior to recent changes which will be accounted for later. The next stage after growing and harvesting the coffee bean is its sale either as unprocessed cherry or semi-processed parchment. This initial processing to the parchment stage involves the use of a coffee-pulper and this is usually under the control of a big peasant who uses it to take an initial slice of the surplus. The following stage—the sale of the cherry or parchment—was regulated under marketing legislation. The Coffee Marketing Board, set up under the legislation, licensed buyers and, although it was not legally empowered to do so, it restricted the issue of licences. As far as Papua New Guineans were concerned, it could back up this abuse of power because there were standards in the legislation which it was difficult for them to comply with, such as a

requirement that each buyer should have an expensive-type storage shed; if a buyer tried to work outside the licensing system without such a shed he could be prosecuted out of a buying existence. The Board issued most of the buying licences to foreign coffee processors who farmed out many of these licences to roadside coffee-buyers. The buyers were usually nationals and often emerging big peasants. In this way, and sometimes in conjunction with tied loans providing capital for buyers, the buyers were bound to the particular processor who held the licences; the binding of buyers helped also to minimise the risk involved in the fulfilling of forward contracts entered into by processors and exporters. Further sale to exporters was the next stage in the process; almost all coffee is exported by foreign companies and the dominant company here also has substantial interests in processing. Then there is the realm of international marketing and of the international coffee agreement. In all, the extent of foreign involvement increases in each step—from cultivation, to selling of the unprocessed or semi-processed bean, to processing and to export and international marketing.

Recent changes in this situation help to take the argument further and introduce something of a qualification. Due to the intense efforts of a national Minister for Agriculture and despite strong opposition from his own Department and from the Coffee Marketing Board—which was in law subject to the Minister—the roadside buying of coffee was in 1974 limited to nationals, and related tied loans and other tied arrangements were denied legal effect. The pressure for this tended to come from younger emerging big peasants; it was opposed by more-established big peasants who sided with Australian settlers—such settlers often being their mentors. It may well have been the case also that established big peasants gained from the established system and would stand to lose with the greater competition that was expected to flow from this change. As it turned out, the change did provide openings for a wider range of emergent big peasants. However, there was a not-unexpected continuation of tied arrangements; many buyers were still bound effectively, if not legally, because of their need for working capital.¹⁰⁹ The same Minister who effected this change also used legal controls to forbid the buying of coffee in the unprocessed cherry form. He argued this was to discourage the theft of cherry from coffee trees and to encourage Papua New Guinean processing at least to the parchment stage. His opponents claimed that the measure was to help big peasants whose coffee was being stolen and who controlled the coffee pulpers needed to process cherry to the parchment stage. It was certainly the case that some small-scale growers objected on this latter ground. However, more influential objection came from the mainly foreign processors who found it more profitable to take their processing from the cherry rather than the parchment state. The opposition of foreign processors and of small-scale growers was effective in having the prohibition on buying cherry lifted.¹¹⁰

As this account shows, the alignments and influences of different class elements in concrete situations can be more complex than the attribution of their overall and respective strengths would allow. What particularly appears here is that general domination by the foreign bourgeoisie is not

incompatible with effective self-assertion by the national bourgeoisie and the big peasantry, at least in the lower reaches of the economy, and that this is so even if it involves defeat of elements of the foreign bourgeoisie. Some marginal self-sacrifice is at times necessary to uphold 'the big material interests of the bourgeoisie (even against the will of the bourgeoisie)', to borrow Marx's description.¹¹¹

It is in this perspective that changes at the political level can also be explained. No longer is it the pure colonial case of the state acting on the 'undifferentiated mass' of the colonised. The rural bourgeoisie and the big peasantry are not merely acted on; they, or their representatives, act within the state system. To be in a position to do so, they are buttressed and promoted through state action but their advance is contained within a particular structure of power. By hastening and helping the emergence of the rural bourgeoisie and big peasantry the colonial state may well be creating some opposition to the foreign bourgeoisie, but there is a counter-vailing element in that this allows the state to take part in the shaping of these class elements. These elements come 'into their own' in the context of a state system on which they depend—a state system that is temporally in advance of their emergence politically as well as economically. In this way power is conferred yet contained. It is close to a mere continuation of this process for the rural bourgeoisie and big peasantry to act in their own advance from within the state system. Thus a study of one large ethnic group summarises recent developments in this way:¹¹²

Political power at the local and national levels is increasingly used to reinforce economic status, leading to the emergence of a rural elite as well as an urban elite . . .

and 'certain government agencies' are seen as 'the main stimulus' in this process.

Even in earlier periods of colonisation, big men used appointed positions of colonial rule to increase their wealth; such positions were used to obtain labour, to erect some independence from demands of followers, and generally to obtain a preponderant share of the valuables introduced with colonisation.¹¹³ When local government councils and co-operatives were introduced, new positions of power were used to acquire wealth, to obtain access to government lending and extension services, and to step outside the checks of traditional society.¹¹⁴ In more recent times there may be a tendency for the rural bourgeoisie and big peasantry to desert councils and to aim for the richer rewards associated with election to the national legislature.¹¹⁵ The contemporary introduction of provincial government—a tier intermediate between councils and national government—was in part a response to pressure from the rural bourgeoisie and big peasantry who are heavily represented in at least some provincial governments.¹¹⁶ Electoral politics seem generally to be viewed as an avenue to wealth, and a great number of candidates compete at national elections.¹¹⁷ Another political avenue to wealth is seen in the phenomenon of senior government employees acquiring plantations and other rural property; these people, although they occupy a

contradictory class location, must be seen as having some identity of interest with the rural bourgeoisie and big peasantry.

In addition to emerging within the confines of a particular structure of power, the rural bourgeoisie and big peasantry are contained through the maintenance of traditional society by the state. The ultimate logic of 'letting the Kulaks run' is the breaking down of the traditional mode of production and the comprehensive substitution of capitalist relations. But in terms of the interests of the foreign bourgeoisie, traditional society must remain to subsidise capitalist production and to counter challenging class consolidations. Hence the Kulak must only run so far. Traditional society itself, as we saw, assists by continuing to assert demands incompatible with capitalist development. It does not lightly let go of its own. It has some purchase on the big peasant because he retains an operative commitment to the traditional mode. The rural bourgeoisie is very small, if not merely embryonic, and can in cases still be subject to challenge from traditional society.

The checks and hesitations of the Land (Tenure Conversion) Act of 1963 and in its implementation provide perhaps the most dramatic example here. Even in its terms, the Act's expressed commitment to the individualisation of land tenure was hedged about almost to the point of extinction. The Act imposed drastic restrictions on dealing with converted land.¹¹⁸ However, an official body within the colonial administration could direct that the restrictions would no longer apply in specific cases. The liberal use of this power of exemption provoked a change in the Act subjecting each sale of converted land to the consent of the Australian Minister for Territories and tightening up drastically on other dealings beside sale.¹¹⁹ Further, the colonial administration in 1965—that is, soon after the Act was brought into operation—gave a direction that conversions be limited and the main body charged with making conversions 'had inadequate staff or funds to carry out the whole process'.¹²⁰ The upshot was that tenure conversions were few, and a great deal of the few were for urban house sites.¹²¹ In a much studied area where there were many rural conversions, traditional obligations relating to land and some group control over it continue.¹²²

Inheritance can be seen in this context as something of a testing point—a test of the ability of emerging class elements to reproduce and consolidate their positions. Legal changes in the period of accelerated development enabled Papua New Guineans to will 'new' property—that is, unregistered or unconverted land remains to be dealt with within the traditional mode, a situation confirmed by the continued operation of certain colonial 'native regulations'. This land includes most of the land used by nationals in production for the market. In describing aspects of traditional society it was seen that a big man's empire dissolved on his death. It was built and held together as a set of personal relationships focused on him. In a similar vein, Finney has recounted how the venture of a modern 'business leader' was dissipated on his death in a multitude of claims resulting from his exchange relationships.¹²³ Although its effects have not been studied in detail, the death of a political leader and big peasant, Kondom Agaundo, seems to have had a similar result, although his venture had been somewhat dissi-

pated in his lifetime.¹²⁴ A recent case involved the death of one of the wealthiest national cattlemen, Doa Minch (or Mints). Although his 265 hectares of land was tenure-converted, he had not made a will and the court decided that his estate should be dealt with under traditional law.¹²⁵ The final outcome is as yet unclear. As a continuing entity, his venture has all but disappeared. The Development Bank had much of the estate sold up to repay its loan to Doa Minch and also to repay two loans he had guaranteed¹²⁶—thus revealing the limited nature of its commitment to the maintenance of the rural bourgeoisie. The land is now leased to what are largely foreign interests. Doa Minch's clansmen claim they helped in the creation of his wealth and are entitled to a share in his estate. He strongly resisted similar claims in his lifetime and was constantly in fear of his life.¹²⁷ In the same vein, people discuss sorcery as a possible cause of all these deaths. There seems to have been only one instance so far of a large venture surviving, and this was due to an exceptional conjunction of circumstances.¹²⁸ That there appear to be only a few cases to go on is probably due to the latter-day emergence of the rural bourgeoisie and big peasantry. T.S. Epstein foresees numerous disputes breaking out among the Tolai when the present generation of big peasants begins to die.¹²⁹ However, as was seen earlier, traditional patterns of inheritance may well be changing to favour more the smaller-family unit and it seems to be part of this tendency for holdings to remain intact.¹³⁰ It was also seen that in the traditional context there was some scope for sons of big men to build on a privileged position and perhaps this factor applies to production for the market, although many such sons are now more oriented to the opportunities opened up through formal education, especially in government employment. As far as the state is concerned, however, and despite its promotion of a rural bourgeoisie and big peasantry, the examples of tenure conversion and inheritance strongly suggest that in matters of ultimate right as between these class elements and traditional society, it is traditional society that is preferred.

In the containment of the mass of the peasantry, the state introduces and relies on forms that are used in the bounded advance of the rural bourgeoisie and big peasantry—the local government council and the co-operative. Hasluck once homilized that 'the wisdom of government is to anticipate and avoid the building up of a destructive flood, and ensure that the energy of people flows along quieter and happier channels'.¹³¹ The idea of co-operatives was borrowed from British colonies in Africa. They were introduced as a response to an upsurge of group economic and political organisation after the second world war—'to guide potential forces of resistance into proper channels'.¹³² These group organisations or associations were usually based financially on wages accumulated whilst working for the military administration, and war damage compensation. They often transcended ethnic divisions; their membership sometimes numbered in the thousands and they were, understandably, felt by many colonial officials to be politically dangerous.¹³³ Some of these, as well as later associations, were 'guided' by officials in various ways into the co-operative fold.¹³⁴ Containment then took the form of comprehensively paternalistic official control

over co-operatives, as even Hasluck recognized.¹³⁵ In official theory such control was necessary to ensure profitability but was to be temporary—awaiting the advance of Papua New Guineans to appropriate skills. But it was apparently to be a long awaiting, for the official commitment to education in these skills has been slight and recent.¹³⁶ Such control also meant that co-operatives could be restricted in areas where they might provide competition for the foreign bourgeoisie.¹³⁷ Any potential threat of this kind was obviated in any case by the hardy incompetence of Australian officials running the co-operatives.¹³⁸ In the face of the resounding failure of co-operatives in terms of profitability, Australian officials have recently advanced a revealing alternative criterion of success in the observation that former directors and employees obtain the necessary experience in co-operatives to go into business on their own account, whence the co-operative becomes ‘redundant’ and leaves the field to those who can ‘go-it-alone’.¹³⁹ This success has to be seen in the context of the wider success involved in providing an organisational form that diverted the larger scale groupings and types of collective organisation that were emerging. This organisational form fitted the structure of peasant society: with few exceptions, co-operatives were officially promoted as having marketing and, sometimes, consumer-supply functions—production being left to the peasant household.¹⁴⁰ They were also promoted on the basis of small membership for the most part and often on the basis of existing ethnic divisions.¹⁴¹

The system of local government councils was introduced shortly after the second world war but it was only in the period of accelerated development that the form was widely used. Each council would cover several traditional ethnic groupings, but councillors were based in discrete ethnic groupings and councils were meant to reinforce traditional ethnic divisions.¹⁴² As with co-operatives, councils were subjected to broad official control and were basically ‘an administrative arm of the colonial administration’.¹⁴³ Generally, they were used to contain and divert indigenous political action.¹⁴⁴ People were persuaded to form councils through tax measures, official promises of material benefit and plain coercion.¹⁴⁵ As far as members of the rural bourgeoisie and big peasantry are concerned the local government council seems, like the co-operative, to be transitional, for these people appear to move beyond the council to provincial and national-level government, as was suggested earlier.

The peasantry formed?

To ask whether the peasantry is formed is to return to the question of what the peasantry is, and to the seemingly very different kinds of people the term can cover—that is, whether the peasantry is a homogeneous class or *a class* at all. No attempt is made to resolve the issue conceptually. The attempt here will be to set out the influence of the different modes of production, including the influence of differentiation among the peasantry. The broad implications of this for class formation, class consciousness and class action will be too obvious to need elaboration. Less obvious will be the

implications for class alliances—especially the importance of relations with the proletariat—but this is not pursued here.

The degree of operative commitment which people have to the different modes of production is not something susceptible of precise definition and arbitrary division. At one extreme, some people will operate almost wholly within the traditional mode and have only a small degree of commitment to the capitalist. Cash from production for the market is desired because the ability to buy introduced foods, clothing, fuel and simple tools is universally prized; this supplements and aids production for use and the traditional mode remains a comprehensively accessible retreat. At the other extreme would be a big peasant producing for the market, aspiring to join the rural bourgeoisie and systematically attempting to reject obligations grounded in the traditional mode; he, presumably, would not find this mode easily accessible. Some peasants will, in varying degrees, be dependent on both types of production. The conditions of production for the market may, in cases, be so extremely constrained that the peasant can be seen as approximating to a proletarian selling his labour¹⁴⁶—a blockholder on a nucleus estate could be an example of this. These perspectives are not coherent but they give an idea of the diversity that the concept of ‘peasantry’ can contain. The most significant perspectives in the Papua New Guinea context are those focused on the big peasant, merging into the rural bourgeoisie, and on the continuing operative commitment to the traditional mode of production.

It seems to be common for a big peasant to start his climb by relying on traditional relations—but this reliance may be lessening with the increased role of governmental lending—and then to move in the direction of ownership and control on an individual basis or in partnership with other big peasants.¹⁴⁷ In many areas there is a great differentiation in terms of property and monetary income between the big peasants and the mass of the peasantry.¹⁴⁸ Structural supports for the maintenance of the big peasantry as a distinct class element emerge: various mechanisms develop for easing property out of the domain of the traditional mode; ‘new’ property can be willed; education serves as a point of preference in the allocation of governmental resources;¹⁴⁹ the big peasantry form pressure group organisations transcending ethnic boundaries and develop something of a corporate identity.¹⁵⁰ But the foreign bourgeoisie remains dominant, and in the interests of that class element traditional society is maintained. The emergence of the big peasantry tends to be bounded by this. There result certain combined forms of economic organisation—forms that combine production for the market with a continuing significant relation to traditional society. One form, and a fascinating one, is that of the ‘development corporation’.¹⁵¹ Typically, it involves a large ethnic grouping and sometimes relies on, or on an extension of, traditional exchange networks. Component smaller groups and individuals within the grouping invest in the corporation as shareholders. The corporation engages in economic activities in its own right and sometimes invests in other ventures. The big peasant plays a dominant role in the organisation of corporations and the ventures in which

a corporation invests will sometimes include his. These ventures will often include also those of the foreign bourgeoisie and there will be other types of intimate linkages with this class element. Some development corporations have—or had—something of a nationalist, radical inclination. Gerritsen would distinguish these from certain organisations explicitly dominated by the big peasant but Uyassi seems to be correct in saying they are basically no different;¹⁵² the radical corporations are often just as implicated with the foreign bourgeoisie or have tried to be, and the lifestyle of their leaders—formally only executives of the corporation—strongly suggests an appropriation of surplus entirely comparable with the efforts of more conventional big peasants. At the political level, and in a context where turnover in membership of the national legislature is very high, the big peasant operating with a development corporation or with some other type of large, ethnically-based formal organisation appears more likely to be re-elected.¹⁵³ More generally, observers have recently noted the emergence of patron-client relations—a classic form tying the mass of the peasantry in relations of dependence on the big peasantry and a form which has obvious antecedents in traditional society.¹⁵⁴

There are combined forms of economic organisation not involving the big peasantry. Indeed the geographical spread of the big peasantry is probably not extensive, being confined largely to centres of existing foreign plantation activity. There are movements and organisations based on traditional groupings which engage in marketing or production for the market but whose leaders operate in a less economically dominant and more egalitarian frame, and although these are probably widespread they have been discriminated against or suppressed by the state and tend to be organisationally unstable.¹⁵⁵ Another combined form may be the peasant who produces for the market with considerable success but nonetheless remains strongly integrated into traditional society, meeting in large degrees the attendant distributive obligations.¹⁵⁶

As for the mass of the peasantry, their involvement in production for the market is quite small.¹⁵⁷ Even in those areas where general production for the market is intense, it tends to be concentrated in the hands of the big peasantry and the rural and foreign bourgeoisie. As far as nationals are concerned, supportive state action has been largely dedicated to the big peasantry and the rural bourgeoisie; production for the market has been supported and encouraged neither comprehensively nor intensively. Most peasants engage in production for the market as something incidental to subsistence production. Dependence on production for the market is probably quite strong with many settlers on nucleus estates and on government resettlement schemes, but settlers are a very small minority. The possibility has been remarked on that in some areas cash crops have been planted to the point that land for subsistence production is becoming inadequate;¹⁵⁸ this is not at all a general or clear trend. Nor is the commitment of land to production for the market irreversible: in several areas cash crop land has been returned to subsistence production in the face of population pressures. But doubtless the rapid increase in population will increasingly

test the adequacy of available land. Also of relevance here are those communities—peri-urban and further afield—which operate to an overwhelming degree in the maintenance of an urban workforce and which depend to a considerable degree on remitted wages.¹⁵⁹ More direct challenges to the integrity of traditional society come from changing relations to the means of production. Individual control over land in some areas seems to have developed almost to the point of the exclusion of group interests and some land is now treated as a commodity.¹⁶⁰ The provision of labour for the rural bourgeoisie and big peasantry on a proletarian basis is becoming widespread and increasingly common.¹⁶¹ But despite all this, the tendency remains towards the maintenance and integrity of traditional society. The following recent description of one large group can, subject to pockets of exception, be generalised—and this group is comparatively intensely involved in production for the market and is subject to great population pressures:¹⁶²

Chimbu socioeconomy has never been challenged by an innovation so successful, never been subject to an external force so drastic, that any irrevocable structural modification has occurred in it. The traditional culture *has* changed . . . but its essential elements have survived.

The post-colonial period

The tendency towards the maintenance of traditional society is in some ways reinforced with the advent of the post-colonial period. The state discovers and asserts the virtues of 'Papua New Guinea ways', of traditional community organisation, agricultural development, equality and popular participation in the economy. This was in part a nationalist rejection of colonial policy, in part a new ideology needed for new rulers, and in part a reflection of contemporary fashions in international guidance on desirable development. The first signal for revolt was the introduction by the colonial administration in 1971, of land bills which tended to individualise tenure more effectively and make a commodity of land; the bills were withdrawn after considerable criticism within the legislature and outside, one of the main strands in the criticism being the detrimental effect the bills would have on the integrity of traditional society. A commission of enquiry on the land question was then set up in 1973 by the first national government. It recommended that traditional groups should have the basic ownership rights in land, with individuals being able to hold subsidiary interests.¹⁶³ Although much work has been done within government to give effect to the recommendations, the product is yet to emerge.

The first national government introduced several measures in support of group organisation: company law was changed to facilitate the formation and operation of development corporations; other laws provided for the incorporation of smaller 'customary' groups as economic ventures; a five-year tax holiday was introduced for national companies and incorporated groups; development grants were provided for groups; groups were to be entitled to interest-free loans in purchasing foreign-owned plantations; it was announced that groups would have preference over individuals in government lending; some shift in agricultural extension in favour of

'community involvement' has been reported;¹⁶⁴ and the operation of the existing tenure conversion system has been suspended. The governmental Law Reform Commission has recently proposed that traditional 'custom' should be the basis of inheritance.¹⁶⁵ In terms of a recent statement of 'post-independence national development strategy', 'government policy will give the highest priority to development of farming systems which sustain subsistence production per head', and there will as well be a 'continued expansion of export crop production'.¹⁶⁶ But this unidirectional account needs qualification and this qualification is perhaps indicative of the influence of the rural bourgeoisie and big peasantry on the state system. Various changes in coffee marketing described earlier were a response to this influence. There does not in fact appear to be any significant shift in government extension and lending—many of the 'groups' to whom the Development Bank is lending are partnerships of two to four members. The rural bourgeoisie and big peasantry press continually for an effective tenure conversion system;¹⁶⁷ although their efforts have so far been unsuccessful, another law is, on occasion, being manipulated to secure something like a conversion.¹⁶⁸

But, as this essay has shown, the big peasantry can, and to an extent does, develop in conjunction with traditional group organisation. In one debate in Papua New Guinea, some people argued that the new (or at least more explicit) emphasis on groups marked a dramatic turnaround from the promotion by the colonial state of the rural bourgeoisie and big peasantry, but others argued that the groups benefitting from the new emphasis were groups clustered around big peasants and senior members of the public service.¹⁶⁹ It certainly is the case, although the matter has not been studied in detail, that many big peasants have set up group ventures in which they have a large interest but which have enough 'groupness' to qualify for government benefits. Such a structure is of some popularity with politicians in that it can serve as a conduit in the allocation of government benefits to supporters and also promote patron-client relationships. More generally, class organisation of the big peasantry could now be seen as a means for patrons to maintain contact with each other in the provision of benefits for clients—especially contacts from within government.

The post-colonial period makes more explicit the presence of national class elements concerned with appropriating a fitting share of surplus value, and in many Third World countries this is provided by the mass of the peasantry. If this were to be the case in Papua New Guinea there would be pressure to increase peasant production for the market and perhaps to encourage further the growth of the rural bourgeoisie and big peasantry. Pressure from this source is not of great effect at present, although the first national government introduced in 1974 an export tax which is 'highly inequitable'.¹⁷⁰ The immensely disproportionate allocation of public sector spending to urban areas is suggestive of more implicit patterns of surplus extraction.¹⁷¹ The new revenues from copper in the earlier part of the decade, the continuing high levels of Australian 'aid' and the continuing inflow of foreign capital have lessened pressure to squeeze the peasantry. As protections, however, these factors can only be considered precarious, and in

some ways equivocal. However, a related, if speculative, factor may provide a more enduring protection for the peasantry and for the integrity of traditional society: it is possible, and even probable, that a hugely preponderant domination of the economy will come from capital involved in natural resource extraction; typically, this involvement is capital-intensive and relies on imported inputs; hence heightened class division within Papua New Guinea would not be functional to such capital since it only requires a small, skilled proletariat and does not require extensive internal production for the market; more positively, such capital could prefer a stable 'backwardness' and ethnic division in the maintenance of traditional society—could prefer this to class consolidation and class conflict.

Should such a scenario prove accurate, it will further strengthen the interest of the foreign bourgeoisie in the maintenance of traditional society. The somewhat contradictory maintenance of a rural bourgeoisie and big peasantry would persist because these are the main elements of the resident 'ruling class', and explicitly foreign political domination now lacks legitimacy. The contradiction would probably find some resolution, at least for the short term, in the growth of such combined forms as the development corporation and relations of the patron-client type.

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- 39 This assertion is susceptible of much refinement. Munare Uyassi, (*op.cit.*, pp. 23, 36) finds that in the area he studied there is a break between big men of the purely traditional type and the newer big men who engage in production for the market—although the newer men do rely, at least initially, on a traditional-type big man cluster. Also it seems that in the modern context, with the more intense dissemination of shell currency by the colonist and the introduction of money, there are more, and more accessible, assets for use and manipulation by aspiring big men and hence wider opportunities for big men to emerge: Andrew Strathern, *Rope*, p. 207; Marie de Lepervanche, *op.cit.*, p. 25; Munare Uyassi, *op.cit.*, p. 5.
- 40 See for example, T.S. Epstein, *Capitalism*, pp. 53-3; Ben R. Finney, *Big-Men*, p. 77; Rolf Gerritsen, Aspects of the Political Evolution of Rural Papua New Guinea: Towards a Political Economy of the Terminal Peasantry, paper delivered at Work-in-Progress

- Seminar, Department of Political Science, Research School of Social Science, Australian National University, July, 1975, pp. 6, 13; Gillian Sankoff, 'Wok Bisnis and Namasu: A Perspective from the Village', in I.J. Fairbairn, *Namasu: New Guinea's Largest Indigenous-Owned Company*, *New Guinea Research Bulletin 28* New Guinea Research Unit, The Australian National University, Port Moresby and Canberra, 1969, pp. 71-2.
- 41 See for example, Andrew Strathern, *One Father*, p. 34; R.G. Crocombe & G.R. Hogbin, *Land, Work and Productivity at Inonda*, *New Guinea Research Bulletin 2*, New Guinea Research Unit, Australian National University, Port Moresby and Canberra, 1963, p. 75; J.B. Page, Notes on Land Law and Custom amongst the Amele Speaking People of the Madang Central, Sub-District, Typescript, Madang, 1964, p. 17; R.T. Shand, 'Papua New Guinea', in R.T. Shand (ed.), *Agricultural Development in Asia*, Australian National University Press, Canberra, 1969, p. 310. Collective group production does exist but is exceptional, and is often attended with severe organisational difficulties: see for example, Donald D. Mitchell, *Land and Agriculture in Nagovisi, Papua New Guinea*, *Monograph 3* Institute of Applied Social and Economic Research, Boroko, 1976, pp. 88-90.
- 42 Tony Barnett, 'Land and People in Papua New Guinea', *Yagl-Ambu: Papua New Guinea Journal of the Social Sciences* 3, 4, 1976.
- 43 Theo Bredmeyer, op.cit., p. 5; Ron Crocombe & Robin Hide, op.cit., p. 317.
- 44 Graham Jackson, *Cattle, Coffee and Land among the Wain*, *New Guinea Research Bulletin 8*, New Guinea Research Unit, Australian National University, Port Moresby and Canberra, 1965, p. 55; R.T. Shand & W. Straatmans, op.cit., p. 145. Traditional devices enabling an outsider to use the land of a group, or enabling a person to use land to which another has predominant rights, appear not to have been extended to cash cropping. Thus among the Tolai, *totokom*—a type of lease extending usually to one cycle of use—can now only be used for subsistence crops: A.L. Epstein, *Matupit: Land, Politics, and Change among the Tolai of New Britain*, Australian National University Press, Canberra, 1969, p. 136; S.S. Smith & R.F. Salisbury, Notes on Tolai Land Law and Custom, roneo, Kokopo, 1961, p. 7. As a further example, the custom of separating rights in land from rights in economic trees, so as to allow of property in the fruits without affecting rights to land, does not appear to extend to cash cropping: J.B. Page, op.cit., p. 8; Michael Panoff, Land Tenure among the Maenge of New Britain, paper delivered at third Waigani Seminar, *Land Tenure and Group Enterprise in Melanesia: Legal and Social Implications*, University of Papua New Guinea, 1969, p. 24. On this point, R.G. Crocombe & G.R. Hogbin op.cit., pp. 72, 79 have said that, for a group of the Orokaiva, cash cropping is 'in harmony' to traditional rights to economic trees, yet they say also that there are no precedents on how to treat cash cropping.
- 45 See for example, A.L. Epstein, op.cit., p. 302. Cash cropping involves such a commitment of the land that it seems to be general that group permission must be obtained before the planting: G.R. Hogbin, *A Survey of Indigenous Rubber Producers in the Kerema Bay Area*, *New Guinea Research Bulletin 5*, New Guinea Research Unit, Australian National University, Port Moresby and Canberra, 1965, p. 73; Daniel Morawetz, *Land Tenure Conversion in the Northern District of Papua*, *New Guinea Research Bulletin 17*, New Guinea Research Unit, Australian National University, Port Moresby and Canberra, 1967, p. 13; J.B. Page, op.cit., p. 13; R.F. Salisbury, *Vunamami*, p. 71; S.S. Smith & R.F. Salisbury, op.cit., pp. 8, 13. It is often the case that the group refuses to allow the planting of cash crops: Thomas G. Harding, 'Wage Labour and Cash Cropping: the Economic Adaptation of New Guinea Copra Producers', *Oceania* 41, 3, 1971, p. 196; R.T. Shand & W. Straatmans, op.cit., p. 143. In one area where land was converted to individual tenure under the Land (Tenure Conversion) Act of 1963, traditional authorities can still discipline and even dispossess land owners who do not cultivate their land properly: R.B. Dakeyne, 'Changes in Land Use and Settlement among the Yenga', in *Orokaiva Papers: Miscellaneous Papers on the Orokaiva of North East Papua*, *New Guinea Research Bulletin No. 13*, New Guinea Research Unit, Australian National University, Port Moresby and Canberra, 1966.
- 46 Richard F. Salisbury, *Vunamami*, p. 123; R.T. Shand & W. Straatmans, op.cit., p. 144. Control of the disposition of land in some areas is said to be now more in the hands of the small-family group than with the extended traditional land group: Alan Ward, Land Administration—the Key to Social Equality, paper delivered at the 48th ANZAAS Congress, Melbourne, 1977, p. 13.
- 47 Commission of Enquiry into Land Matters *Report*, Port Moresby, 1973. See also Alan Ward, op.cit., p. 13.

- 48 David Birmingham & Brian Scoullar, *The Ombisusu-Tara Village Rubber Project of the Northern District, Agricultural Extension Bulletin* 7, Department of Agriculture Stock and Fisheries, Port Moresby, 1974, pp. 8-9, 12; R.B. Dakeyne, op.cit.; Geoffrey G. Gray, Land Tenure Conversion in the Northern District: The Effects of Land Tenure Conversion at Ombi-Tara, New Guinea Research Unit [Port Moresby], roneo, n.d., p. 7; and cf. David Morawetz, op.cit., pp. 36-7; Mervyn Meggitt, 'From Tribesmen to Peasants: the Case of the Mae Enga of New Guinea', in E.R. Hiatt & C. Jayawardena (eds), *Anthropology in Oceania: Essays presented to Ian Hogbin*, (Angus & Robertson, Sydney, 1971), p. 208.
- 49 Ben R. Finney, *Big-Men*, p. 114; Romola McSwain, op.cit., p. 125; Munare Uyassi, op.cit., pp. 47, 63. The element of continuity in this is strongly underlined in the now standard idea of sorcery as a response to social stress. Thus, in the Papua New Guinea context, Glick notes:
- ... the unavoidable conflicts that arise in societies undergoing change—conflicts arising from altered roles, newly-defined relationships, ambivalence towards neighbours and kin as potential competitors, and so on—are not unlike those that have always underlain sorcery and witchcraft accusations, even though the sources of tension may be less apparent in times of relative stability.
- Leonard B. Glick, 'Sorcery and Witchcraft', in Ian Hogbin (ed.), op.cit., p. 185. For an example, see Cyril S. Belshaw, *In Search of Wealth: A Study of the Emergence of Commercial Operations in Melanesian Society of Southwestern Papua* (American Anthropological Association Memoir 80, 1955) *American Anthropologist* 5, I, Part II, p. 6. Sorcery, of course, performs functions of social cohesion and no serious official attempt has been made to counter it generally.
- 50 Ben R. Finney, *Big-Men*, pp. 33-4, 37; Diana Howlett, R. Hide & Elspeth Young, op.cit., p. 16; Peter Lawrence, op.cit., p. 227; Mervyn Meggitt, 'From Tribesmen', pp. 201-3; Andrew Strathern, *Rope*, pp. 54, 91-2, 109.
- 51 Peter Lawrence, op.cit., p. 228; R.F. Salisbury, *From Stone to Steel: Economic Consequences of a Technological Change in New Guinea*, Melbourne University Press, Carlton, 1962.
- 52 Paula Brown, 'From Anarchy to Satrapy', *American Anthropologist* 65, 1, 1963; A.L. Epstein, op.cit., p. 18; T.S. Epstein, *Capitalism*, p. 39; Peter Fitzpatrick, '“Really Rather Like Slavery”', p. 116, footnote 48; Mervyn Meggitt, 'From Tribesmen', p. 201; Richard F. Salisbury, 'Despotism'; Richard F. Salisbury, *Vunamami*, p. 11; Andrew Strathern, *Rope*, p. 54.
- 53 B. Jinks, P. Biskup & H. Nelson (eds), *Readings in New Guinea History*, Angus & Robertson, Sydney, 1973, p. 373.
- 54 H.C. Brookfield, op.cit., p. 108; Paul Hasluck, op.cit., pp. 365-7; W.J. Hudson & Jill Daven, 'Papua and New Guinea since 1945', in W.J. Hudson (ed.), op.cit., pp. 158-9.
- 55 Paul Hasluck, op.cit., p. 397. A considerable increase in agricultural extension was provided in a three-year plan commencing in 1959, and the individualisation of land tenure was contemplated before 1960: *ibid.*, pp. 315, 319-22. As early as 1961, a new influx of Australian agricultural officers had agreed on the need to individualise land tenure and to 'develop a small class of purposeful élite farmers': R.F. McKillop, *Problems of Access: Agricultural Extension in the Eastern Highlands of Papua New Guinea*, typescript, no date, revised version of a paper delivered at the seminar, *Improving Access to Government Services*, University of Papua New Guinea, November 1974, p. 18.
- 56 Diana Conyers, *The Provincial Government Debate: Central Control versus Local Participation in Papua New Guinea, Monograph 2*, Institute of Applied Social and Economic Research, Boroko, Papua New Guinea, 1976, p. 5; Ross Garnaut, Michael Wright & Richard Curtain, *Employment, Incomes and Migration in Papua New Guinea Towns, IASER Monograph No. 6*, Institute of Applied Social and Economic Research, Boroko, Papua New Guinea, 1977, p. 1.
- 57 International Bank for Reconstruction and Development, *The Economic Development of the Territory of Papua and New Guinea*, Johns Hopkins, Baltimore, 1965.
- 58 Scarlett Epstein, 'The Tolai "Big-Man"', *New Guinea* 7, 1, 1972, p. 56; Richard F. Salisbury, *Vunamami*, p. 274.
- 59 Ben R. Finney, *Big-Men*, p. 107.
- 60 Kenneth Good, 'The Formation of the Peasantry', in Kenneth Good, Azeem Amarshi & Rex Mortimer, *Cultivating Capitalism in Papua New Guinea*, Oxford University Press, Melbourne, forthcoming; Rolf Gerritsen, op.cit. Almost in passing, it should be mentioned that some of these studies are of the Tolai or rely on the experience of the Tolai who, being matrilineal, place particular importance on the wide extension of

- kinship ties: cf. Mary Douglas, 'Is Matriliney Doomed in Africa?', in Mary Douglas & Phyllis Karberry (eds), *Man in Africa* Tavistock, London, 1969, p. 123; this factor, together with the preferring of sons over nephews which now takes place, would tend to emphasise the conflict involved in the big peasant's emergence.
- 61 For example, T.S. Epstein, *Capitalism*; Ben R. Finney, *Big-Men*; Roland P. Freund, 'Those Enga!', *New Guinea* 6, 3, 1971; W.J. Oostermeyer & Joanne Gray, 'Twelve Orokaiva Traders', in R.G. Crocombe, *Papuan Entrepreneurs, New Guinea Research Bulletin 16*, New Guinea Research Unit, Port Moresby and Canberra, 1967, p. 31.
- 62 B.R. Finney, *New Guinean Entrepreneurs*, p. 31; Rolf Gerritsen, op.cit., p. 6; Gillian Sankoff, 'Wok Bisnis', p. 72; Munare Uyassi, op.cit., pp. 41-2, 59, 62; cf. Richard F. Salisbury, *Vunamami*, p. 274.
- 63 See for example, F. von Fleckenstein, 'Ketarovo: Case Study of a Cattle Project', in G.T. Harris and F. von Fleckenstein, *Agricultural Extension in the Village, Extension Bulletin 9*, Department of Agriculture, Stock and Fisheries, Port Moresby, 1975.
- 64 See R.G. Crocombe & G.R. Hogbin, *The Erap Mechanical Farming Project, New Guinea Research Bulletin No. 1*, New Guinea Research Unit, Australian National University, Port Moresby and Canberra, 1963; Andrew Strathern, 'The Entrepreneurial Model of Social Change: From Norway to New Guinea', *Ethnology* xi, 4, October 1972, p. 373.
- 65 R.G. Crocombe, 'Four Orokaiva Cash Croppers', in R.G. Crocombe, *Papua Entrepreneurs*, p. 9; Graham Jackson, op.cit., p. 13; A.J. Strathern, *Social Pressures*, p. 496.
- 66 R.G. Crocombe, 'Four Orokaiva', p. 9; Diana Howlett, *When is a Peasant Not a Peasant: First Thoughts on Rural Proletarianisation in Papua New Guinea, History of Agriculture Discussion Paper 7*, University of Papua New Guinea and Department of Primary Industry, Port Moresby, 1977, p. 9; Louise Morauta, *Beyond the Village: Local Politics in Madang, Papua New Guinea*, Australian National University Press, Canberra, 1974, pp. 31, 35.
- 67 B.R. Finney, *New Guinean Entrepreneurs*, p. 33; W.J. Oostermeyer & Joanne Gray, op.cit., p. 30; Munare Uyassi, op.cit., p. 47.
- 68 W.J. Oostermeyer & Joanne Gray, op.cit., p. 33; Andrew Strathern, 'The Entrepreneurial Model', p. 372; Henry To Robert, 'Papuan and New Guineans in Private Business', *Journal of the Papua and New Guinea Society*, 1, 2, 1967, p. 75. Thus with the Hoskins Oil Palm Project officials insisted that settlers rely on government loans; the officials feared that moneys put in by settlers might include contributions from relatives, thereby giving the relatives a basis for making demands on the venture: Anton Ploeg, personal communication.
- 69 B.R. Finney, *New Guinean Entrepreneurs*, pp. 31-2; Gillian Sankoff, 'Wok Bisnis', p. 72; Bill Standish, op.cit., pp. 21-2.
- 70 B.R. Finney, *New Guinean Entrepreneurs*, pp. 31-2; Ben R. Finney, *Big-Men*, pp. 113-4; Romola McSwain, op.cit., p. 125; Munare Uyassi, op.cit., pp. 47, 63.
- 71 R.F. McKillop, op.cit., p. 12. Indeed, 'if the [tobacco] farmers had to pay for all the services now provided by the Department of Agriculture, they would lose money': F. von Fleckenstein, 'Tobacco', in *Papers on Primary Commodities, Part II, History of Agriculture Discussion Paper 2*, University of Papua New Guinea and Department of Primary Industry, n.p., 1977, p. 41.
- 72 R.J. Gunton, 'A Banker's Gamble', in Peter G. Sack (ed.), *Problem of Choice: Land in Papua New Guinea's Future*, Australian National University Press and Robert Brown & Associates, Canberra and Port Moresby, 1974, p. 108; Bill Standish, op.cit., pp. 21-2.
- 73 Scarlett Epstein, 'The Tolai "Big-Man"', p. 51; Ben R. Finney, *Big-Men*, p. 63.
- 74 Robert F. McKillop, *The Agricultural Extension Service in Papua New Guinea: Can We Make It More Effective? Extension Bulletin 5*, Department of Agriculture Stock and Fisheries, Port Moresby, 1974; Bob McKillop, 'Catching the Didiman', *Administration for Development*, 3, January 1975.
- 75 Richard Curtain, 'Introduction', in *Accounts of the History of Cash Crops in the Yangoru Area, Maprik District, History of Agriculture Discussion Paper No. 19*, University of Papua New Guinea and Department of Primary Industry, n.p., 1978, p. 3; Diana Howlett, R. Hide & Elspeth Young, op.cit., pp. 247-50; R.F. McKillop, 'Problems', p. 14; J. Potter, 'Livestock', in *Papers on Primary Commodities, Part II, History of Agriculture Discussion Paper No. 2*, University of Papua New Guinea and Department of Primary Industry, n.p., 1977, p. 15.
- 76 Rolf Gerritsen, op.cit.; D. Nicholls, The Lowa on Marketing Co-operative Ltd of Goroka, paper delivered at fifth Waigani Seminar, *Change and Development in Rural Melanesia*, University of Papua New Guinea, 1971, p. 1.

- 77 Barry Shaw, personal communication.
- 78 R.F. McKillop, 'Problems', p. 14.
- 79 The Bank shows a modest loss or profit for each year of its operation but if the enormous costs involved in the processing and supervising of loans by officers of the Department of Primary Industry were included the Bank would be making huge losses.
- 80 Diana Howlett, R. Hide & Elspeth Young, op.cit., pp. xliii-xliv; Keith Crellin, personal communication; R.F. McKillop, 'Problems'; R. Moulik, *A Study of Adoption Process in Relation to Development Bank Loans in the Eastern Highlands District*, Department of Information and Extension Services, Port Moresby, 1970.
- 81 R.F. McKillop, 'Problems', p. 16; Bill Standish, op.cit., pp. 21-2.
- 82 Various officers of the Land Titles Commission, personal communications; Alan Ward, op.cit., pp. 9-10.
- 83 S. Rowton Simpson, 'Land Problems in Papua New Guinea', in Marion W. Ward (ed.), *Land Tenure and Economic Development: Problems and Policies in Papua-New Guinea*, New Guinea Research Unit, Australian National University, Port Moresby and Canberra, 1971, p. 12.
- 84 R.J. Gunton, op. cit.
- 85 Rodney Cole, personal communication.
- 86 Theo Bredmeyer, op.cit., p. 11; R.G. Crocombe & G.R. Hogbin, op.cit., pp. 39, 89-96; E. Ogan, *Business and Cargo: Socio-Economic Change among the Nasioi of Bougainville*, *New Guinea Research Bulletin 44*, New Guinea Research Unit, Australian National University, Port Moresby and Canberra, 1972, pp. 82, 159-60; Alan Ward, *Customary Land, Land Registration and Social Equality in Papua New Guinea, History of Agriculture Discussion Paper No. 20*, University of Papua New Guinea and Department of Primary Industry, n.p., 1978, p. 19. For a considerable time the Tolais have been buying land from the neighbouring Bainings and having the transactions recorded in the local office of the government's Land Titles Commission even though the transactions are of doubtful legality in terms of the national legal system: Theo Bredmeyer, op.cit., p. 11 and Jim Fingleton, personal communication.
- 87 See previous note and Alan Ward, 'Land Administration'.
- 88 T.S. Epstein, *Capitalism*, pp. 115, 129.
- 89 *ibid.*, pp. 67, 112, 118; T.S. Epstein, 'Personal Capital Formation', p. 67.
- 90 R.G. Crocombe, 'Four Orokaiva Cash Croppers', p. 8; R.F. McKillop, 'Problems', p. 15.
- 91 Anton Ploeg, personal communication.
- 92 For example, Robert Wanji, *General Statement of Customary Rules of Succession in the Amele Area, Madang Province, and the Wosera, East Sepik Province, Occasional Paper 3*, Law Reform Commission, Waigani, Papua New Guinea, 1977, p. 7.
- 93 T.S. Epstein, *Capitalism*, pp. 107-8; E. Ogan, op.cit., pp. 159-60.
- 94 F.M. Kassam, 'Laws of Succession in Papua New Guinea: Some Reflections', *Melanesian Law Journal 2*, 1, 1974, p. 15.
- 95 Commission of Enquiry into Land Matters, op.cit., p. 96; Graham Jackson, op.cit., p. 49; David Morawetz, op.cit., p. 26; E. Ogan, op.cit., pp. 159-60; Olga van Rijswijk, *The Silanga Resettlement Project, New Guinea Research Bulletin 10*, New Guinea Research Unit, Australian National University, Port Moresby and Canberra, 1966, p. 45; Alan Ward, *Customary Land*, p. 22.
- 96 R. Wanji & A. Jerewai, Law of Succession: Findings from Interview with Public Servants', n.d., typescript of research for the Law Reform Commission.
- 97 Bob Gunton, personal communication.
- 98 Munare Uyassi, op.cit., p. 5.
- 99 *ibid.*, p. 47.
- 100 C. Lesley Andrews, *Business and Bureaucracy: A Study of Papua New Guinea Businessmen and the Politics of Business Development in Port Moresby*, New Guinea Research Unit, Australian National University, Port Moresby and Canberra, 1975, p. 15; Ron Crocombe, 'Land Reform: Prospects for Prosperity', in Ron Crocombe (ed.), op.cit., p. 383; T.S. Epstein, *Capitalism*, pp. 52-3, 70; cf. Richard F. Salisbury, *Vunamami*, p. 270.
- 101 Peter Fitzpatrick & Julie Southwood, *The Community Corporation in Papua New Guinea, IASER Discussion Paper 5*, Institute of Applied Social and Economic Research, Boroko, Papua New Guinea, 1976, pp. 13-19.
- 102 As an example of their effect, there is the case of one group who wished to purchase two foreign-owned plantations. In 1957, the group members entered into a contract to buy the plantations and they paid the purchase price. Title to the plantations could not be legally transferred to an unincorporated group but a drawn-out shuttle of the matter

- between various government departments did not result in the discovery of a suitable legal form of incorporation. When the matter was last checked in 1971, the people still did not have title to the plantations: Public Solicitor's File L413, *Tulu and Navalen Plantations*.
- 103 A.J. O'Connor, 'Indigenous Shareholding: an Analysis', in A.J. O'Connor et al., *The Indigenous Role in Business Enterprise: Three Papers from the Third Waigani Seminar, New Guinea Research Bulletin 35*, New Guinea Research Unit, Australian National University, Port Moresby and Canberra, 1970, p. 2.
- 104 Barry Shaw, personal communication. However the Bank has been placed in something of a quandary over this, since loan applications sometimes come from unincorporated groups backed by influential political support; the Bank has compromised by providing loans to some groups but only up to a general ceiling in amount: *ibid*.
- 105 Lindsay Curtis, personal communication. It was probably in reference to this prohibition that the head of this department responsible for 'business development' warned an officer who assisted a large group venture of 'peasants in cities', the Buang Taxi Truck group, 'that the operation of Buang Taxi Trucks may be considered illegal and that if a prosecution is made he cannot expect departmental support': C. Lesley Andrews, *op.cit.*, p. 148.
- 106 Chris Gregory, personal communication.
- 107 cf. Nicos Poulantzas, *Political Power and Social Classes*, New Left Books and Sheed & Ward, London, 1973.
- 108 Modest efforts at reserving certain economic areas for nationals or giving them some preferential treatment in securing government contracts have boosted the number of 'joint-ventures' and 'fronts' which give the appearance of dominant or exclusive national ownership but which are set up in ways that channel a substantial share of profits to foreign participants: see e.g. Camillus Narokobi & Robert Wanji, 'Inter-Racial Joint Enterprise in Papua New Guinea', *Melanesian Law Journal* 4, 1, June 1976.
- 109 Ventures of the type referred to in the previous reference have sprung up in this context but they do not appear to be numerous.
- 110 This paragraph is based on personal observation and on personal communications with Bob Densley, Barry Holloway, Fred Leahy, Iambakey Okuk and Barry Shaw.
- 111 Quoted in Nicos Poulantzas, *op.cit.*, pp. 258-9.
- 112 Diana Howlett, R. Hide and Elspeth Young, *op.cit.*, p. 6.
- 113 See for example, Ben R. Finney, *Big-Men*, p. 91; M.J. Meggit, *Studies in Enga History*, The Oceania Monographs 20, Sydney, 1974, p. 84.
- 114 Paula Brown, *op.cit.*, pp. 11-13; Diana Howlett, R. Hide & Elspeth Young, *op.cit.*, p. 185; Richard F. Salisbury, 'Despotism', pp. 231, 235.
- 115 Ben R. Finney, *Big-Men*, pp. 117-8; Munare Uyassi, *op.cit.*, pp. 23, 36.
- 116 Tony Barnett, 'Politics and Planning Rhetoric in Papua New Guinea', *Economic Development and Cultural Change* (forthcoming).
- 117 Bill Standish, Independent Papua New Guinea's First National Elections: An Interim Report, n.p., n.d., roneo, p. 6.
- 118 Section 26 of the Act imposes the following restrictions on dealings in converted land:
- (i) the land may be transferred or leased [only] to the Administration or to a Native . . . ;
 - (ii) the land may be mortgaged or charged but . . . the mortgagee or chargee is not entitled to remain in possession for longer than three years or to foreclose the right of the mortgagor or chargor to redeem the mortgaged or charged land; and
 - (iii) the land shall not be taken under a writ of execution or under or in consequence of a bankruptcy or insolvency, or in any similar or analogous manner.
- 119 More particularly, the idea behind the exemption power was . . . that the new unsophisticated title-holder needed protection in the early days of registered ownership but that the restrictions could be lifted when they were no longer required. But the . . . [relevant official] adopted the practice of lifting the restrictions whenever he made a conversion order with the result that the Ordinance was amended in 1968 so that every sale required the consent of the Minister for External Territories, every lease or mortgage required the consent of the Administrator's Executive Council (that is, the Cabinet) and the restrictions on the mortgagee's powers were mandatory in every case.
- Theo Bredmeyer, *op.cit.*, p. 9.
- 120 *ibid.*, p. 9.
- 121 *ibid.*, p. 10; Diana Howlett, R. Hide & Elspeth Young, *op.cit.*, pp. 98-110; S. Rowton Simpson, *op.cit.*, p. 7.

- 122 David Birmingham & Brian Scoullar, op.cit.; R.B. Dakeyne, op.cit.; Geoffrey G. Gray, op.cit.; David Morawetz, op.cit. Some people accept that traditional inheritance rights will continue to apply to their converted land: David Morawetz, op.cit., p. 25; Robert Wanji, op.cit., p. 25.
- 123 Ben R. Finney, *Big-Men*, pp. 100-4.
- 124 Vincent Kondom, personal communication.
- 125 F.M. Kassam, op.cit., pp. 25-7.
- 126 John Oates, personal communication.
- 127 Bob Gunton, personal communication.
- 128 This was the case of a transport and earthmoving partnership of two brothers, partly based in their rural village and partly—and mainly—in the nearby national capital. One of the partners was murdered—it has never been discovered by whom. The venture was started mainly with a government loan and hence kin had little direct claim on it. Even so, a wide-ranging and enormously complex collection of kin-demands was made on the estate and there can be little doubt that the venture would have dissipated without the surviving partner to hold it together: Joe Shaw, personal communication, and see also C. Lesley Andrews, op.cit., pp. 82-3.
- 129 Scarlett Epstein, 'The Tolai "Big Man"', pp. 56-7.
- 130 Alan Ward, *Customary Land*, p. 22.
- 131 See B. Jinks, P. Biskup & H. Nelson, op.cit., p. 361.
- 132 See H.H. Jackman, 'Co-operatives', in *Encyclopaedia of Papua and New Guinea*, Melbourne University Press, Carlton, vol. 1, 1972, p. 213; N.D. Oram, op.cit., p. 83. The source and context of the quote in the text is:
The war's disruptive impact and its demonstration of European technical achievement on a colossal scale had evoked a new ferment amongst Papuan peoples which could be dangerous or beneficial, according to the channels into which it was directed. Tactically the Administration's assistance [with co-operatives] was designed to guide potential forces of resistance into proper channels.
J.D. Legge, op.cit., p. 218.
- 133 Ian Hogbin, *Social Change*, p. 228; N.D. Oram, op.cit., p. 91.
- 134 Great and often unreal inducements were held out by officials to attract membership to co-operatives, and these included the very real one that the co-operative was the only available form for Papua New Guinean groups to get legal recognition and loans: Peter Fitzpatrick & Julie Southwood, op.cit., pp. 15, 25-6. Sketches of the official containment of existing associations within the co-operative regime have been provided by R.F. Maher, *New Men of Papua: A Study of Cultural Change*, University of Wisconsin Press, Madison, 1961, pp. 57-77; and D. Ryan, 'Taoripi Association: Some Problems of Economic Development in Papua', *Mankind* 6, 1, 1963.
- 135 Paul Hasluck, op.cit., p. 153. Not only were the legal powers given to officials of a most extensive kind but, with two or three exceptions out of the hundreds of co-operatives, registration as a co-operative entailed becoming closely involved with and subordinated to the requirements of a government extension agency for co-operatives; these requirements were ostensibly aimed at ensuring the economic success of co-operatives and, to this end, justified the continuous and comprehensively dominating involvement of government officers: see *Report of Committee of Enquiry into Co-operatives in Papua New Guinea*, Port Moresby, 1972, pp. 8, 162.
- 136 *ibid.*, pp. 65, 178, 191; S. Singh, *Co-operatives in Papua New Guinea*, *New Guinea Research Bulletin* 58, New Guinea Research Unit, Australian National University, Port Moresby and Canberra, 1974, pp. 182-90.
- 137 For example, Marie Reay, 'But Whose Estates? the Wahgi Smallholders', *New Guinea*, 4, 3, 1969, p. 66.
- 138 Committee of Inquiry into Co-operatives, op.cit., pp. 38-57, 65, 191, 224.
- 139 Division of Co-operative Development, *Annual Report of the Registrar of Co-operative Societies*, Port Moresby, 1974, p. 14. See also the Department of Business Development, *Information Paper*, roneo, 'December 1973', but in fact published in December 1974.
- 140 McSwain notes of the area she studied that 'traditional elements in the social system suffered little change through the introduction of co-operatives': Romola McSwain, op.cit., p. 103.
- 141 A survey of co-operatives in 1970 showed that out of a total of 332, 286 had a membership of less than 500. This total figure excludes 'secondary' co-operatives whose members are not individuals but are collections of co-operatives, since to include them would unfairly bias the result in favour of the point being made. The total also excludes one co-operative for which figures could not be obtained. Other figures reinforce the

- point: of this total, 301 had less than 700 members, and 314 less than 1000; only five had more than 2000 members and only two more than 4000.
- 142 David Simpson, *The Administration and Political Development of Local Government in PNG to 1964*, B.A. Honours Thesis, Department of Political and Administrative Studies, 1979, pp. 13-14.
- 143 Diana Coneyers, op.cit., p. 7 where she notes:
On the one hand they [councils] were to act as an administrative arm of the colonial administration as their predecessors, the village officials, had done; on the other, they were supposed to provide the basis for the establishment of democratic self-government. In practice, the emphasis in most councils has been on the first function and a large part of their efforts have been devoted to ensuring that national regulations and instructions are obeyed, carrying out minor functions on behalf of the central government departments and providing information on local affairs. As effective local governing bodies, they have been, in most parts of the country, relatively ineffective.
See also Paul Hasluck, op.cit., pp. 242, 399.
- 144 David Simpson, op.cit.: Peter Worsley, *The Trumpet Shall Sound: A Study of 'Cargo' Cults in Melanesia*, Granada Publishing, London, 1970, p. 199, but cf. C.D. Rowley, *The New Guinea Villager: A Retrospect from 1964*, Cheshire, Melbourne, 1972, p. 179, note 26.
- 145 David Simpson, op.cit.; Munare Uyassi, op.cit., p. 7. Hasluck's account of how councils were set up appears facetious but doubtless is not:
The approach was simple. The initiative came from the Australian officer. With variations suited to circumstances he said in effect to the people, 'Don't you think it would be a good idea if you had a council just like the people over at?' (He named some neighbouring group whom they envied.) When curiosity had been stimulated, he told them in effect, with local variations, that when they got a council, they would be able to do such things as build a council house, get a lighting plant, start a rice-mill, have a saw-bench, buy a vehicle or do something else which they coveted but which was beyond their means as individuals in a village.
Paul Hasluck, op.cit., p. 242.
- 146 See, for example, Jairus Banaji, op.cit., pp. 34-5.
- 147 See, for example, T.S. Epstein, *Capitalism*, pp. 52-3, 70; Ben R. Finney, *Big-Men*, p. 77; Rolf Gerritsen, op.cit., pp. 13, 16-7; Henry To Robert, op.cit., p. 75.
- 148 See references in T.S. Epstein, 'The Setting for Socio-economic Planning', in Marion W. Ward (ed.), *People and Planning in Papua New Guinea*, *New Guinea Research Bulletin 34*, New Guinea Research Unit, Australian National University, Boroko and Canberra, 1970, pp. 50-1; and John Conroy & Grania Skeldon (eds), *The Rural Survey 1975, Yagl-Ambu Special Issue*, Papua New Guinea Institute of Applied Social and Economic Research, Boroko, 1977, pp. 109, 127, 145, 165; R.G. Crocombe, 'Four Orokaiva', p. 17; Ben R. Finney, *Big Men*, p. 85; R.F. McKillop, 'Problems', p. 15; Louise Morauta, op.cit., pp. 72, 74; Andrew Strathern, 'The Entrepreneurial Model', pp. 373-4.
- 149 R. Moulik, op.cit.; Anton Ploeg, 'Sociological Aspects of Kapore Settlement', in J.P. Longayroux et al., *Hoskins Development: The Role of Oil Palm and Timber*, *New Guinea Research Bulletin 49*, New Guinea Research Unit, Australian National University, Port Moresby and Canberra, 1973, p. 38.
- 150 Rolf Gerritsen, op.cit.; Munare Uyassi, op.cit., pp. 47-9.
- 151 See, for example, Peter Fitzpatrick, 'Tuki ni Buka: the Formation of a Development Corporation', *Yagl-Ambu 2*, 3, 1975.
- 152 Rolf Gerritsen, op.cit.; Munare Uyassi, op.cit., p. 1.
- 153 See, for example, Mike Donaldson & Kenneth Good, *Class and Politics in the Eastern Highlands of Papua New Guinea*, *History of Agriculture Discussion Paper 9*, University of Papua New Guinea and Department of Primary Industry, n.p., 1978, p. 23; Ronald Skeldon, *Regional Associations in Papua New Guinea*, *IASER Discussion Paper 9*, Institute of Applied Social and Economic Research, Boroko, 1977, p. 23—to which several examples from other areas could be added.
- 154 Diana Howlett, R. Hide & Elspeth Young, op.cit., p. 207; Richard F. Salisbury, 'Despotism', p. 238; Bill Standish, 'The "Big Man" Model', p. 24.
- 155 Tony Barnett, 'Politics and Planning Rhetoric'; Peter Fitzpatrick & Julie Southwood, op.cit.
- 156 Andrew Strathern, 'The Entrepreneurial Model', p. 378.
- 157 Diana Howlett, R. Hide & Elspeth Young, op.cit., pp. 211, 220; R. McKillop, 'Coffee' in *Papers on Primary Industry Commodities, Part I, History of Agriculture Discussion*

- Paper 1*, University of Papua New Guinea and Department of Primary Industry, n.p., 1977, p. 8; R.T. Shand & W. Straatmans, op.cit., p. 185.
- 158 See for example, Diana Howlett, R. Hide & Elspeth Young, op.cit., p. 225; Donald D. Mitchell, op.cit., pp. 140-3.
- 159 See for example, Thomas G. Harding, op.cit.
- 160 Diana Howlett, R. Hide & Elspeth Young, op.cit., pp. 41-2; Louise Morauta, op.cit., p. 68; Richard F. Salisbury, *Vunamami*, p. 123; R.T. Shand & W. Straatmans, op.cit., p. 144; S. Rowton Simpson, op.cit., p. 10.
- 161 See references in Diana Howlett, *When is a Peasant Not a Peasant*, pp. 8-9, and R.G. Crocombe, 'Four Orokaiva', p. 9; T.S. Epstein, *Capitalism*, p. 104; B.R. Finney, *New Guinean Entrepreneurs*, p. 33; Rolf Gerritsen, op.cit., p. 46; Louise Morauta, op.cit., pp. 31, 55; Perry F. Philipp, 'Beef-cattle Raising by New Guineans', *South Pacific Bulletin* 21, 2, 1971; Richard F. Salisbury, *Vunamami*, pp. 8-9.
- 162 Diana Howlett, R. Hide & Elspeth Young, op.cit., p. 5 (their emphasis); and see generally, Romola McSwain, op.cit., xv-vi.
- 163 Commission of Enquiry into Land Matters, op.cit.
- 164 J. Potter, op.cit.
- 165 Law Reform Commission of Papua New Guinea, *Law of Succession, Working Paper 12*, Waigani, 1978.
- 166 Papua New Guinea Central Planning Office, *Post-Independence National Development Strategy*, Port Moresby, 1975, p. 25.
- 167 See for example, Mike Donaldson & Kenneth Good, op.cit., p. 11.
- 168 The law provides for the determination of disputes over land, so a fictitious dispute is created and the parties agree to a settlement of it, which settlement is then, in accordance with the law, given the effect of a court order: Alan Ward, *Customary Land*, p. 19.
- 169 Peter Fitzpatrick & Julie Southwood, op.cit., p. 1.
- 170 N.M. Lam, *The Burden of Agricultural Export Taxation in Papua New Guinea, LASER Discussion Paper 15*, Institute of Applied Social and Economic Research, Boroko, 1977, p. 27.
- 171 P.M.A. Spread, *The Allocation of Public Sector Expenditure to Urban and Rural Areas 1974/75*, Central Planning Office, Port Moresby, 1976, p. 2. At present much of this is an allocation of Australian 'aid' but what is important here is the developing structure rather than the nature of present inputs. This is not to say that the rural/urban divide is a definitive frame of analysis.

5

DISSIDENT CAPITALISTS: NATIONAL MANUFACTURERS IN CONSERVATIVE POLITICS, 1917-34

PETER COCHRANE

FOLLOWING HIS APPEARANCE before the Royal Commission on tariff legislation in 1905, Octavius Beale, a piano maker, reported that two of the Commissioners had started their interrogation with the consideration of the question whether it would be more proper to call manufacturers thieves or parasites.¹ Whether their quandary, as caricatured by Beale, was a common one in Australian society at the time is not really important. For what the incident did reflect was a state of affairs in which manufacturers had not yet qualified for 'high society'. Their vocation was then only struggling towards respectability and good repute. Social and political leadership in Australia was still identified with those merchant groupings and landed capitalists organised around trade with England.

In the following decades these attitudes and identities changed dramatically. So much so that by the 1930s, such an 'ordeal' as that suffered by poor Mr Beale was most unlikely. Manufacturers by then were amongst the leading public figures in Australian society. Their presence in the parliaments and in annual knighthood lists—both useful measures of social standing—was well established.

But not all manufacturers reached such dizzy heights. Indeed, most remained poorly accommodated politically and insecure economically—a function of Australia's continued dependence on an external industrial power, the United Kingdom. It is argued in the account which follows that the plight of many manufacturers in the 1920s gave rise to their political mobilisation and disruption of conservative politics at the federal level. Indeed, so fierce was their opposition to the ruling coalition of class forces that *national* manufacturers ultimately played a major part in the defeat of the Bruce-Page government in 1929.

Terminology here is important: the 'national' classes are identified as

those classes whose objective interests lay in contrast to those of U.K. and allied capital in Australia, and whose political mobilisation expressed this conflict. For the bourgeoisie in Australia which shared with overseas capital a common cause in the exploitation of labour, conjunctural factors placed different sections at different times in this position. However, such groupings did not constitute a card-carrying 'club'. Rather, a transient experience is identified in which sections of capital, conscious of eclipse or exploitation due to imperialism, became politically organised and adopted policies which aligned them with the working class and other national classes. In this sense the Country Party in Victoria, in its formative days, was a 'national' phenomenon expressing the outcry of small, mainly wheat farmers against dependence upon the marketing monopoly of merchant capital in conjunction with U.K. buyers.² Similarly, sections of manufacturing capital constituted a national grouping in the 1920s.

This account of the political role of national manufacturers in the 1920s and the depression focuses on their disruptiveness within the Nationalist Party fold. A prelude examines the political gains made by manufacturers under the Hughes regime of 1917-22. The Bruce-Page regime is then examined in two instalments looking first at the circumstances which placed many manufacturers outside the ruling coalition of class forces, and secondly at the political mobilisation of these manufacturers in response to their eclipse. It is this mobilisation which effectively constitutes the national manufacturers as the 'dissidents'—the politically neglected and consequently disruptive fraction within the capitalist class. This dissident role is projected into the depression but is shortlived. The paper finishes with a sketch of the process of political reconciliation whereby the national manufacturers were defeated, demobilised as an independent political force and, subsequently, reabsorbed into the conservative political fold.

The ambiguous political character of national manufacturers in Australia stemmed from their location in the class structure of a dependent society. In the twentieth century the imperial framework fostered a manufacturing sector in Australia, but it also constrained and shaped its growth. The manufacturing development sought after by the Commonwealth presumed both overseas capital to lay the basis for urban life and an expanding export sector to service the overseas debt. The need to export, and to support exporters, became greater as the debt-servicing obligations mounted late in the business cycle. At such times the interests of the (rural) export sector took priority, at the expense of other sectors if necessary, reflecting the political hegemony of British capital in Australia.

This is basically what happened in the 1920s, leading to the political alienation of many manufacturers: a quite direct correlation is evident between this and the state's growing involvement in primary sector support activity as the overseas debt rises and the rural crisis deepens. This corresponds to the relative decline of support for manufacturing in the context of open fragmentation in conservative political circles. The hostility of British capitalists to the tariff in this period accurately reflected the political priority of the export sector. As Sir Arthur Duckham noted during the Economic

Mission to Australia in 1928: 'It will have to be shown how the secondary industries can be placed in such a position that they will not be a burden, but an asset, to the primary industries'.³

Thus, manufacturing development, and the political ambiguity of many manufacturers, can be fully understood only with reference to the subordinate relationship of the manufacturing to the (rural) export sector—the pivot of British exploitation in the Australian economy.

Prelude: the Hughes Regime

Under Billy Hughes the conflicting interests within the capitalist class were reorganised to better accommodate manufacturing capital at the federal level.

The conservative wing of parliamentary politics had regained power in 1917 after the Labor Party government had split over the conscription issue, a split which culminated in the defection of Hughes, the Labor Prime Minister, and other Labor leaders. The Nationalist Party was then formed—a coalition between the Liberal Party and the ex-Laborites. Hughes' leadership was a necessary, if uncomfortable, compromise for the new conservative party which was then dominated by traditional, rural-based interests. His zealous protectionism and his close ties to manufacturing capital called for vigilance on the part of these interests, rendered his leadership subject to a delicate balance of forces within the party, and ultimately brought about his downfall.

Hughes personally was closely associated with the Collins House metals group and with the leaders of the Australian Industries Protection League (A.I.P.L.) with whom he had formed an enduring alliance. Within the new party, however, he was under constant scrutiny from the National Union in which the principal business groups of the party were congregated, and which controlled party finance. Like its predecessors—the financial committees of earlier conservative parties—the Union was a stronghold of the most powerful British and allied economic interests in Australia. It was dominated by export/import capitalists (though manufacturers were represented in its ranks), and it was politically, perhaps the most conservative and reactionary element in anti-Labor circles. The National Union dominated the business of the party machine and, on some occasions, of the parliamentary party itself. This was on matters of major political importance, such as anti-Labor unity and, subsequently, coalition politics. Several times between the wars, the Union was prepared to withdraw funds when this unity was threatened or impaired.⁴

However the Union's power in the Party did not go unchallenged under Hughes. In the first place, the post war years, 1918-22, were years of intense class conflict and industrial turmoil. The weight of inflation, with rapidly declining real wages throughout the war, and the polarization and bitterness engendered by the conscription issue, underlay this turmoil. It was reinforced by the rapid maturation of trade union organisation which had occurred since federation and the influence of revolutionary struggles abroad, particularly those of the Bolsheviks and the Industrial Workers of the World.

Such turmoil gave rise to organisational development within the Nationalist

Party which aimed at winning back the 'lost souls' that were moving to the left. The Party created extra-parliamentary associations in all States which gave it a branch structure and a permanent electoral machine to combat this movement, features which had been missing in the preceding practice of small-scale intermittent mobilisation around election time. This development took its most sophisticated form in the National Federation, the new association in Victoria. It was important for combatting the radical influences at large during the period, but it also posed special problems for the leading business groups within the party, as it gave the party a mass base and a forum in which this base could exercise its influence upon internal politics. Consequently the National Federation and comparable organisations which had formed in the other States were often focal points of conflict. Their major sources of finance were sometimes in jeopardy and their autonomy was frequently challenged. The new associations also provided manufacturers with an avenue into the party and with a foothold. For instance, J. Hume Cook, Secretary of the A.I.P.L., was elected the first President of the National Federation and in subsequent years its protectionist leanings generated heated conflict with the National Union.

Manufacturers found themselves far more at ease under Hughes' leadership than did the country rich or, for that matter, the country poor. In 1918 he increased land tax by 20 per cent and fixed meat prices. He was also intent upon increasing the government's regulation of trade and commerce in general, and though unsuccessful, this tendency cast him at irretrievable odds with pastoralists and farmers. So too did his commitment to protection which was cemented by the post-war thinning out of British naval lines. In 1918, Hughes established the Bureau of Commerce and Industry under Stirling Taylor, creating a special service for British investors. The Bureau was a source of highly efficient and detailed information. Taylor argued that the union of Australia's raw materials and British technology could turn Australia into a great industrial outpost of the empire at the doorstep of Asian and South Pacific markets. He believed the commercial supremacy of the empire was coterminous with industrialisation at its frontier:⁵

To visualise my meaning commercially—Great Britain should be the central factory, with Branch factories close to her markets; to visualise my meaning politically—if Great Britain is to hold the Empire she must hold it by populating her far off possessions, and thereby guarding for all time her frontiers. A decision on the one hand by Great Britain to develop Australia as one of her great Branch Factories to supply her own markets and those nearby natural markets, and, on the other hand, by Australia to set out on a deliberate policy of developing not only her primary, but also her secondary industries, would have as a result—on the one hand, the retention by the Empire of markets now endangered, and on the other, would mean the population of this Commonwealth by men and women of British blood and British sentiment.

The Bureau, in conjunction with other developments discussed below, effectively constituted manufacturing interests amongst the dominant fractions of capital in the coalition of class forces represented by the Hughes

government. 'History raises its voice in no uncertain way', argued Taylor, 'against those who are content to be primary producers and nothing more'.⁶

To achieve a more even balance between the manufacturing and primary sectors, political stability needed to be supplemented by a positive guarantee of markets in Australia. In 1921, against an immediate background of rising unemployment, renewed immigration and 'dumping' problems created by the world slump, the new Treasurer, Walter Massey-Greene, himself a manufacturer, introduced a comprehensive tariff schedule.⁷ This both fortified and broadened the tariff wall, making feasible, for the first time, industrial expansion into many new areas. The Tariff Board was created in the same year with formal powers to investigate and advise Cabinet on tariff matters. This too, like the Commonwealth Bank Board in 1924, was placed in the hands of prominent businessmen and guided by a leading manufacturer.⁸

Thus, in the course of its beleaguered life the Hughes regime had overseen some reorganisation of the conservative party machine; it had simultaneously reoriented policy to better accommodate manufacturing interests, and it had laid down some of the necessary state superstructure for industrial development in Australia.

The Bruce-Page Period: 1923-1929

In 1923, a coalition between the Nationalist and Country Parties was elected to power led by S.M. Bruce, an importer. The change of government and leadership did not ostensibly alter the course of economic strategy. The broad objectives—migration for land settlement, a greater use of natural resources and government direction in the development of a balanced economy—remained the same. There was however a shift in policy brought about by the changed composition of the government and new economic circumstances. The coalition moved away from the tariff towards methods of supporting economic development better suited to the Country Party, and towards a more direct assault on the problem of low profit levels through action on wages and the closing down of marginal capitals.

Bruce came to power in 1923 with the support of the Country Party and the National Union and on the condition that Hughes was to be eliminated ministerially. His government therefore rested immediately on a most powerful conglomeration of social forces whose interests were antithetical to a high tariff.⁹ The political convictions of these forces were further entrenched by the economic climate. The ministerial strength of the Country Party, led by Earle Page, was one reflection of their political muscle.¹⁰ Another was the mobilisation of 'free trade' forces, led by National Union members, within the extra-parliamentary associations of the Nationalists. Between 1923 and 1928 these continuously attacked the protectionist plank of the party.¹¹

Under the Bruce-Page regime, contradictions between the export and the manufacturing sectors were increasingly resolved in favour of exports. Much to the delight of some large and resourceful manufacturers and to the

chagrin of the smaller ones, they were left to face the relatively unmitigated forces of the market.¹² The balanced development sought after by the Commonwealth government presumed both overseas loans to lay the basis for secondary industry and an expanding export surplus to service the interest charges on these loans. Thus the need to expand and support exports became increasingly pressing as the burden of the overseas debt grew heavier from the mid-1920s. The immediate interests of manufacturers were subordinated to this need. The reproduction of British capital in Australia took priority because it was the cornerstone of economic strategy. The growth of the manufacturing sector was tossed about subject to its dictates.

The government abolished the Bureau of Commerce and Industry in 1923. Late in the same year it added a primary producer to the Tariff Board.¹³ Tariff preferences to British manufacturers were increased considerably in 1923 and 1926, whilst the tariff generally failed to keep pace with the falling prices of imports.¹⁴ Throughout this period its growth was restrained due to its mounting impact on the cost structure of rural producers, whose economic situation grew worse with each year. The protective barrier, in other words, became markedly less effective. And this was in spite of the Customs portfolio being in the hands of a leading manufacturer.¹⁵ In addition, tariff revenue from 1924 was designated specifically to servicing the overseas marketing needs of exporters—an entirely new fiscal development.¹⁶ Thus, whilst the state was expanding its commitment to the 'bare-bones' infrastructure necessary for manufacturing development, it was systematically demolishing other commitments and deploying its liberated energies to the countryside.

Economic conditions did not favour the profitable accumulation of capital after 1923 when the rate of growth slowed considerably. This was as a result of intensified overseas competition, vacillating export receipts, and the overproduction of capital in building and manufacturing industries, 1919-24. Indifferent conditions in the rural sector added to the plight of the urban economy through decreased demand for implements and machinery.¹⁷ Political factors, too, made a significant contribution to the profitability crisis. There were reforming Labor governments in most States at some time during the 1920s. These extended the responsibilities of capital to labour, supervised working conditions more rigorously and in some ways improved them. The principal measures were the introduction of employers' liability insurance schemes, and the implementation of a 44-hour week in Queensland and New South Wales, and in some trades (timber, engineering), in all States.¹⁸ Arbitration, too, proved costly to employers, as the movement in real wages was slightly upward from 1922 whilst many strikes in this period had widespread, aggravating consequences, being located in strategic areas of the economy.¹⁹

Between 1924 and 1930 there was a series of bitter and protracted strikes centred in the maritime, coal and timber industries. These were largely defensive actions directed against the mobilisation and use of 'loyalist' or scab labour, retrenchments, and the intensification of labour and shop-floor discipline, factors which themselves arose from the profitability crisis facing

employers. For the same reasons, strikes became more frequent in other sectors of the economy from 1925 onwards. It was no coincidence, therefore, that the Bruce-Page government's campaign against the trade unions began in earnest in 1925-26. The campaign was part of a broader programme aimed at offsetting a conjuncture of influences, including strikes, which had imposed a severe profitability crisis upon employers after the mid-1920s.²⁰

The federal government brandished a combination of measures to combat the economic downside: it hoped to absorb a greater portion of the social costs of the reproduction of labour-power and thus restrain wage growth and militancy; to impose, at the same time, strict industrial discipline on the trade unions to ensure continuity of production; and to reform the federal arbitration system, removing from it the structures exploited by the trade unions.

In 1925 the coalition put forward elaborate proposals for child endowment and national insurance schemes. A scheme for cheap finance to facilitate lower income home ownership was also drawn up and put into effect in 1927, though just how effectively is not certain as the Commonwealth Bank intervened to assert its control over the scheme soon after the legislation was passed.²¹ But the 1925 proposals were shelved as Commonwealth revenue declined and 'balancing the books' became more difficult. Nullified in the field of social amelioration, the Bruce-Page government became still more obsessive with outright repression to achieve industrial peace.

This particular government sought to mollify militant trade union leaders, to drain trade union finances and to formally organise the practice of strike-breaking. It was particularly concerned with securing industrial discipline in the strategic areas of the economy, such as transport and fuel. From 1925 to 1928 a series of legislative measures were therefore implemented empowering the Governor-General and the government to deport migrants who proved troublesome in industrial relations, to break strikes in the shipping trade through the introduction of British and foreign shipping, to license waterside workers (i.e. control waterside personnel) and encourage the growth of 'associations of men willing to carry on work during a strike', to declare revolutionary and seditious associations unlawful and to impose heavy penal provisions and other sanctions on any union which employed direct action in preference to arbitration channels.²²

This campaign against the unions had a xenophobic flavour to it that was calculated to hold the government's support together at a time when important sections of it were breaking ranks. It also provided the Nationalists with an issue to lay at the doorstep of state Labor governments. Bruce's 1925 election campaign tirelessly identified industrial strife with communism, chaos and irresponsible Labor ministries. What an appalling situation it was, where in Victoria alone could 'voluntary workers' be sure of adequate police protection.²³ However, the most striking feature of the coercive legislation was its complete failure, after 1925, to prevent strikes from becoming both frequent and damaging, and to confine trade unions to arbitration channels. Arising from this failure, the government legislated in 1929 to completely vacate the field of Conciliation and Arbitration, leaving

it to the States. The government faced a desperate situation and reacted accordingly with desperation. The economic crisis was now looking most grave: export receipts were meagre; imports were clearly winning the battle against local manufactures; unemployment was mounting; lockouts were more prominent and bankruptcies had risen sharply.²⁴ Simultaneously, the clamour for wage reductions was mounting. Unable to respond effectively, the government resolved that the federal arbitration system was to be dismantled. The legislation of 1929 aimed at clipping the wings of the arbitration principle in general. It sought to eliminate the dual State/Commonwealth system which the trade unions had exploited with some success.²⁵ And it sought to limit the mandate of state arbitrators to wages and hours, thus leaving a considerable range of costs and conditions in the hands of employers themselves for negotiation. This was in keeping with a bellicose frame of mind in business circles, expressed aptly in the demand of the *Australasian Manufacturer*: 'Away with it and let us get back to the clear, open economic ring'.²⁶

The attempt to vacate the arbitration field to the States appeared to be a sharp turnabout in federal policy since the same coalition had tried unsuccessfully in 1926 to take on the entire responsibility for arbitration. In fact a closer reading of the situation indicates that the two moves were consistent and represented a determined effort to create a region of power within the federal/state complex which could both uniformly and effectively deal with industrial disputes and restrain wage growth. The failure of the 1926 attempt simply meant another course had to be tried in order to achieve this objective. However, on both occasions constitutional barriers, state jealousies and intra-capitalist conflict confounded the government's original aims. As Sawyer has argued, there was a coalition consensus around the 1929 legislation that 'wages were too high, hours too short and worker productivity too low, and that it would be difficult for the federal tribunals to apply the necessary correctives while it might be possible for the State ones to do so'.²⁷

The Attorney-General, Latham, expanded further on the thinking behind the coalition consensus:²⁸

The general principle which underlies the suggestion which I am now discussing is that it should be recognised that it is not possible, particularly with the limited executive agencies (police, etc.) available to a federal government, to compel obedience on a continental scale by merely legal means to an award to which the unions of Australia as a whole are opposed. The problem is smaller and simpler when the issue is fought upon a State arena—and the states have the police forces which the Commonwealth Government lacks.

The greater capacity of the state governments for open repression and violence was, therefore, perhaps the vital consideration underpinning the 1929 legislation.

Despite the government's brief and fatal attempt to abdicate responsibility in the arbitration field, the essential trend in Commonwealth/State relations had been and continued to be towards the expanded power of the Commonwealth. Countervailing forces, often grounded in narrow economic interests

and cloaked in the garb of state parochialism and chauvinism, were able to restrain and sometimes obscure the trend, but not to effect a decisive change in its direction. Historically, the shift of power away from the States has been a function of the increasingly broad, supra-State basis on which capital and organised labour were operating.²⁹ The specific and important developments of the 1920s fettered the ability of State governments to circumvent or disrupt co-ordinated national policy, and they narrowed the scope for effective reform by state Labor governments.

The High Court's radical reinterpretation of the Constitution was a milestone in the growth of Commonwealth power. The Engineers' Case of 1920-21 eliminated the long-standing concept of the 'residual power' of the States and the notion of areas of implied immunity from Commonwealth authority. Formally the judgment gave priority to the Commonwealth in *all* instances where it was obstructed by the legislative or executive power of the States.³⁰ Commonwealth power was also inflated, after 1923, by the creation of several statutory corporations which exercised considerable independence and new responsibilities, and which redistributed authority at the federal level away from the political executive. Whereas in the previous period (1917-22) the major structural development in the state was within the conservative party organisation itself, in this period it affected the distribution of power in the entire state apparatus. 'The [Bruce-Page] government showed its dislike for direct political control of administration, especially of business and technical concerns, by putting the Commonwealth Bank, the Commonwealth Shipping line, control of the sinking funds for the national debt, and the construction and government of the new federal capital under Boards or Commissions having a high degree of autonomy.'³¹ Still more important was the emergence of the Development and Migration Commission in 1926 and of the Loan Council in 1927, since these agencies were endowed with considerable investigatory and co-ordinating powers over the economic course of the States.

Headed in most cases by prominent businessmen or public servants, the new agencies effectively consolidated a stable, long-term, conservative administration since, as statutory corporations, they were insulated from the dictates of the federal government. Thus the shift in Commonwealth power was an inbuilt protective measure against the possibility of a reforming Labor government. The role of the Commonwealth Bank Board during the period of the Scullin Labor government was to prove the virtue of it. It should also be noted that these agencies were important transmission belts for the entry of leading businessmen from the secondary industries into the realm of Commonwealth power. The rise of the industrial ruling class is manifest in the prominence of technocrats and employers from the manufacturing sector on the Boards and Commissions created in the 1920s.³²

The extension of Commonwealth powers was complemented in this period by expanding commitments to private capital in other areas. In the sphere of production the Commonwealth was historically less active than the States. At both levels of government, however, there was direct intervention in the production process and this was aimed at defraying the costs

of private capital. Labor governments tended to provide more in the way of minimising wage costs: fisheries, canneries, butcher shops, trawling ventures and brick-works were all tried by at least one state Labor government before the second world war. Anti-Labor governments on the other hand were more concerned with capital costs (they instigated State coal mines for instance), and relatedly with technique and innovation, which at the Commonwealth level propelled the Hughes regime into industrial research, oil production and wireless transmission.³³

In the sphere of circulation and exchange, the state's activity was more extensive and complex: the problems relating to the sale of commodities and the realisation of a surplus in the export sector multiplied in direct proportion to the depth of the world economic crisis in the inter-war period. The Commonwealth government was forced into a desperate search for markets and into support operations in the countryside. It was compelled to create an elaborate marketing and financial apparatus for rural producers and was thus increasingly responsible for their economic organisation.

The fundamental problem facing rural producers in the 1920s was the steady downward movement of the international price for their commodities. Few rural exporters were unaffected by this phenomenon. However, the smaller producers in the agricultural sector (wheat farmers and fruit growers) found themselves in increasingly dismal financial difficulties.³⁴ These were compounded by the international currency instability of the period: it was not uncommon for a farmer's payment to be delayed and distorted due to a rupture in the exchange network, and this affected re-stocking and re-planting schedules. As a result, many rural producers, particularly the hardest hit wheat farmers, descended into heavy debt and many were forced to leave the land.³⁵ Their production had become increasingly less rewarding and the rewards themselves subject to delay, which in turn affected the production cycle adversely. This was the rural manifestation of the burgeoning economic crisis of world capitalism.

Such problems propelled the state into a new and relatively permanent field of activity. The federal government, in concert with the state governments, was forced to intervene in the world market on behalf of exporters. It became a mediator between the two. Simultaneously it constructed a more elaborate financial superstructure for exporters. The groundwork for the state's mediation in the world market had been laid during the war when the international movement of commodities necessitated government regulation. After 1918 however, most of the wartime apparatus was dismantled. It was under the Bruce-Page regime that an extensive 'rebuilding' programme was effected. The presence of a powerful Country Party in the ministry added considerable vigour to it; indeed Page's role in its more important legislative components was the leading one.

From 1924 to 1926 the federal government moved into advertising and marketing abroad for rural producers. Numerous Boards were created to administer and centralise the marketing of export producers.³⁶ At the State level, a comprehensive web of marketing organisations was constructed, to handle and 'hold over' the huge crop surpluses which occurred from time

to time, thus acting as a guarantor for farmers against marketing delays. All of this activity aimed at minimising the costs of distribution, enhancing Australia's international reputation as a producer of foods and raw materials, and cartelising the sale of Australian produce to sustain prices. Thus some of the legislation gave the appropriate Boards considerable powers for centralising the marketing process: 'although the control boards were not formally given a monopoly of export handling they were in a strong position to regulate activities of private exporters and could acquire a monopoly if the Minister issued no licences to the private agents'.³⁷

The government also constructed the financial apparatus necessary to sustain rural production in the peculiar conditions of the 1920s. The major programmes entailed a special bank finance scheme; the creation of a trust account in the Treasury to be distributed by the Commonwealth marketing boards; the Commonwealth Bank Act of 1924 which overcame the problem of delayed payment for exports when funds were 'beached' in London; and the creation of a rural department of the Bank in 1925, to support farmers whilst their crops were being marketed and sold.³⁸ The state governments were also integrated into this programme and, with the marketing boards, became the major distributors of 'support finance' to exporters. In addition, the federal government continued the practice of granting bounties instead of tariff protection on the manufacture of certain capital goods produced in Australia, in order to minimise the production costs of farmers and graziers.³⁹ The elements of chance, inefficiency and production technique were also tackled by the state: with the financial support of the London based Empire Marketing Board, the Commonwealth Scientific and Industrial Research Organisation was established on a federal basis with funds for scholarships and overseas research work, and almost exclusively oriented to rural problems.⁴⁰

With the increasing priority given to rural problems, which included the deterioration of the tariff wall, the Bruce-Page government necessarily became a sorrowful compromise for many manufacturers, particularly those of small scale whose economic situation worsened considerably in this period. The reflex of their plight was political mobilisation and a highly disruptive role within the Nationalist Party organisation. Indeed, the small manufacturer was the principal destabilising factor in anti-Labor politics and figured prominently in the ultimate downfall of the government in 1929.

The presence of large numbers of small producers is the most distinctive feature of the scale of manufacturing in Australia between the wars. Certainly the pace of the concentration process was quite fast and it is this which has attracted the attention of many observers.⁴¹ But it was also the case that an exceptionally large number of firms existed, and these were mostly very small operations. In 1920-21, factories in the Commonwealth employing 10 or less workers constituted 61 per cent of the total, and those with 20 or less workers, 78.3 per cent. By 1936-7 the basic contours remained the same though the predominance of small enterprise had increased with 68.8 per cent of factories employing 10 and under, and 81.88 per cent employing 20 and under. The level of concentration in Australian industry was reflected

however, in the fact that these factories accounted for only 24.9 per cent of total employment in the manufacturing sector in 1920-21 and 23.01 per cent in 1936-37.⁴² Such firms used primitive and outmoded machinery, they lacked financial collateral and were highly susceptible to the ebb and flow of the trade cycle. The small capitalist tended to carry a huge personal workload, mixing skilled or semi-skilled work on the shop-floor with managerial and weekend maintenance duties. In 1923-4 there were 20 189 factories registered in the Commonwealth and 18 088 of these had 'working proprietors'. That is to say, in almost 90 per cent of Australian factories the owner was working in some capacity. The situation had advanced by 1935-6 but the fundamentally 'craft' character of shop-floor production relations remained—proprietors were still working in 80.3 per cent of factories.⁴³

Political organisation was highly difficult for small manufacturers, since they had neither the social contacts nor the financial resources necessary for this. Their spare time, too, was in short supply. Moreover, whilst their numbers tended to grow steadily, the 'membership' of this group was subject to a rapid turnover, largely due to failure and a return to the working class. But despite such factors, a semblance of organisational representation was acquired during the first world war in the form of the Australian Industries Protection League (A.I.P.L.). Whilst very few manufacturers were personally active on a political level, their large numbers, their like-mindedness on several major issues and their relative autonomy within anti-labour circles, made them a most volatile element. This was crystallised in the activity of their leadership in the A.I.P.L.

The A.I.P.L. was a strong protectionist organisation which operated as a pressure group body for lobbying in Canberra and the States. It existed independently of other manufacturers' groups, but maintained a close liaison with the chambers of manufacturers which frequently advanced their political aims through the A.I.P.L. The voice of small manufacturers in the chambers acquired official representation only in New South Wales where the *Australasian Manufacturer*, the organ of the New South Wales Chamber from 1926 to 1931, was most outspoken on their behalf. The *A.M.* parted from the Chamber in 1931 for reasons which remain obscure, but it continued to publish under the auspices of a group of private manufacturers and to champion the cause of small scale industry.

The political outlook of small manufacturers as expressed through the A.I.P.L., and through the Sydney-based *Australasian Manufacturer*, was a composite of beliefs which, in total, clearly distinguished it from other sections of capital. The dissident manufacturers were, first and foremost, advocates of high, even prohibitive protection; they possessed a profound belief in the virtuosity of the small business enterprise and the necessity to furnish it with a financial and political superstructure.⁴⁴ They were thoroughly opposed to overseas borrowing since the debt was devoted to the purchase of imports and in this they were fundamentally at odds with the strategy of the federal government.⁴⁵ Their nationalism resided, not in their rejection of empire, but in a commitment to it that was contingent on rapid

industrial development in Australia. This was expressed in the solemn A.I.P.L. membership pledge which stressed empire as well as nation:⁴⁶

I, the undersigned, hereby
 Covenant with my Country to
 buy and use its products
 wherever possible; and on such
 occasions as I am unable to
 obtain a suitable article of
 Australian production, to insist upon being
 supplied with one of British origin.

In hard times the national manufacturers could be fervent advocates for the corporate state and were especially partial to the outlawing of strikes and to the implementation of piece-work.⁴⁷ But this in itself was not sufficient to accommodate them comfortably in the Nationalist fold. Small manufacturers identified the Nationalists with 'Big Capital' and saw themselves as being politically unrepresented. They exhibited a thoroughgoing suspicion of the Country Party and were unco-operative and uncompromising towards it. The Labor Party on the other hand was not a ready-made alternative. It, too, was regarded with suspicion, as something of a Jekyll and Hyde character; support for it did not flow easily from the small manufacturers' political veins.

In response to a growing sense of alienation under the Bruce-Page regime, the A.I.P.L. raised a mass propaganda campaign and fought a bitter tactical battle in the Nationalist Party organisation from the mid-1920s. Its aim was to embarrass the party publicly for its neglect of the manufacturing entrepreneur, and thus to coerce it into some change of course. Since the A.I.P.L. was largely unsuccessful in this, the conflict culminated in the defection of many manufacturers, and their support for the Labor Party in 1929.

Following Hughes' replacement by Bruce in February 1923, the breach was further widened when the A.I.P.L. Secretary, J. Hume Cook, resigned from his position as General Secretary of the National Federation, arguing factually that the Federation had been hobbled by the financial control of the National Union, and that the Federation itself was no longer a sound protectionist body.⁴⁸ In the 1925 federal election the A.I.P.L. organised a public criticism of the coalition which 'concentrated on the seats held by Country Party candidates and the Prime Minister'. A team of experienced journalists was engaged and the Australian Natives' Association, a fraternal, like-minded body, provided the personnel for the mass distribution of leaflets and pamphlets.⁴⁹ In Parliament Hughes made a series of embarrassing and untimely attacks on the government. Bruce had retaliated privately by threatening to withdraw his endorsement, and publicly, by calling on all Nationalist forces to resist the serious challenge to the unity of the Party.⁵⁰ Simultaneously, Hume Cook had made elaborate preparations for what is recorded as the 'New Party', though it seems nothing came of this.⁵¹ The A.I.P.L. and its supporters were contained within the anti-labour camp, though it was possibly due to the lack of a suitable alternative—Langism

was emerging in the Labor Party in 1925—rather than the resolution of manufacturers' problems.

Indeed, these problems continued and worsened. Between 1925 and 1928 the recession set in right across the manufacturing sector. At the same time, the impact of reforming Labor governments at the State level added to the financial strain of the crisis. The costs of workers' compensation were particularly notable. The implacable opposition of manufacturers to overseas borrowing hardened and the presence of an Economic Mission from Britain—to check the financial stability of the debtor Commonwealth—was coldly received. 'What Australia wants is not a commercial circus to visit its shores', claimed the *Australasian Manufacturer*, 'but a proper understanding between our own manufacturers and the powers that be at Canberra. Evidently Mr Bruce does not realise this'.⁵² On the day of the 1928 elections, the journal called for a Manufacturer's Party and advised: 'The manufacturer who votes for the Bruce-Page combination is more (than) brave. He is reckless to the extent of foolhardiness'.⁵³ It appears then that the dissidents may have refrained from voting in the 1928 federal elections, whilst in state politics the Victorian Labor leader, Hogan, may have got the endorsement of a substantial shifting vote in manufacturing circles.⁵⁴ The rift was growing wider.

In 1929, when an election was precipitated over Bruce's decision to vacate Arbitration at the Commonwealth level, many manufacturers deserted the Nationalist Party and voted Labor. This was part of a broader electoral swing that put the Nationalists out of power. In the following year Hughes and Hume Cook formed the Australian Party, whose leadership was predominantly made up of manufacturers and political representatives of manufacturing capital, and whose administrative apparatus overlapped with that of the A.I.P.L.

Westerway argues that the party's support was largely drawn from small businessmen (the number of local government aldermen in the party was disproportionately high); it also had the support of several large manufacturers in Sydney and Melbourne, of the Sydney-based newspaper, the *Sun*, owned by Sir Hugh Denison, and possibly of the N.S.W. Chamber of Manufacturers. In Victoria the party's social base was similar to that in New South Wales but its support was not as great. The absence of a mass newspaper to back it made a substantial difference. The party also had the vigorous support of the lobby of informal spokesmen for manufacturers in parliament: Senators Duncan and Massey-Greene; Messrs Hughes, Maxwell and Marks.⁵⁵

The party decried the use of overseas loan funds, advocated a high tariff, generally treated the new Scullin Labor government with sympathy and preferred a wage freeze to wage reductions, recognising the impact of the latter on demand and economic recovery. It was an outspoken opponent of the Bank of England's deflationary recommendations to the Commonwealth and advocated restrictions on rural production rather than increased output, in marked contrast to the policy adopted.⁵⁶ Not until 1932, by which

time political alignments within the major anti-Labor party had radically changed, were these political wanderers re-absorbed.

The Scullin Interval: 1929-1932

For the politics of the depression, the long-term development goals of the previous years had to be dropped in order to handle a savage short-term interruption to growth. With the economic crash in 1929 the whole emphasis of Commonwealth politics changed. Thoughts of systematic planning disappeared, political life was more hectic and volatile; and purely ad hoc, salvaging measures replaced any pretence of 'economic management'.

With the election of the Scullin government and the economic crisis which coincided, the focal point of bourgeois mobilisation shifted drastically. In the Bruce-Page period the focal point had been the wage system and the search for industrial peace. During the great depression of 1929-32 however, the main issue became monetary management and sound finance in government. This was due as much to some problems being now less important as it was to the emergence of new ones.

By 1930 the backbone of the labour movement had been broken. Three epic industrial confrontations, one strike and two lock-outs, in the preceding 18 months, had witnessed the defeat of Australia's most militant trade unionists and the financial bankruptcy of their organisations.⁵⁷ Unemployment in the trade unions was running at 20.5 per cent in the third quarter of 1930 and there was little fight left in the organised working class, at least for the time being.⁵⁸ Consequently, working-class struggles were not centred in the factories where industrial discipline was now stringent and job security perilous. Rather it was based amongst the less 'privileged' unemployed, the itinerants and the anti-eviction groups in the cities. Their struggles were intense and often violent but they were rearguard actions, sporadic, often spontaneous, and essentially defensive in character.⁵⁹ There was no social basis for their unification and momentum.

Whilst the problems associated with a disruptive and threatening working-class partly receded, those associated with management of the monetary system moved into the spotlight. The Scullin government had assumed office simultaneously with the sharpest economic slump Australia had ever experienced. The cessation of capital inflow and the drop in export prices caused an unprecedented balance of payments crisis. This placed a tremendous strain on the London balances of the Australian banks and threatened the capacity of the government to meet overseas debt commitments. The fall in national income was severe, adversely affecting government revenue at a time when overseas debt commitments and the burden of unemployment increased the financial demands on both the States and the Commonwealth. The Scullin ministry erected a high tariff wall to redress the balance of payments situation, to reduce unemployment by fostering local industry and to raise alternative revenue from Customs whilst incomes continued to decline. The revenue problem also compelled repeated increases in income tax, in company tax and in tax on incomes from property, whilst a sales tax

(Commonwealth) and unemployment relief taxes (States) were introduced for the first time.⁶⁰

For those fractions primarily dependent on trade with England—primary producers, importers and British manufacturers for instance—the tariff measures were anathema to their immediate, problem-ridden economic plights. Not surprisingly then, these interests coalesced into a number of powerful anti-tariff groups around Australia. In New South Wales for instance, the Australian Association of British Manufacturers (A.A.B.M.) instigated the Joint Committee for Tariff Revision in conjunction with the Sydney Chamber of Commerce and several leading primary producing organisations.⁶¹ The A.A.B.M. became a ubiquitous and often unseen political force which played a leading ideological role in shaping public opinion in Australia. Its influence was perhaps a major factor in the tariff moderations effected by Scullin's successor, Joe Lyons. However its prescriptions did not represent the long-term interests of British imperialism in Australia, since a solid tariff wall was necessary for Australia's balance of payments and the meeting of debt commitments in London. Consequently, the political strategy of the Bank of England was in contrast to that of the A.A.B.M. 'High finance' in London placed its priority on effecting Australia's national solvency—the key long-term factor—in such a way as to ensure maximum repayment of debts before the making of any concessions. The tariff question was secondary to and dependent upon this priority.

Towards the end of 1930 the possibility of still larger deficits sent shock waves through the business world and conservative politics. Late in 1930 the call for more government spending from sections of the Labor leadership and from the trade unions became louder, as it did in some enlightened pockets of academic thought.⁶² Simultaneously the election of Lang in New South Wales in October 1930 raised the spectre of repudiation of overseas debts. Monetary radicalism was clamouring for action; its influence was spreading fast.

These developments provided the catalyst for a groundswell of political activity in the name of 'sound finance', 'national solvency' and 'deflation'. In a matter of months tens of thousands of people were mobilised under these banners, drawn principally from the professional and managerial strata of Australian society. Their organisations spurned the umbrella of the major conservative parties and they were led by businessmen and women, most of whom had been politically inactive prior to the depression. Such a radical departure from the established channels of political expression and practice, and from the political apathy of the 'middle classes', is explained here in terms of the ideological assumptions behind the commitment to 'sound finance' and of the shortcomings of the major conservative parties at the time.

The mass organisations engendered by the economic crisis articulated the frustrations and fears of the unorganised and relatively defenceless middle class. Hitherto, its political apathy had been a function of identification with and confidence in the major parliamentary parties, but in 1930 the Nationalists and the Country Party were floundering, and offered little

in the way of a positive alternative. More importantly, monetary radicalism was synonymous with inflation and inflation was a dark cloud above the jealously guarded savings of the middle class. It confronted their fragile economic and social status like a fiscal Goliath.

In part the mass organisations were a manifestation of declining faith in existing representative institutions; or at least of doubts in their short-term efficacy. Latham, the new Nationalist leader, was himself prepared to demote parliament in preference for an unrepresentative 'Economic Council' in 1930.⁶³ But largely the mass organisations were expressions of a profound, widespread and like-minded intuition about how the representative institutions should be managed. Whilst a select few called for the abolition of parliament and pondered various forms of fascism, the vast majority exhibited no more than an intense commitment to the assumptions of orthodox economic thought within bourgeois democracy.⁶⁴

Orthodox economic thought accepted without question the premise that the system was inherently stable; that is, consistent with the 'natural' order of things and, consequently, best left alone. This assured, its permanence was secure. If the balance of payments deficit was burdensome, then Australians simply had been too prodigal and would have to be more thrifty. Governments would have to spend less and save more while the trade unions would have to accept lower wages in order to accommodate employment for their idle comrades.⁶⁵ At the heart of this philosophy was the belief that the level of economic activity, output and employment was determined by fluctuations in the general level of prices (including the price of labour-power). Indeed it was believed that the major economic problems of the time, domestic instability and external disequilibrium hinged on control of the value of money or the price of things. Thus the scope of legitimate monetary policy for government was confined to the stabilisation of prices. Any interference in the monetary system beyond this was intolerably meddlesome and reckless. These beliefs, when threatened, were the dynamo which politicised and activated hitherto apathetic people. For them the economic world was still flat, and monetary interference took them too close to the edge. Magellan had yet to sail.⁶⁶

The unique political breakdown, whereby many of the bearers of such ideas chose to circumvent the established conservative party with which they had previously rested easy, was not simply a function of these monetary inclinations. After all, the Nationalist Party was a bastion of the same ideas. There were rather a number of reasons for the breakdown: firstly, there was widespread dissatisfaction with the performance of the parliamentary parties, making the overtures of the Nationalists somewhat empty at the time. Many of the new activists blamed the Bruce-Page government as well as the Scullin government for the economic mess, believing the depression was caused by political mismanagement and dishonesty which shadowed both sides of parliament. An identifiable substream to this argument, largely confined to New South Wales, was the belief that parliamentary politics generated the class struggle by electorally dividing the Australian people into two hostile camps.⁶⁷ Secondly, the organisations, 'leagues',

'citizens' committees' and so on, which mushroomed late in 1930 were a magnetic influence on many moderate Labor people who could not be drawn away from their party by the Nationalists. The mass organisations gained a numerical momentum from this particular virtue. Thirdly, a prominent part in the leadership was played by manufacturers, particularly in New South Wales. Their sympathy for the Scullin tariff made unification with the Nationalists a matter for the greatest caution. Finally, the Nationalist Party itself was in considerable disarray. It had suffered the departure in 1929 of prominent members to the Australian Party, including the widely respected Massey-Greene, and Billy Hughes. The coalition had broken down and the Nationalist leadership was squabbling with a particularly unco-operative Country Party, whose electoral aspirations had been inflated by the Nationalists' inner turmoil. Menzies, for instance, referred to 'all sorts of gestures of hostility' and believed, at least publicly, that the breakdown was a senseless disunity.⁶⁸ In addition, Latham, whilst widely respected, was not considered by many Nationalists to have the personal qualities necessary to stem the electoral appeal of monetary radicalism. He was a poker-faced, heavily-starched professional with neither the demagogic qualities nor the earthy charisma that could sway working people. In the era of Jack Lang, such factors took on a greater weight.

The coincidence of these influences in 1930 and early in 1931 rendered the Nationalist Party deeply introspective and embroiled it in a temporary retreat to sort out internal matters. In these circumstances its public activities were of a negative character, reacting to Labor party policies but devoid of any systematic alternative. In short, the established political leadership of the bourgeoisie was in disarray. The 'sound finance' mass organisations sprang up in the interval of this flagging leadership and, incidentally, quickly dissolved once the Nationalist household was returned to order.

The role of manufacturers in this period is somewhat obscure, which is partly the result of the complex political realignments of the time. Certainly it appears some entered the 'sound finance' mass organisations, having been caught up in the doomsday scenarios that were their stock-in-trade. Some kept a foot in both camps, reluctant to oppose Scullin wholeheartedly but at the same time fearful of the Theodore tendency in the A.L.P. Nowhere, it seems, were they able to settle in complete political comfort. Their conflicts with other sections of capital continued to generate friction. As Archie Price lamented in his notes on the South Australian Emergency Committee (1930): 'I disliked intensely our co-operation with the manufacturing interests who were utterly selfish in their tariff attitude'.⁶⁹

The political interests of the national manufacturers however, continued to be expressed through the Australian Party, the A.I.P.L., and the Sydney-based paper, the *Australasian Manufacturer*. The Australian Party had held its first Annual Conference in April 1930, with Hughes elected President and Alderman Newlands, a former President of the N.S.W. Chamber of Manufacturers, Deputy President.⁷⁰ In correspondence to Hume Cook, Hughes reported the Conference with great enthusiasm and without modesty:⁷¹

We damned with comprehensive phrases the Communists.
 We cheered for Australia. We sang God Save the King, but
 I think the sentiment which was most attuned to the spirit of
 the Conference was a statement from my lips that the
 Australian Party stood for Australia and held it to be the
 duty of every Australian to put Australia first.

Hughes was probably correct in the belief that his words were representative of the Conference. For in the following months the stress on 'Australia first' continued to be characteristic of Party propaganda and activity. The focus of the Party's attacks was fixed upon the Nationalist Party and 'overseas interests'. The deflationary prescriptions of the Bank of England as outlined by Sir Otto Niemeyer brought forth resounding condemnation. For the Australian Party the greatest danger came from a Nationalist-Bank of England axis which was bent on destroying Australian industry and sucking the life blood from the Australian economy. During its uncompromising campaign against the Nationalists in the New South Wales State elections of October 1930, the *Free Australian*, the Australian Party newspaper, repeatedly attacked the Nationalists for servility to British financial interests. Whilst its hostility fell well short of repudiation, its resentfulness towards these interests was given full vent:⁷²

Australia does not owe the Bank of England a groat of real money. Neither does Australia owe the Bank of England one sentiment of affection. Anything the Bank of England has done for Australia has been paid for, paid for liberally, over-paid!

In a similar vein, the *Australasian Manufacturer* contended, in September 1930, that English interests were out to destroy Australia's secondary industries and called for mildly reflationary policies as the solution to the crisis.⁷³

The solution posed by the Australian Party stood at odds with all the current versions of deflationary policy and most clearly approximated to the position of the left wing of the Labor Party, a factor which underlined the frequent political overtures of manufacturing interests to the trade unions in the depression years. The Australian Party opposed wage cuts and longer working hours in industry, describing as 'palpably absurd' the view that such policies were the cure for unemployment.⁷⁴ It advocated mildly reflationary monetary management ('currency must keep pace with production'); high tariffs, technological innovation and plant reorganisation—instead of wage cuts; reduced taxes on industry and liberal banking credit for secondary industries.⁷⁵ On some occasions it went so far as to advocate wage rises since this was the logical extension of its emphasis on increased consumption as the 'true remedy'.⁷⁶ At the same time, however, it remained strongly committed to arbitration, to industrial peace and to a 'greater effort' from workers.

For national manufacturers, sympathy for the Scullin government hinged on the high tariffs which it had erected. The government's acquiescence in the demands of the Bank of England, as expressed in the Premiers' Plan, was deplored but it did not drive national manufacturers into opposition to

Scullin. They remained the dissident capitalists defined by their preoccupation with hostility to the Nationalist Party. Interest, they believed, had not carried its share of the slump, as had wages and industry.⁷⁷ Despite Labor's considerable responsibility for this situation, many manufacturers preferred to lay the blame at its source and to this extent apologised for the Labor Party. The Australian Party did not attack the A.L.P. for its acquiescence. Indeed it rarely mentioned the Labor Party in its propaganda. In April 1930 Hughes had declared support for the Scullin government. By the end of the year the Party was stressing its individuality, wanting to differentiate itself since its policies merged so readily with the 'radical' wing of Labor. But there was no hostility apparent in this movement.⁷⁸

Reconciliation

The final defeat of this 'radical' wing within Labor occurred early in 1931. But the Australian Party was already disintegrating by that time. It had struggled with meagre funds—reflecting its modest social basis; it had been wracked by conflict in its Melbourne and Sydney branches; it had failed totally in the New South Wales State elections, and it had been demoralised by the rapid movement of public opinion towards deflationary solutions in 1930. Moreover it had, since September 1930, suffered under a total press blackout. The *Sun* abandoned the Party at that time over Hughes' wages policy and his 'excessive' hostility to the Bank of England, which reflected a major breach throughout the entire organisation. So shattered was Hughes that he all but disappeared from the political scene, albeit temporarily in 1931, whilst in Parliament his failure gave rise to acidic derision. As one Labor minister noted:⁷⁹

[Hughes] proudly boasted of having built the house of Nationalism but when that house began to leak Mr Hughes decided that it was time to get out of the wet. He then decided to form another Party . . . The new house Mr Hughes then built had been very shoddily constructed. Now it had fallen to pieces, and for a time, because the House of Labor offered some refuge, he had sheltered there—not necessarily in the house, but somewhere about the garage or stables. As the storm clouds gathered around the present Ministry it appeared that there was nothing for Mr Hughes to get from support for it. He was left forlorn and he was making rather coy advances to a reluctant Nationalist Party.

The A.I.P.L. also seems to have fallen quiet with its political party now in ruins, and the banner was left to the Sydney-based voice of national manufacturers, the *Australasian Manufacturer*. This voice remained committed to Labor in 1931, despite its increasing isolation. Indeed if Hall's account is correct, there may have been some electoral consolidation by manufacturers in general around the Scullin government in the period leading up to its electoral defeat late in 1931. Hall has argued that Chambers of Manufacturers in all States were moving into closer co-operation with Scullin on the even of the election, particularly in New South Wales where the Chamber was less concerned with balanced budgets and more concerned with unemployment as the social crisis there deepened.⁸⁰

The defeat of the Labor government in December 1931 followed upon the revitalisation of the mainstream conservative party and the demobilisation of the 'sound finance' organisations; that is, upon the reconstruction of the established bourgeois political structure.

The Nationalist Party was pulled together by the diffuse movement and energies of its big business components, particularly in the sphere of 'high finance', and by its extra-parliamentary associations. In the upper echelons, some sections of the party, led by Davidson from the Bank of New South Wales, busied themselves with cultivating the moderate wing of the Labor Caucus.⁸¹ Others, such as the Young Nationalists and the Australian Womens' National League (A.W.N.L.), had moved into the hustings with an unprecedented vigour, travelling throughout the country to combat disturbing trends, under the somewhat defensive banner of 'Nationalism is Alright'. Conspiracies too played their part, since it was a tight-knit group of Nationalist businessmen, with National Union support, who negotiated the defection of the Labor politician Joe Lyons, to lead the Nationalist-cum-United Australia Party (U.A.P.) at the next elections.⁸² A momentum was clearly building up and this was as vital an influence on the party's reinvigoration as was any one of the more tangible, concrete influences.

Tactically, the use of Lyons, that is of the ex-Labor image, was a useful compromise which had been readily exploited in previous political crises. Lyons was promoted as 'Honest Joe', an image of considerable electoral importance in view of the economic management issues at the centre of political debate. His programme, to the extent that its generalities and vagueness were meaningful, was primarily concerned with monetary matters. The parroting of monetary catch-calls was simultaneously accompanied by a manifest stringency on specific social welfare issues, giving added bite to the authenticity of the U.A.P. quest for balanced budgets: the National Federation scrapped its policy commitment to child endowment, Commonwealth unemployment insurance and pensions for widows and orphans on 9 April 1931.⁸³ The U.A.P. was formed soon after, comprising Nationalists and breakaway right wing Labor elements. Simultaneously, monetary radicalism was defeated within the A.L.P., leaving a decimated shell of a party wracked by division, and demoralised. The intensity of the political crisis was ebbing. The familiar shape of bourgeois leadership was restored and the electoral defeat of the Labor Party was a formality.

Under Lyons, the new United Australia Party soon reabsorbed the dissident manufacturers and their organised allies, putting to rest their short-lived independent mobilisation, which had been steamrollered by the deflationary climate of 1930 and 1931. For a time however, many manufacturers were in a political limbo, their allegiances fluctuating and their sense of political security under Lyons most uneasy. The Associated Chambers of Manufacturers of Australia described the defeat of Scullin as a set-back and was uncertain about Lyons' commitment to the tariff. It appointed a special Tariff Advisory Committee soon after the 1931 elections with the aim of pressuring the Lyons government in this area.⁸⁴ The *Australasian Manufacturer* began to call again for a Manufacturer's Party, arguing that such a

force could replace the Country Party, seize the balance of power in the parliamentary arena and extract the appropriate concessions.⁸⁵ The chief obstacle in its way, it believed, was the difficulty that such a party would have in winning substantial sections of the trade union movement away from Labor.⁸⁶

But no such party was formed and protest quickly subsided. Increasingly, manufacturers were at ease with the Lyons government. Lyons' earliest concession was his 1931 election promise to 'in broad principle abide by the recommendations of the (Tariff) Board', a promise which considerably enhanced the Board's authority.⁸⁷ The U.A.P. continued, with some modifications, the line of tariff policy followed by the Scullin government. High tariffs remained necessary to national solvency, whilst the leading role of manufacturing in economic recovery was reinforced by the government's desire to avoid the political consequences of the current levels of unemployment. There were some tariff reductions in addition to the abolition of the primage duties introduced by Scullin, factors which made manufacturers watchful and cautious towards the U.A.P. Even the calls for a manufacturers' party continued sporadically throughout the 1930s.⁸⁸ But the concrete organisational opposition evident in the previous decade had disappeared. Nicholson has captured the fundamental reason for manufacturers' uneasy reconciliation with the U.A.P. in his observation of tariff levels after the Ottawa Conference of 1932: 'The Commonwealth Government adhered to the view that while protective duties should not be prohibitive, they should provide a marginal advantage in favour of the Australian manufacturer . . . Reasonable competition did not mean equal competition'.⁸⁹

The compelling arguments for fostering Australian industry were inflated by the break-down of multilateral trade and the unabating savagery of competition between the leading manufacturing nations in international markets. Such was the contrast in the economic forces behind political direction in the 1920s and the 1930s that S.M. Bruce, the arch enemy of small manufacturers, became an outspoken advocate for 'tariff nationalism' in 1934, and promptly won their hearts.⁹⁰ Giblin too, Lyons' academic associate and personal friend, felt the necessity to deliver a strong defence of the tariff in his Joseph Fisher Lecture of 1936.⁹¹

Indeed, the dissension about the height of the tariff was the major issue which prevented a coalition government in the first Lyons parliament, 1932-4, and thereafter it continued to be a disruptive issue in the co-operation between the two conservative parties. The weakened ministerial position of the Country Party in the 1934-7 government and the return of Billy Hughes to the Ministry was a measure of the new political weight of manufacturing capital in the post-depression Australian economy. In the same period the work of the C.S.I.R.O. was reoriented, turning away from the primary sector to give increasing attention to the technological problems of manufacturing, whilst the *Royal Commission into the Monetary and Banking systems* recommended the creation of an efficient financial infrastructure to serve manufactures.⁹²

Manufacturers continued to subject Lyons to withering criticism and to

threaten a breakaway, but their attacks were aimed at keeping his government in line, not at destroying it. The dissidents had returned to the conservative fold.

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trial stoppages were generally shorter in duration and less successful than their predecessors earlier in the decade. It was the conjuncture of strikes with the other influences discussed above which made them thoroughly intolerable to manufacturers and country capitalists alike.

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6

A TURNING POINT FOR AUSTRALIAN CAPITALISM: 1942-52

MELANIE BERESFORD AND PRUE KERR

. . . The very sovereignty of this Nation is in jeopardy . . . the Bretton Woods Agreement will enthrone a World Dictatorship of private finance . . . [it] quite blatantly sets up controls which will reduce the smaller nations to vassal States and make every Government the mouth-piece and tool of International Finance . . . World collaboration of private financial interests can only mean mass unemployment, slavery, misery, degradation and final destruction.

E. J. Ward, A.B.C. broadcast, 27 March 1946

The changing face of international capitalism and Australia

THE FEATURES OF post-war world capitalism can be understood as responses both to the need for capital to expand on an international scale and to the consequent development of inter-capitalist rivalry; especially in the light of the decline in world trade during the 1930s and the threat to capitalism from the expansion of socialism, an urgent priority was the revitalisation of world commodity trade and international capital flows. The function of nation states on the domestic front and of international organisations was to allow some coordination, in place of the contradictory developments of the pre-war period. By formalising this cooperation in international institutions, contradictions could be suppressed or delayed and expansion could take place on an unprecedented scale. One of the outcomes of this promotion of capital expansion, has been the development of capitalism to a stage where an unprecedented concentration and centralisation of capital has led to the spread of multinational corporations across national boundaries in the 1970s.

In this essay we look at the realignments of international economic power which followed upon the Depression and War, the embodiment of these new alignments in the international institutions, and some of the implications of this for the development of capitalism in Australia. We argue that the period 1942-52 marked a decisive turning point for Australian capitalism in its relations with British and American capital. In the years preceding the War, several cracks had opened up in the traditional U.K.-Australian relationship.¹

The Curtin and Chifley Labor governments of the 1940s pushed these even wider with their plans for import-substituting industrialization, and diversification of the sources of Australian export income. But it was not all the result of economic nationalism on their part (as Rowse seems to imply).² In large measure, the stance taken by these governments on international issues was due to a recognition of the vast increase in American power during the War and of the fact that Australian capitalism could not survive independently of this power.

At a series of international conferences and less formal discussions between 1941 and 1947 (See Appendix), the major economic policy issues for the post-war world were negotiated. For Britain, there were two main aspects to these negotiations. There was the need for the U.S. and the U.K. to collaborate on the machinery necessary to ensure that they continued to receive the benefits of expanding international trade. This entailed institutionalisation of trade policy procedures and consolidation of their joint power to dictate the terms on which international trade was carried out. The other aspect of these discussions concerned the different aims of the U.S. and the U.K. For Britain, it was a matter of achieving the minimum terms on which it would cooperate with the U.S. to their mutual advantage vis-à-vis the rest of the world: that the U.S. government presumed that it could dictate these terms in a relatively uncompromising way, reflected the decline in British power in this sphere.

The Mutual Aid Agreement

The relationship between the U.S. and U.K.

Article VII of the Mutual Aid Agreement signed by the two powers in London in February 1942 (and also signed by Australia later in the year), provided the basis, in subsequent years, of comprehensive negotiations between Britain, the U.S. and other allied nations, on the shape of the post-war world. This article stated that proposals for post-war reconstruction should:

include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries, directed to the expansion by appropriate international and domestic measures, of production, employment and the exchange and consumption of goods . . . to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers . . .³

The different policy priorities of the Australian, British and American governments were allowed for in the clause. But the domination of the U.S. was confirmed by the ambiguity in interpretation of that part of the Agreement which related to domestic full employment policies, as compared with the specific nature of the international trade aspects. On the one hand, although domestic economic expansion was considered desirable, signatories were pledged only to take such action as could be agreed upon towards this end. On the other hand, the commitment to elimination of discrimination in trade is quite clear.

American demands

The inclusion, by the Americans, of a definite commitment to reduce trade preferences was almost certainly a response to the aggressive stance taken by Lord Keynes, the leading British official, during early negotiations for Lend Lease in Washington in 1941. At these negotiations, the British had boldly asserted their right to formulate bilateral trade agreements with the dominions and colonies. The multilateralists of the U.S. State Department, taking alarm at the British stance, had subsequently pressed for inclusion of this clause.⁴ The employment clause, on the other hand, reflected Keynes' concern that reduction of trade barriers without concurrent expansionary domestic policies would not necessarily improve the volume of world trade. Australian government circles generally concurred with this opinion, and their apparent early enthusiasm for Article VII was based on the expectation that domestic expansion would be a major theme of future plans.⁵

This was not to be the case, however. In the State Department, officials under Cordell Hull clearly favoured a view which saw the expansion of trade (and employment) as a *result* of the removal of discriminatory barriers, especially the removal of British Empire Preference established in 1932 at Ottawa. As an Australian Minister for Post-War Reconstruction, J.J. Dedman, later expressed the rationale behind this point of view:

The Ottawa Agreement late in 1932 was an instrument of economic warfare . . . to counteract the contraction in the British Empire quantum of world trade brought about by the high duties imposed by the U.S.A. under the Hawley-Smoot tariffs in 1930.

Before these two restrictive measures were enacted, trade had been higher than it had been ever since and therefore:

Is it not reasonable to assume that reversion to the conditions operating prior to both the Hawley-Smoot and Ottawa measures will bring with it that greater volume of world trade without which full employment cannot be maintained?⁶

Through the immediate removal of trade barriers, countries would be in a position in which their resources would flow automatically to the production of commodities in which they were relatively more competitive on the world market. Costs would be reduced and levels of consumption and production consequently raised, thereby raising world standards of living.

It is true, as Keynes wrote in December 1942, that '[t]he free trade elements in the State Department have very little support outside that Department',⁷ but the imposition of liberal trade policies on the *rest of the world* was, nevertheless, a primary post-war goal of American capitalists.⁸ U.S. opinion was, in particular, 'almost hysterically concerned with the question of access to raw materials'.⁹ As both the British and Australian governments recognised, this American policy would be accompanied by 'mercantilist motives as vested interests [in the U.S.] become more powerful'.¹⁰ R. (now Sir Roland) Wilson reported to the Financial and Economic Committee (F&E) in 1942 that only in the State Department was there fervour for reducing U.S. tariffs as well, elsewhere there was 'absolutely no fervour'

at all.¹¹ The view of Leith Ross, a British official, was that U.S. popular opinion largely regarded Article VII as a pledge to drop Imperial Preference without contemplating much reduction in America's own tariffs.¹²

The American urge to impose multilateral tariff reductions on the rest of the world stemmed less from theoretical conviction of its universal benefits than from a desire to find new outlets for United States agricultural surpluses¹³ and also from the belief that, given the high levels of productivity prevailing in industry, it would be unusual if a policy which relied on comparative advantage in international trade did not work to the benefit of American manufacturing industry vis-a-vis its main competitors.¹⁴ By contrast, the pressure on the U.S. Congress from various interest groups—as far as Australia was concerned, the woolgrowers were the most important¹⁵—requiring protective tariffs meant that State Department plans to reciprocate with cuts in the U.S. tariff could have only limited success. In view of this, the connection of the free trade position with full employment was, quite probably, to provide an *ex post* rationale for U.S. policy which would at the same time appease the U.K. and Australia.

The British position

In the U.K., senior officials like Keynes saw that Britain's international economic position would be very poor at the end of the war. U.K. dollar assets at the outbreak of war had stood at \$4483 million, but at 1 September 1941 they had already been reduced to \$1527 million,¹⁶ providing considerable cause for alarm. By war's end, the British overseas debt had risen to £4.2 billion; £1.1 billion of overseas assets had been sold off, earnings on invisible account were half their pre-war level and the merchant fleet was 30 per cent smaller, exports were 30 per cent of their 1938 level, while the price of imports had risen in terms of exports by 15 per cent between 1938 and 1947.¹⁷ Keynes, who had perceived in 1941 something of the extent of this decline, was well aware that the Lend Lease repayment burden would be crucial for British post-War reconstruction and, in particular, that substantial amounts of American aid would be needed.¹⁸ It was known, however, that the United States government wanted to break down the system of Imperial Preference, and the Atlantic Charter (1941) and then the Mutual Aid Agreement had explicitly incorporated a commitment, on the part of Britain, to eliminate these discriminatory trade barriers after the War.

The attitude of the Australian government during the early negotiations was one of basic agreement with the British negotiating stance. Broadly, this stance was that expansion of world demand required expanding employment in the major economies, and this must be achieved through appropriate domestic policies. Demand expansion was, in turn, a precondition of any reduction in tariffs and preferences. There were, however, substantial differences within this framework. Although the British delegations were usually sympathetic to the Australian view of the importance of obtaining a specific and binding employment agreement, their willingness to give wholehearted support was compromised by the urgent necessity of obtaining American aid at the end of the War, and an awareness of the

weakness of their bargaining position, inherent in their domestic industrial structure and the lack of international competitiveness of British exports. Moreover, the British negotiators were divided amongst themselves. Apart from the differences in economic theory, apparent in members of the delegations such as Keynes and D.H. Robertson, there were also political pressures being exerted by different groups of British businessmen. For example, the National General Export Merchants Group (formed in 1940 at the request of the Board of Trade), and the British National Committee of the International Chamber of Commerce, argued that expansion of trade would follow the removal of restrictive measures and the stabilization of exchange rates; and that there must be an open world market to allow free access to raw materials and a freer flow of capital and migration.¹⁹ The Federation of British Industry, on the other hand, stressed the importance of aid to devastated countries, full employment and freedom from want, the need for conscious planning to raise world prosperity since market forces could no longer be relied upon, and the use of import licensing as a more flexible method of protection than tariffs.²⁰ Similar views were also expressed in *The Economist*.²¹

N.G. Butlin (in London representing the Prime Minister's Department) reported to the Australian government in April 1944, that during preliminary negotiations with Commonwealth countries on Article VII, the British delegation had accepted the inclusion of a specific employment agreement only after 'a severe internal fight'.²² Even then it had been agreed to, only on the basis that it should *not* carry the implication that Australia could abandon other commitments under Article VII, should domestic policies in the major economies appear to threaten full employment in Australia.

The Australian full employment policy

The insistence by the Australian negotiators, at every international conference on matters arising from Article VII, on the inclusion of a clause which would definitely commit the major countries to expansionary domestic policies, must be seen in the context of the Labor government's own domestic programme. This involved an extensive policy of encouraging import-substituting industrialization and immigration, as well as state financing of the 'welfare state'—expanding social services and other infrastructural projects. The social services programmes were to provide a further means of expanding markets for the output of new secondary industries. By subsidising commodity consumption in this way, standards of living could be raised by making more efficient use of previously under-employed resources.²³

Under a protective tariff, the growth of a secondary sector which could eventually become internationally competitive would reduce Australia's reliance on primary product exports whose prices, determined on a world market, typically fluctuate from year to year. This fluctuation imposes a destabilizing force on the economy through the effect on the balance of payments and international reserves, and also through the redistributive effect on resources of the unstable incomes of primary producers. Protection

also would allow both Australia and the U.K. to facilitate the transition, in the secondary sector, from war production to non-war production. The Chifley government faced the further problem that trade unionists, and heavily protected industrialists in Australia, were unlikely to agree to any reduction of existing trade barriers, although the woolgrowers were anxious for the access to the American market which multilateral reductions might bring them.

This post-war reconstruction programme of Australian Labor governments occurred against a background of the traditional economic relationship with Britain, which was essentially that Australia supplied raw materials and imported U.K. manufactures,²⁴ and a heavy indebtedness to Britain which had, in the 1930s, been the immediate cause both of the limitation of funds available for investment and of political and social disruption. The policy of both the Curtin and Chifley governments during the war years was, then, to run down Australia's official overseas debt to a more manageable, or even negligible, proportion. At 30 June 1931, overseas interest liability of the Commonwealth had stood at an all time high level of 40 per cent of current credits (export income plus income from invisibles). By 1939 the figure had been reduced to its 1926 level of 15.6 per cent and, due largely to the redemption policies of the two Labor governments, it fell to 2.7 per cent at 30 June 1950.²⁵ Curtin and Chifley also aimed to diversify Australian export markets with a view to obtaining the (primarily dollar) imports needed for the industrialization programme. This last point explains the importance given to the promotion of employment in *all* the major economies, not just Australia. If the U.S.A., in particular, followed a restrictionist policy, then domestic expansion in Australia alone would be to no avail, since the export markets for Australian production could not be found. In a situation like that, the reduction of Imperial Preference and the imposition of free trade would be a disaster for the ALP's reconstruction project.

On the other hand, the question of London balances was potentially a major area of difference between the Australian and British governments. Australian officials expected, rightly, that at war's end there would be substantial London funds, but a shortage of dollars with which to pay for the enlarged flow of imports necessary from the Dollar Area (notably U.S.A. and Canada) (see Table I).²⁶ It would, therefore, be to Australia's advantage if sterling were fully convertible into dollars. At the same time, short-term considerations of the volume of trade conducted by Australia within the sterling area, and especially with Britain, meant that it was to Australia's advantage to maintain these balances intact. In so far as the sterling balances were blocked, this conserved U.K. dollar reserves to pay for imports required for the reconstruction of the British economy, and also enhanced British ability to import goods from the Dominions. This helps to explain Australian interest in promoting and expanded Sterling Area after the War.

It must be stressed that the Australian desire to utilize the London funds was very much connected with the ability of Australian exports to penetrate

markets other than the U.K. L.F. Giblin, chairman of the Financial and Economic Advisory Committee (F & E) argued that in order to restore Australian export prospects from their pre-war doldrums three things were required:

- (a) to reduce U.S. resistance (the tariff) to importing Australian wool;
- (b) the restoration of the European markets; and
- (c) the economic advancement of 'backward' countries, especially China and East Asia.²⁷

In the long run, maintenance of the Sterling Area might prove to be a definite disadvantage to Australian capital because the U.S. might be in a position, in areas where American capital had undertaken substantial developmental investment, to deny it a fair share of new export markets.²⁸ Moreover, during the period of War, there was developing in Australia a realisation of ways that the U.K. might use the Sterling Bloc in order to further its own interests. One example of this was the U.K. government plan to raise export prices by 80 per cent over pre-war levels (as part of a plan to increase the value of exports by 175 per cent in the immediate post-war period). This policy, when combined with the restriction of increase in the price of wool to 20 per cent, would reduce Australian ability to import U.K. goods. A.H. (now Sir Arthur) Tange, of the Department of Post-War Reconstruction, also pointed out that in view of certain payments agreements the U.K. had signed in 1945 with some non-sterling countries, Australian exports to these countries could be paid for in sterling, causing a shortage of foreign currencies and forcing Australia to import higher priced British goods.²⁹ With Australian access to alternative markets restricted, the U.K. would be in a strong position to control the level of non-sterling expenditure, with an eye to the advantage of British export industries and to the detriment of the Australian industrialization programme.³⁰

Similar arguments, that while in the short run the existing Sterling Area arrangement was needed, its abolition in the long run would benefit Australian industry and exports, were put forward concerning the American proposal to eliminate Imperial Preference. In the immediate post-war period, it was argued that Preference could be used as a bargaining factor to gain concessions from the United States.³¹ But in the longer term, Australian government advisers felt that it would be more desirable to diversify Australian trade on the basis of multilateral tariff reductions, provided, of course, that policies of expansion were being pursued by the major economic powers. The advice of the F & E economists was that 'only a handful'³² of Australian industries would suffer as a result of abandonment of Preference. According to Giblin, one-fifth of Australian exports relied on Preference.³³ The main products involved were butter, chilled and frozen beef, sugar, unwrought lead, fresh apples, preserved fruits, raisins, eggs and wine. In three of the affected industries alone (dried fruit, sugar and dairying), 87 000 persons were employed producing for export.³⁴ Not all of these would become unemployed as a consequence of an end to Preference, however, *provided* expansion of the domestic market and of trade in alternative commodities could be achieved. Moreover, the existence in England of a

strongly protectionist attitude towards the agricultural sector, served as a warning to Australian policy makers that relying on Preference could prove disastrous to these industries in the long run anyway.

TABLE I: AUSTRALIA'S BI-LATERAL BALANCE OF PAYMENTS WITH CANADA AND U.S.A.

	1938/9 £Am	1939/40 £Am	1944/5 £Am
<i>Canada</i>			
Trade balance	— 7.9	— 8.3	—14.1
Total	— 9.2	—10.0	—15.1
<i>U.S.A.</i>			
1. Cash: trade balance	— 2.2	— 4.8	+ 23.1
Total	—10.5	—13.1	+ 18.4
2. Lend Lease: civil	—	—	—12.0
war	—	—	—100.0
reciprocal	—	—	+ 89.0
Total	—	—	—23.0

Source: Estimates by Dr H.C. Coombs, Department of Post-War Reconstruction, Australian Archives, CP43/1, Bundle 61, 1945/525, Part I.

A point that was often raised in Australian discussion of Article VII (as it was in U.K. discussion too) was the importance of: (a) rehabilitating the war-devastated economies of Europe and Japan; and (b) United States private investment expenditure in Asia and other 'backward' regions of the world. The Australian government was particularly concerned with the Asian region. Partly, this was a function of H.V. Evatt's concern to build a Pacific security region which would be strong enough to resist future incursions by a hostile power.³⁵ On the other hand, Australian advisers also saw clearly the potential economic advantage to Australian capital of expanding markets in the Asian region.

In the 1930s, however, American investors had got progressively colder feet about investing overseas—primarily as a result of numerous defaults during the Depression. The U.S. Treasury, in 1942, put forward a proposal to remedy this situation by forming an international bank (the International Bank for Reconstruction and Development, now commonly known as the World Bank). In the words of Secretary Henry Morgenthau Jnr:³⁶

The primary aim of such an agency should be to encourage private capital to go abroad for productive investment by sharing risks of private investors and by participating with private investors in large ventures. The provision of some capital needed for reconstruction and development, where private capital is unable to take the risk, is intended to remain secondary in the operations of such an agency. It should, of course, scrupulously avoid undertaking loans that private investors are willing to make on reasonable terms.

The attitude of the Australian government toward these proposals was non-committal, but mildly interested. Chifley told the ALP Federal Executive in 1946 that his government did not expect to need to borrow

from such an institution,³⁷ but nevertheless, government advisors, as well as some Cabinet members, held views consistent with the encouragement of these activities in other countries.

Tactical positions

Throughout all the Article VII negotiations, the inclusion in any agreement of a paragraph which definitely committed all governments to the pursuit of expansionary domestic policies, (preferably with penalties for non-compliance), remained a top priority of the Australian government. The United Kingdom, on the other hand, appears to have adopted a different tactic, preferring to put forward proposals which were aimed to smooth the path for full employment policies rather than guarantee them. Moreover, by September 1943, when negotiations began in Washington over rival British and American proposals, the British had already indicated to the Australian government that they were prepared to concede defeat on some of the major features of the U.K. proposals which would have given them a greater expansionary potential than the American counter-proposals.³⁸

The position of the Australian government in relation to the proposal to eliminate discrimination in trade was somewhat more flexible than its stance on employment policy. In general, across-the-board tariff reductions were opposed in view of the demands of Australian industrialists, of trade unionists and of the government's own development strategy. But for the long run, many of the government's advisers saw distinct advantages for Australian exporters accruing from the dismantling of the system of Imperial Preference, particularly if this were combined with a lowering of the U.S. tariff barrier. Access to Asian markets was also regarded as important: the United States was in a position to expand its overseas investment, creating new markets and containing them within bilateral arrangements in retaliation to the Imperial Preference system. With free trade, Australia would be in a better position to compete for the markets which American investment opened up.

Rival plans

International Clearing Union and Stabilization Fund

Keynes' International Clearing Union (ICU) which, by late 1942 had emerged as the British government's plan for post-war financial arrangements, was designed not so much with the expansion of employment in mind, but in order to *facilitate* the functioning of an expanded world trade.³⁹ Australian officials of the F & E and other bodies concerned with post-war reconstruction, were suspicious of the lack of any explicit commitment to full employment in the plan, and of the relative lack of freedom to vary exchange rates envisaged. As a primary product exporter whose export income was subject to wide fluctuations, the Australian government was anxious to ensure maximum control over exchange rates, particularly in view of the fact that past variations had had to be very large in order to have any effect on the volume of wool exports.

In addition, the government was concerned that penalties and sanctions should be applied to habitual creditor nations. The argument here was that a persistent tendency for exports to exceed imports indicated a failure to pursue full employment policies. By failing to stimulate demand for the exports of other countries, therefore, a creditor country would, in effect, be exporting unemployment. It was, in the eyes of the Australian government, the responsibility of nations with balance of payments surpluses to increase their imports from other countries.

When compared with the plan for a Stabilization Fund (SF) produced by H. White of the U.S. Treasury Department, however, the ICU was seen to have many advantages from the Australian point of view.⁴⁰ The British plan differed from the SF in that:

- (a) it did not limit reserves to members' contributions to a fund, but created its own international currency (Bancor), and thereby contained a potentially more expansionary bias;
- (b) because it was to operate automatically, it gave greater freedom from outside control over domestic policies to countries wishing to draw on the fund;
- (c) it allowed greater exchange rate flexibility in a crisis and in adjusting for gradual structural change;
- (d) it gave greater voting strength to British Empire countries compared with the U.S. and Latin America;⁴¹
- (e) there was more explicit provision of penalties and sanctions for creditor countries than in the SF.

At this stage of discussions (1943), the overriding concerns of the Australian government, apart from the full employment question, were with the need for penalties against persistent creditor nations, and with the magnitude of the addition to Australia's international reserves which would be achieved under the two schemes.

Various schemes had been suggested for provision of penalties and sanctions against habitual surplus nations. Keynes' scheme included an interest charge on surplus deposits with the ICU. There were other, more radical proposals, such as an automatic obligation to revalue the currency of a country whose deposits were above a specified level in order to reduce its competitiveness in international markets.⁴² Another such suggestion was L.F. Giblin's observation that a surplus country could raise its level of aggregate consumption (and imports), through a redistribution of income by increasing the real wages of unskilled labour vis-a-vis more highly paid sections of the workforce.⁴³ The United States, however, disregarded these proposals, preferring to place the onus on debtor nations to correct a disequilibrium in their balance of payments. In taking this stand, it was demonstrating simultaneously its position on the domestic full employment issue.

The question of the size of the reserves that would become available was regarded as especially important by the Australian government. It was expected that Australia would emerge from the War with substantial sterling balances (which, however, would be effectively blocked by U.K. foreign

exchange controls) and, on the other hand, a sizeable dollar deficit. Given that Australia would need increased imports from the dollar area for its post-war industrialization, considerable concern was evinced at the vulnerability of Australia's export income (based as it was on wool) and the probability that large drawings on the new fund would be needed to finance these dollar imports. As it stood in 1943, the size of Australia's probable quota at the SF seemed far too small to cover these needs.⁴⁴ Keynes did obtain an assurance from White, however, that the size of total contributions could be increased substantially over the original figure of \$5 billion,⁴⁵ and this must have gone some way towards appeasing the Australians.

The Bretton Wood Agreements

At the Washington Anglo-American talks in 1943 it was agreed that the American Stabilization Fund proposals would form the basis on which a future agreement could be reached. It remained only to hold a formal conference at Bretton Woods in New Hampshire, U.S.A., during July 1944, to establish the final form of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). The Chifley government's negotiators at Bretton Woods, led by L.G. (now Sir Leslie) Melville, had some major reservations, however, about the form which the Agreement finally took. Melville's report, submitted to Chifley upon his return, advised against joining the IMF and IBRD, at least until some of the problems associated with it from the Australian point of view could be ironed out.

Melville's principal objection to the Agreement was related to the lack of flexibility of exchange rates. The chief worry here was that although the Fund provided for the alteration of exchange rates in cases of a 'fundamental disequilibrium' in the balance of payments, the question of who was to decide that such a situation existed was left up in the air. The requirement that changes in the par value of a currency needed a majority vote which included both the U.K. and U.S., in view of the apparent preference of these governments for exchange rate stability, was a source of anxiety for an Australian Labor government conditioned by the experiences of the Great Depression. There was a widespread fear that the end of World War II would be accompanied by another severe recession and, in facing the prospect of falling primary product prices and export income, the Chifley government did not wish to be caught, as the Scullin government had been, in being unable to devalue the Australian pound.

A second problem associated with Bretton Woods, from Melville's point of view, was the continued unwillingness of the major industrial powers to make any commitment to the maintenance of full employment. According to Melville, this position gained very little support at Bretton Woods. In his recollections of the Conference,⁴⁶ he attributed this lack of support to a number of reasons. To the less developed countries of Asia and Latin America, he argued, full employment was a completely meaningless concept. The advanced industrial powers argued that full employment was an essentially domestic concern, whereas the value of the currency was not so. Only

from some of the Scandinavian countries did the Australian delegation of 1944 find any support for the inclusion of an employment agreement.⁴⁷ Associated with this question was the failure to obtain either a viable system of penalties against surplus nations, or any guarantee that the new institutions themselves would contain an expansionary bias.

A third objection to the IMF was the possibility that membership of the Fund would be tied to membership of other new institutions, such as the IBRD and the International Trade Organisation (ITO). The Australians were not keen on this. They were particularly suspicious of the ITO, negotiations for which were still in preliminary stages at the time of the signing of Bretton Woods. Concern that the U.S. would not reciprocate the elimination of Imperial Preference by reducing its own tariffs, was the main worry here and the government wanted to wait for the outcome of the ITO negotiations before committing itself to the IMF. During the operation of Lend Lease the American government had expressed annoyance that goods obtained under the defence arrangements had been used for building up the Australian industrial capacity.⁴⁸ In view of this, and in view of the high productivity growth rates of U.S. manufacturing industry, which would enable it to be highly competitive after the War, the Chifley government was understandably anxious to obtain some concessions—either in the form of American tariff reductions or an employment agreement—incorporated into the ITO Charter.

Looking at the other side of the coin, an advantage of the IMF over Keynes' original Clearing Union from the Australian point of view was, according to Wilson,⁴⁹ that its plan for dealing with the 'unfreezing' of blocked balances (i.e. the blocked London balances of the sterling area countries, especially Egypt and India) was 'particularly ingenious and helpful'. We have already noted that the Australian government was anxious for sterling to be made convertible. American pressure on the U.K. to speed up this process was, therefore, not necessarily unwelcome.

Commercial policy

The main negotiations on commercial policy, although it was never regarded as a separate problem by any of the countries involved, took place between 1945 and 1947—after the IMF and IBRD had been established. The United Kingdom government had attempted to delay the inevitable discussion of Imperial Preference until the terms under which the Lend Lease settlement would be made had been finalised. But, knowing the weakness of their position, they could scarcely afford to refuse, when the Americans demanded that discriminatory trade practices should come under scrutiny, simultaneously with the question of Lend Lease termination and the provision of a large American loan to Britain. As a consequence, the Anglo-American Loan Agreement of 1945, which guaranteed the aid so badly needed by Britain, specified (a) that no part of the loan should be used to pay off the sterling debt, and (b) that the U.K. should set in motion steps to restore convertibility of sterling within a year—both measures designed to expose the sterling area to American export trade.⁵⁰ The

Australian government resisted this connection of commercial policy with the terms of Lend Lease settlement. There was considerable disagreement between Australia and the U.S. as to the extent, if any, of Australian indebtedness under Lend Lease and, in any case, the Labor Cabinet refused to borrow from the U.S., preferring privation to indebtedness.⁵¹ It was felt that a combination of reduced tariffs and American loans to Australia, would result in a perpetuation of the U.S. export surplus and could not be accepted without some guarantee, by the Americans, to reduce their own tariffs and pursue full employment.

When it became apparent that Imperial Preference could not survive for long, the only course open to the Australian government was to try to negotiate greater access to the U.S. and other markets, while conceding as little as possible in its own protective structure. During the discussions leading up to the General Agreement on Tariffs and Trade (GATT) in London in 1946 and Havana in 1947, important concessions were obtained from the US for the Australian meat and dairy industries. This must have alleviated the problems caused by reductions of preferential margins in U.K. markets to some extent, although in the important case of wool, the concessions were thought to be less than sufficient.⁵² In return, Australia was required to make few concessions in her own tariff structure.⁵³ The U.S. government clearly regarded the reduction of Imperial Preference and the ability of U.S. goods to compete in sterling area markets, especially the U.K., as a more important objective than exports to Australia *per se*. One reason for this is undoubtedly that American direct investment, taking advantage of the protective tariff wall, was already increasing in Australia. A U.S. Treasury estimate put the value of U.S.-controlled companies in 1943 at \$114.7 m., making it the 13th-highest level of U.S. investment in the world.⁵⁴

The Bretton Woods debate in Australia

The scope of the debate

In Australia, the public debate over the Bretton Woods agreement was fierce. To begin with, support for the agreement within the Labor government was minimal. In spite of a broad concurrence with the British acceptance of Bretton Woods as a necessary step in the restoration of world trade, (the huge American loan to Britain had temporarily eliminated any potential source of conflict between these two powers), Chifley was worried by the possibility that the IMF would be able to interfere with domestic policy. According to Sir Roland Wilson (then a member of the F & E), Chifley was particularly concerned that the IMF would be able to prevent the introduction of the 40-hour week in Australia.⁵⁵ The advice he had received from Melville was to the effect that interference with domestic policies would be a possibility. Because of this, Chifley maintained grave suspicions about the IMF although he soon became convinced of the necessity of Australian membership.

Chifley's opposition to the Agreement was of a pragmatic nature. He

did not disagree, as far as it is possible to ascertain, with the broad principles of international collaboration to restore capitalist production and trade, but his objections derived from the conflicting interests of the developing industrial capitalism in Australia and those of the great capitalist powers. He was afraid that the new institutions would prevent his government from carrying out its plan for the restructuring and reorientation of Australian capital.

There was at the same time, however, strong opposition to the principle of international capitalist collaboration. This opposition rejected membership of the Fund as involving Australia in unnecessary acquiescence to U.S. 'financial domination of the world'. Eddie Ward and Jack Lang led the debate which was heavily tinged with overtones of the traditional Labor bogey, the 'Money Power'. Some members of the Labor caucus (e.g. J. Holloway, Minister for Labour and National Service) were more worried about the IBRD which, they said, was to be controlled by the 'Wolves of Wall Street'.⁵⁶ Ward and others thought that it was the IMF which was the tool of the conspiracy of 'International Financiers' and amounted to a return to the Gold Standard which had caused so much damage to working people in the 1930s:⁵⁷

. . . The very sovereignty of this Nation is in jeopardy . . . Whilst our men and women were making tremendous sacrifices to prevent the establishment of a world dictatorship, the International Financial Interests were working out the details of a plan—more insidious because they remained unseen—whereby the whole world would come under their domination . . . I am convinced that the Agreement will enthrone a World Dictatorship of private finance, more complete and terrible than any Hitlerite dream. It offers no solution of World problems, but quite blatantly sets up controls which will reduce the smaller nations to vassal States and make every Government the mouthpiece and tool of International Finance. It will undermine and destroy the democratic institutions of this country—in fact, as effectually as ever the Fascist forces could have done—pervert and pagnaise our Christian ideals; and will undoubtedly present a new menace endangering world peace . . . World collaboration of private financial interests can only mean mass unemployment, slavery, misery, degradation and final destruction. Therefore, all freedom-loving Australians should reject this infamous proposal.

Their arguments, perhaps not surprisingly, anticipated Cheryl Payer's discussion (nearly 30 years later) of effects of IMF policy on Third World economies.⁵⁸ Most of the case revolved around the ability of the IMF to interfere with domestic policy. Two provisions of the Agreement were relevant here: firstly, the power of the U.S. and U.K. in determining whether or not a 'Fundamental Disequilibrium' of the balance of payments existed; secondly, the power of the Fund to impose whatever rate of interest it saw fit, in the event of failure to rectify the balance of payments deficit within a given timespan. This combination of control over exchange rates and the ability to impose high interest rates, provided the means by which the Fund could interfere with domestic policies. Melville added fuel to this fire when he wrote that 'there is a possibility of the Fund passing into the control of men of narrow views, who might abuse this power'.⁵⁹

Restoration of the balance of payments would inevitably mean reduced wages, longer hours of work and slashed social security payments. Quite apart from the question of the 40-hour week, Labor politicians, who were committed to full employment policies, were made particularly nervous by these provisions, especially in the light of increasing talk in the U.S. Republican-dominated Congress, of the need for an economy drive and the dismissal of a million public servants.⁶⁰

The Australian opponents of the Fund saw, with great perspicacity, the way this new international institution would act as an instrument of American imperial policy.⁶¹ It had been argued at Bretton Woods that it was equally necessary for countries to avoid balance of payments surpluses as well as deficits. Yet there was asymmetry in the imposition of penalties: the exemption of creditor nations would not promote balanced world trade. As a potentially chronic creditor nation, the U.S. would be able to enjoy, unthreatened by pressure to revalue its currency, a highly competitive price for its exports, cheap imports and the ability to invest its trade surpluses in less developed countries, thereby assuring both markets for its products and sources of raw materials. In addition, its position would facilitate the securing of external territories for military purposes. The bias of the IMF, in favour of creditor nations, would allow the protectionism of the U.S. Republicans in respect of import-competing manufactures to hold sway, helping to retard the development of the secondary sector in, among others, Australia.⁶² At the same time, the ending of British preference for Commonwealth primary products, would assist the highly productive U.S. agricultural sector to divest its surpluses and further aggravate the situation. Therefore, by perpetuation of the debt/credit relationship, 'the existence and operation of the Fund actually makes balanced trade less likely, for it permits a creditor nation to go on forcing unwanted imports upon a debtor nation'.⁶³

The power of the United States over all the other nations and its unwillingness to contemplate genuine compromises on important issues is reflected in Dedman's observation⁶⁴ that

[t]his point of view was gaining considerable support among the nations and would most likely have prevailed but for the attitude of the United States representatives, who declared it to be in conformity with existing financial practice [not to penalise creditors] and threatened to withdraw from the Conference if any contrary decision were made. Most of the nations being in urgent need of dollar loans did not press the matter further.

The opponents of the Agreement were able to point to the formal provisions which would make it impossible to alter this situation without the consent of the U.S. government. At the time of the establishment of the Fund, the voting power of each nation being based upon the size of its quota, the U.S. held 28 per cent of the voting rights. Since a four-fifths majority for any alteration of the quotas, a three-quarters majority for any change in the rates of interest charged, and a majority which included the U.S. and U.K. for any change in par values of currencies, were required, the U.S. held an effective veto on all the most important issues. On its own, the U.S. had sufficient strength to call a special meeting of the Board of

Governors at its own convenience. One effect of this dominance was, as Melville pointed out in his report on the first meeting of the Board at Savannah, U.S.A. in 1946, that decisions were usually made by a few countries, outside the formal meeting which then acted as a rubber stamp.⁶⁵

Finally, it was pointed out that many countries, including the U.K.,⁶⁶ were hoping that leverage could be obtained by the threat to withdraw from the Fund should its policies work to their disadvantage. In practice, however, withdrawal would be difficult and probably impracticable. Melville had reported that withdrawal from the Fund might mean forced withdrawal from the other organisations being set up at the time. And if this happened Australia might find itself discriminated against in commodity trade.⁶⁷

The Australian Government's decision to join the IMF and IBRD

In spite of these reservations among his party membership, it is clear that by 1946 Chifley had decided in favour of joining, and persuaded Dedman to support him. By that time, the only remaining question was 'When?' The most persuasive argument was that Australia was going to need dollar loans. Although there had been a balance of payments surplus in the early post-war period, this was largely a surplus with the Sterling Area. Australia did, however, have a balance of trade deficit with the dollar area, due mainly to imports of fertilizers, tractors and petrol from the United States. Chifley reasoned that if petrol rationing were to be lifted in the near future, and Australia was to be able to obtain the imports necessary for further industrial development, then some way would have to be found of overcoming this dollar deficit. Either the value of exports to the dollar area would have to be increased, which was unlikely if Australia refused to join the new international organisations, or dollar loans would be needed.

Up to this time the Labor governments since 1941 had pursued a policy of net redemption of the overseas debt. A.L.P. policy had been to avoid any increase in the foreign debt, and yet Chifley clearly saw a new phase of net borrowing to be on the cards if sufficient dollar income could not be obtained through increased exports. This important policy turnabout represented an essential continuity between the Chifley Labor government and the Menzies Liberal-Country Party coalition, which followed it in 1949 and proceeded to borrow overseas on a large scale.

Melville had investigated the possibility, while in America for the Savannah meeting, that failure to join the IMF would be prejudicial to Australia's ability to obtain loans on the New York market in future. His reply to Chifley contained the observation that it would be up to Wall Street, and not the government, to decide whether or not an Australian decision to remain outside the Fund was a reasonable one. If Wall Street took the view that such a decision was financially irresponsible, it would be likely to affect the ability of Australia to obtain loans.⁶⁸ Moreover, H.C. Coombs, in a cable to Dedman from London in November 1946, pointed out that Australia could not hope for the maintenance of Imperial Preference for very much longer in the new situation.⁶⁹ The U.K. was under constant

pressure from the U.S. to make sterling fully convertible, and the terms of the Anglo-American loan settlement would speed up the process of dismantling British preference to the Commonwealth.

The decision to delay joining until March 1947, was partly a consequence of the need to persuade the opposition within the Labor Party, and partly in the hope that the negotiations still proceeding to establish the ITO would result in a commitment, by the major powers, to something resembling a full employment policy. Melville's recollection of this was that⁷⁰

We didn't expect them to honour it even if we got the commitment but we thought it would be useful to have it adopted in these various agreements but beyond that, we weren't very troubled by the rejection of these agreements.

A commitment to full employment as such, apparently was not really important. Far more important was the hope that the ITO negotiations would not result in the much feared commitment to across-the-board tariff cuts. This would have left Australia open to the full rigours of the American business cycle⁷¹ and interfere with Labor's development plans. In the event, the General Agreement on Tariffs and Trade which emerged from these negotiations in 1947, was a much watered down version of the original American intentions, but by that time Australia had gone ahead and joined the IMF. A draft Charter for the ITO was in existence at the time of joining (it had been drawn up in London during 1946) and this contained a weak, sanctionless, employment agreement.⁷² GATT had not been finalized at this stage although the Australian government had some idea, from the requests made by other countries, of the extent to which tariff concessions would be demanded.⁷³ However, the factor which tipped the balance in favour of joining the IMF at this particular time, was the fear that any further delay would result in Australia having to join under less favourable conditions than it actually obtained; in particular, a less favourable par value of the currency was mooted.⁷⁴

The public campaign

The cynicism with which the decision, once made, was sold to the Labor Party and the public is perhaps worth noting, especially in view of the assertion by Chifley's distinguished biographer, L. F. Crisp, that Chifley was motivated by internationalist ideals (as against the narrow isolationism of Ward et.al.). As we have seen, the decision was actually taken in the light of political realities. Investigations had been made as to the possibility of persisting with a full employment policy alone, in the face of depression in the rest of the world, and the conclusion had been drawn that this would require either large overseas reserves in order to finance the import surplus, or monetary isolation.⁷⁵ Given that the ALP was not about to take Australia out of the world capitalist system, the only option open was to recognise the true nature of that system. J.J. Dedman had pointed out, in a December 1946 memorandum, that '[e]stablishment of the Fund, does not increase the power of the U.S. That power is already there.⁷⁶ The establishment of the IMF both confirmed this power and promoted its continued existence.

Chifley, however, was not about to divulge the inner thoughts of his

advisers and Cabinet colleagues to the membership of the Labor Party. In his address to the Federal Executive of the A.L.P. in Canberra, 26 November 1946, he told three or four important white lies. The first concerned the nature of the ITO:⁷⁷ 'One of the cardinal principles of that organisation will be full employment'. To drive the message home he stated that it was likely to be a condition of membership of this organization that Australia should already belong to the IMF. Neither the first nor the second situation eventuated. He went on to state that the IMF would never behave like the bankers of the 1920s:⁷⁸ 'I do not think that any enlightened person today would try that policy again. It proved disastrous to its originators as well as to others'. This was said in full knowledge of the effects that inflexibility of the exchange rate had had during the Great Depression, and of the fears expressed by the Australian delegation at Bretton Woods about the ability of the IMF to interfere with domestic policy, its lack of expansionary bias and so on. Finally, in answer to a question by Mr Brooker:⁷⁹ 'No, they cannot touch internal currencies—you can issue as much credit as you like in your own country'.

All of these statements by Chifley have been proven wrong by the practice of the IMF in relation to countries which, through persistent balance of payments problems, have been forced to use its facilities.⁸⁰ In the campaign in Australia to persuade the public of the virtues of these new international organisations, J.J. Dedman carried the deception to an almost farcical extent when he wrote, in a pamphlet distributed in January 1947:⁸¹ 'Having won the fight for the recognition of full employment as an international policy, it would ill become Australia to turn around and refuse membership of two of the instruments for its achievement'.

Aftermath — 1947-52

Chifley found it necessary to make one drawing on the IMF, in October 1949, shortly before the electoral defeat of his government. Crisp makes the point strongly, that the decision to draw on the IMF was taken with great caution and only as a 'last-ditch expedient' to provide short term relief in face of an acute balance of payments problem which would otherwise have led to 'economic and industrial breakdown'.⁸² Opinion both within and without the Labour Movement was still nervous about the effects of excessive overseas borrowing in the 1930s. But the drawing, of \$US20 million, did enable Menzies to remove petrol rationing when he was elected a month later and opened a new era of Australian government borrowing overseas (although it was not until the late 1970s that such borrowing again began to approach pre-Depression proportions). The Menzies Liberal-Country Party coalition made a further IMF drawing in August 1952 (\$US30 million), and again in April 1961 (\$US175 million). No further drawings were made until 1976 when Australia obtained \$US350 million from the Compensatory Financing Fund, which was established to cushion primary producing countries against commodity market price fluctuations (the biggest drawing ever made from that facility). From 1950, the sources of Australian official borrowing were diversified. Several large loans were

obtained from the World Bank—\$US218 million by June 1957 (making Australia the largest borrower from that source), and \$US418 million by June 1962.⁸³ In addition, from 1952 it became possible for Australia to obtain loans on the London and New York capital markets and, to some extent, in Switzerland and the Netherlands.

The situation which led to the initial drawing of \$US20 million in 1949 was known as the 'dollar shortage'. It was felt most acutely in the Sterling Area in that year, but in fact never completely disappeared until U.S. military expenditure on the Vietnam War led to a massive outflow of capital from the U.S., and turned its chronic balance of payments surplus into a deficit. Australia, along with a number of other sterling area countries had emerged from the Second World War with a deficit on the balance of trade with the Dollar Area. It had, however, a surplus on the balance of payments as a whole and with the Sterling Area itself. As far as Australia was concerned, therefore, the dollar shortage was primarily a result of the non-convertibility of sterling, although there was some relief from the fact that Australia was able to draw more out of the Empire Dollar Pool than it contributed.⁸⁴ At the time, the majority of Australian commodity trade took place within the Sterling Area, and the Chifley government was content, in the immediate post-war period, to identify Australian trading interests with a recovery of the British economy. While continuing to draw benefit from the Sterling Area arrangements, Australia thus continued to suffer from a shortage of dollars for some years to come, although the problem in the 1950s arose less from the war-time deficit, than from the extensive industrialisation and development programmes undertaken.

By the early 1950s, however, the interests of the Australian and British governments had diverged considerably. The Commonwealth Finance Ministers' Conference in London in January 1952 was the scene of a decisive break in the Anglo-Australian relationship. According to Sir Roland Wilson, who attended the conference, the U.K. had continued to use the 'dollar shortage' to evoke sympathy from the Commonwealth countries.⁸⁵ There had been, however, substantial developments within the sterling area which had helped put an end to the dollar shortage, as far as Australia was concerned at least. Sir Dennis Robertson said of the new situation:⁸⁶

No wonder that in Australia, become a net dollar earner for the first time in her peacetime history and contemplating with pride her golden fleeces, voices were heard questioning the whole basis of the Sterling Area system with its code of collective self-denial, and hinting that it was time that Old Mother Hubbard in London gave up the key of the cupboard, and allowed her daughters, or at least her *white* daughters, to set up house on their own.

This conference, in 1952, and the signing of the ANZUS treaty in 1951 marked a decisive turning point in Australian relations with both the United Kingdom and the United States of America. The strategy employed by the Curtin and Chifley governments had led to a cutting of the apron strings which tied Australia to a declining British Empire, to a development of Australian manufacturing capital and to the reorientation of trade flows and capital intake towards the increasingly powerful American economy.⁸⁷

APPENDIX

**INTERNATIONAL CONFERENCES AND IMPORTANT
EVENTS 1941-1947**

- 1941 — Atlantic Charter signed
Keynes' discussions in Washington on Lend Lease
- 1942 — Mutual Aid Agreement signed by U.S. and U.K. (February)
Australia signs Mutual Aid Agreement
Conference on Post-War Reconstruction, U.K. and Dominions, in London:
Attended by R. Wilson, Reconstruction Division of Department of
Labour and National Service (October-November)
Talks in Washington between R. Wilson and American officials (December)
- 1943 — U.S.-U.K. discussions at Hot Springs, Virginia (February)
Preliminary discussions between U.K., Dominions and India on Keynes'
Clearing Union and White's Stabilization Fund in London
U.K.-U.S. negotiations on monetary, commercial, investment policy and
on commodities (Keynes' Buffer Stock proposal), Washington. Attended
by Dr Coombs (September)
- 1944 — Discussions between U.K., Dominions and India on employment and
commercial policies in London. Attended by L.G. Melville (March)
Commonwealth Prime Ministers' Conference, London. Attended by
J. Curtin (May)
Allied invasion of Europe (June)
Bretton Woods Conference. Attended by L.G. Melville, A.H. Tange
and F.H. (now Sir Frederick) Wheeler (July)
- 1945 — Victory in Europe (May)
War ends and Lend Lease terminated (August-September)
Discussions on Lend Lease Settlement, U.K.-U.S. Financial and Economic
Agreement and Commercial Policy in Washington. Attended by W.
Dunk (October)
- 1946 — Inaugural Meeting of Board of Governors of IMF and IBRD, Savannah,
Georgia. Attended by L.G. Melville (March)
British Commonwealth Preparatory Talks on Trade and Development
Conference on Trade and Employment in London (November)
- 1947 — Australia joins IMF and IBRD (March)
World Trade Conference in Havana

REFERENCES

- 1 For detailed examination of these see Peter Cochrane, *Industrialization and Dependence: Australia 1919-1939*, Ph.D. thesis, University of Adelaide, 1977; and M.G.L. Dunn, *Curtain Calls to America: Background and Consequences 1936-1947*, B.A. thesis, Australian National University, 1975. See also Tim Rowse, *Australian Liberalism and National Character*, Kibble Books, Melbourne, 1978, pp. 140-1.

- 2 Rowse, op.cit.
- 3 Article VII, Mutual Aid Agreement, cited in R.N. Gardner, *Sterling-Dollar Diplomacy*, Clarendon Press, Oxford, 1956, pp. 58-9.
- 4 *ibid.*, pp. 41-2.
- 5 See, for example, F. Strahan (Secretary to the Prime Minister) letter to R. Mitchell (a Sydney businessman) dated 17 September 1943: 'by its wording (Article VII) recognises that the elimination of discriminatory treatment in international commerce and the reduction of tariffs and other trade barriers can be accomplished only as a part of a general programme ensuring the expansion of production, employment, consumption and living standards'. Australian Archives, CP43/1, 1943/1263.
- 6 National Library of Australia, J.J. Dedman Papers, MS987/7/1425a, Statement by the Minister for Post War Reconstruction, 'ITO Debate', 27 March 1947.
- 7 J.M. Keynes, letter, 10 February 1942, Australian Archives, CP43/1, Bundle 5, 1943/444.
- 8 See, for example, the views of the Chairman of J.P. Morgan and Co., the President of IBM and the President of the U.S. Chamber of Commerce, *New York Times*, 27 June 1943.
- 9 Minutes of the Meeting of the Financial and Economic Committee (F & E), 22 January 1943 (at which R. Wilson reported on his trip to London and Washington). Australian Archives, CP43/1, Bundle 5 1943/444.
- 10 'Mutual Aid-Article VII', Australian Archives CP43/1, Bundle 16A, 1943/906 Part I.
- 11 Australian Archives, CP43/1 Bundle 5, 1943/444.
- 12 R. Wilson, cable from London, 9 November 1942, Australian Archives, CP43/1, Bundle 16A, 1943/906 Part I.
- 13 See speech by H. Hawkins (U.S. State Department) to the U.S. National Foreign Trade Convention, 19 October 1942. Australia Archives, CP43/1, Bundle 17, 1943/909.
- 14 Australian Archives, CP43/1, Bundle 16A, 1943/906 Part II.
- 15 United States wool interests were 'vigilant' and had organised strong opposition to relaxed conditions of entry for Australian wool. Moreover, certain key figures in the U.S. government came from wool States. Australian Archives, CP43/1, Bundle 61, 1945/525, Part II.
- 16 The drain being mainly on gold and marketable securities. Australian Archives, CP43/1, Bundle 17, 1943/907.
- 17 Sir Dennis H. Robertson, *Britain in the World Economy*, George Allen and Unwin, London, 1954, pp. 16-17; and A.J.P. Taylor, *English History 1914-45*, Penguin, 1976, pp. 725-6.
- 18 Lend Lease was the system under which the U.S. provided military equipment and other necessary goods to its allies on the understanding that payment would be settled after the War.
- 19 Australian Archives, CP43/1, Bundle 17, 1943/907.
- 20 *ibid.*
- 21 15 January 1944.
- 22 Australian Archives CP43/1, Bundle 6, 1943/484, Part II.
- 23 The spawning of early moves towards a 'welfare state' in Australia was a result of doubts expressed in the late 1930s by a number of eminent economists, such as H.C. Coombs, Colin Clark and J.G. (now Sir John) Crawford, that capitalism could achieve renewed growth following the Depression. See Cochrane, op.cit., pp. 282-283. Similarly, a trend towards import-substituting industrialization became evident in the period between Wars. For a detailed account see C.B. Schedvin, *Australia and the Great Depression*, Sydney University Press, 1970. It occurred because, during the Depression, export income could no longer sustain *both* the national debt servicing requirements and high levels of imports.
- 24 For an important qualification to this argument, see P. Cochrane, op.cit. Cochrane argues that UK investment in Australian manufacturing had increased rapidly during the first half of the century as a result of the crisis within the British domestic economy.
- 25 J.C.T. Pomroy, Some Aspects of Commonwealth Borrowing Overseas 1950-51 to 1961-62, M.Ec. thesis, Australian National University, 1967, p. 156.
- 26 The difficulty experienced by the Australian government in expanding imports from the Dollar Area is reflected in the fact that imports from the U.S.A. fell from two-thirds of the total Australian imports in 1944 to one-fifth in 1948, while the Sterling Area's share increased to more than half. See M. Dunn, op.cit., p. 48 and *United Nations Yearbook of International Trade Statistics*, various issues.
- 27 Giblin, 'Post-War Prospects for Australia', Australian Archives, CP43/1, Bundle 5, 1943/444.
- 28 See notes prepared by G.G. Firth (of Post War Reconstruction) for the Secretary of External Affairs (W. Dunk) in Washington for negotiations on commercial policy, 26 September 1945. Australian Archives, CP43/1, 1945/525, Part I.

- 29 See W. Dunk memorandum, 17 May 1945, Tange to Coombs, 8 June 1945 and Coombs to Dunk, 15 June 1945. Australian Archives, CP43/1, Bundle 17, 1943/907.
- 30 A.H. Tange, 'Position of Sterling in Relation to Stabilization Fund', 18 February 1944, Australian Archives, CP43/1, Bundle 16A, 1943/906; and G. Schneider to J.G. Crawford, (n.d.) Memorandum on the 'Western Association' (a proposal put forward by *The Economist*), CP43/1, bundle 61, 1945/525.
- 31 Minutes of a Meeting of the F & E Committee, 22 January 1943, Australian Archives, CP43/1, Bundle 5, 1943/444.
- 32 L.F. Giblin, 'Mutual Aid Agreement: Article VII', 19 January 1943, *ibid.*
- 33 Giblin, 'Post War Prospects for Australia', *loc. cit.*
- 34 According to a survey done by the Reconstruction Division of the Department of Labour and National Service, 2 October 1942. Australian Archives, CP43/1, Bundle 61, 1945/525.
- 35 Evatt was Minister for External Affairs. At this stage in government thinking Japan was still regarded as the main threat to Australian interests in the region. China was seen as the mainstay of a Pacific regional alliance. 'Statement by the Minister for External Affairs', 14 October 1943, Australian Archives, CP43/1, Bundle 6, 1943/484, Part I.
- 36 'A United Nations Bank for Reconstruction and Development', November 1943, Australian Archives, CP43/1, Bundle 16A, 1943/906, Part VI. Morgenthau continues: 'It is imperative that we recognize that the investment of productive capital in underdeveloped and capital needy countries means not only that these countries will be able to supply at lower costs more of the goods the world needs, but that they will at the same time become better markets for the world's goods. By investing in countries in need of capital, the lending countries, therefore, help themselves as well as the borrowing countries.'
- 37 J.B. Chifley, 'Address to the Federal Executive of the ALP', 26 November 1946. National Library of Australia, Dedman Papers, MS987/7/2585.
- 38 Notes on meeting of the F & E Committee, 11 September 1943, Australian Archives, CP43/1, Bundle 16A, 1943/906, Part I. Keynes had told Dr Coombs (Director General of Post-War Reconstruction) that the U.K. would have to accept that Harry Dexter White (author of the American Plan) was a New Dealer, and therefore sympathetic to British and Australian full employment arguments, and had already incorporated as much as U.S. 'public opinion' would be prepared to accept. ('Public opinion' here refers to White's consultations with Wall Street bankers about the form of the Plan). The U.K. would therefore accept the *limitation* on U.S. obligations to contribute capital under the new scheme. As Moggridge points out, however, the U.K. had adopted the tactic, in conference, of promoting a most ambitious scheme and giving the U.S. negotiators the onus of watering it down. D.K. Moggridge, *Keynes*, Fontana, 1976, p. 138.
- 39 Australian Archives, CP43/1, Bundle 16A, 1943/906, Part I.
- 40 'International Currency Plans', Australian Archives, CP43/1, Bundle 6, 1943/484, Part I. Also CP43/1, Bundle 16A, 1943/906, Part I, Sir O. Dixon cable from Washington, 9 March 1943; and R. Wilson's report on his trip to Washington, 18 January 1943.
- 41 A report by L.G. Melville, 'International Currency Plans', 25 March 1943, showed estimated voting strengths of different countries and blocs as follows:
- | | | | |
|---------------|------|---------------|------|
| <i>I.C.U.</i> | | <i>S.F.</i> | |
| U.S.A. | 11% | U.S.A. | 25% |
| Latin America | 9% | Latin America | 35% |
| U.K. | 13½% | Empire | 17½% |
| Empire | 12½% | Europe | 16% |
| U.S.S.R. | 1½% | U.S.S.R. | 3% |
- Source:* Australian Archives, CP43/1, Bundle 16A, 1943/906, Part I.
- 42 This was an idea of Keynes. Australian Archives, CP43/1, bundle 17, 1943/907.
- 43 L.F. Giblin, 'The Reconstruction Problems', 18 May 1943, Australian Archives, A461, AT326/1/5.
- 44 'Stabilization Fund and Clearing Union: Report on Discussions in Washington and London', 27 September 1943, Australian Archives, CP43/1, Bundle 6, 1943/484. See also CP43/1, bundle 16A, 1943/906, Part II.
- 45 R.N. Gardner, *op.cit.*, pp. 112-113. See also R.F. Harrod, *The Life of John Maynard Keynes*, Penguin, 1972, p. 649.
- 46 National Library of Australia, Oral History Collection, TRC 182.
- 47 Interestingly, by the early 1970s, Melville thought that this lack of support was just as well: 'But the same doctrine of full employment, of course, was being preached much more widely and was gradually being accepted in other countries—perhaps too much accepted'. *ibid.*
- 48 See 'Article VII—London discussions', Australian Archives, CP43/1, Bundle 5, 1943/444; and Dunn, *op.cit.*, p. 47.
- 49 Australian Archives, CP43/1, Bundle 16A, 1943/906 Part I.

- 50 Text of a statement on the Anglo-American Financial and Economic Agreement made by the Chancellor of the Exchequer (Hugh Dalton) to the House of Commons, 12 December 1945. Australian Archives, A2700 (Cabinet Agenda), vol. 11, no. 669.
- 51 Chifley to F.W. Eggleston (Australian Embassy, Washington), 6 September 1945. Australian Archives, CP43/1, Bundle 1945/525, Part I.
- 52 'General Agreement on Tariffs and Trade', Australian Archives, A2700, vol. 22, no. 1019F.
- 53 The most significant, from the point of view of future technological development, was the reduction of the tariff on computers and computing equipment. It is perhaps for this reason that, in the 1970s, Australian manufacturing industry is unable to catch a ride on the latest wave of technical innovation.
- 54 U.S. Treasury, *Census of American Owned Assets in Foreign Countries*, Washington D.C., 1947, pp. 70-71, cited in Dunn, op.cit., p. 26.
- 55 Interview with one of the authors, 29 May 1978.
- 56 *ibid.*
- 57 E.J. Ward, radio speech 27 March 1946, cited in L.F. Crisp, *Ben Chifley*, Angus & Robertson, Sydney, 1977, p. 205.
- 58 C. Payer, *The Debt Trap*, Penguin, 1974. For a comprehensive account of the arguments put forward in Australia, see Dedman Papers, 'The Case Against Bretton Woods', National Library of Australia, MS987/7/2505-2539.
- 59 'Report on the Inaugural Meeting of the Governors of the World Bank and Fund held at Savannah, U.S.A. from 8th to 18th March, 1946'. 26 April 1946, Dedman Papers, National Library of Australia, MS987/7/2543-2559.
- 60 Dedman, 'The Case Against Bretton Woods', op.cit., p. 2519.
- 61 Prior to the successful wave of national independence struggles of the post-war period, it seems that 'Empire' and 'Imperialism' were still respectable terms to describe the expansionary moves of U.S. capital. The Australian Archives files of this period contain a number of references to 'empire' in the American context. (See, for example, S.M. Bruce cable, 9 March 1944, CP43/1, Bundle 6, 1943/4884). Of course, the euphemisms of the apologists for the Vietnam War have now taken over.
- 62 It is interesting to note that the U.S. is today using a similar argument in relation to Japan and West Germany. Simultaneously with the adoption of deflationary policies at home, the Carter Administration is urging expanded growth rates and revaluation of their currencies on Germany and Japan in order to assist its own manufactured exports.
- 63 Dedman, 'The case against Bretton Woods', op.cit., p. 2514. Even though the imports may not in fact be 'unwanted', the argument is unaffected. The charge that chronic surplus countries are exporting unemployment remains true.
- 64 *loc. cit.*
- 65 Melville, Report on the Savannah meeting, op.cit.
- 66 N. Makin (in Washington) to Chifley and Evatt, 20 October 1946, Australian Archives, CP43/1, Bundle 16A, 1943/906 Part IV.
- 67 Melville, Report on the Savannah Meeting, op.cit.
- 68 *ibid.*
- 69 Dedman Papers, MS987/7/2569-2572.
- 70 National Library of Australia, Oral History Collection, TRC 182, p. 83.
- 71 'The effect of the Fund will be to harness the world to an unstable American economy'. Melville, Report on the Savannah Meeting, op.cit.
- 72 Australian Archives, A2700, vol. 22, no. 1019.
- 73 *ibid.*
- 74 Dedman Papers, National Library of Australia, MS987/7/2591.
- 75 See Australian Archives, A989, 1943/185 (summary of an article by T. Balogh, 15 November 1944), and also CP43/1, Bundle 17, 1943/906 Part II.
- 76 Dedman Papers, MS987/7/2575.
- 77 *ibid.*, p. 2588.
- 78 *ibid.*, p. 2590. Chifley presumably refers to the orthodox monetary policies pursued by these bankers during the 1920s and early 30s which were important contributors to the high rates of unemployment prevailing at the time.
- 79 *ibid.*, p. 2592.
- 80 Cheryl Payer, op.cit.
- 81 J.J. Dedman, 'The Case for Bretton Woods', January 1947, Dedman Papers, MS987/7/2463.
- 82 L.F. Crisp, op.cit., pp. 311-312. See also J.B. Chifley, speech to the House of Representatives following the announcement of import restrictions in 1947. Borrowing from the U.S. government was not considered at that stage for practical reasons—the likelihood of 'unreasonable terms'—not because of any objection to borrowing as such. *Commonwealth Parliamentary Debates*, 27 November 1947.

- 83 Reserve Bank of Australia, *Statistical Bulletin, Supplementary*, March 1963.
- 84 The Dollar Pool was an arrangement whereby members of the Sterling Area 'shared' their dollar earnings with others. Countries which, like Australia, drew out more than they put in were the United Kingdom, Canada, New Zealand, South Africa, Argentina, and Scandinavia. Net contributors to the pool were Malaya, India and sundry British colonies (hardly surprising since the government of all these countries was the U.K. government!). See A.H. Tange, 'Position of Sterling in Relation to Stabilization Fund', 18 February 1944, Australian Archives, CP43/1, Bundle 16A, 1943/906, Part I.
- 85 Wilson, *op.cit.*
- 86 Robertson, *op.cit.*, p. 43.
- 87 Readers will not have failed to notice that a number of the key characters in our story have since received knighthoods from the British Crown. It is ironic that an important part of the careers of people like Sir Arthur Tange, Sir John Crawford, Sir Leslie Melville, and Sir Frederick Wheeler were spent, however inadvertently, in assisting the American struggle for supremacy over an ailing Great Britain.

7

THE POLITICAL ECONOMY OF HOUSING

JIM KEMENY

UNTIL RECENTLY, THE study of housing has been almost entirely neglected by political economists. The pioneering work of Engels on housing was followed by generations of neglect by Marxists, and the study of housing became almost exclusively the reserve of conservative economists and sociologists, conceptually barren and empirically abstracted. During this time the economics of housing became mystified beyond all recognition and housing studies declined into an academic enclave of no relevance or interest to wider questions, concerning the economy, social inequality, housing policy, and social welfare.

Since the early 1970s all this has changed. In two countries in particular—the U.S.A. and France—traditional perspectives on housing and on urban studies in general began to be questioned, following the riots and social upheavals which took place in American and French cities in the late 1960s. As a result of this, radical perspectives on urban structure and on housing began to emerge, particularly from urban geographers through the journal *Antipode* and the work of Harvey in the U.S.A.,¹ and Castells, Lojkine and others in France.²

This new perspective has since taken firm root in England through the work of Pickvance, Harloe, Pahl and others,³ and by the mid-1970s a Political Economy of Housing Movement had become established as part of the wider new urban sociology.⁴ The effects of all this work being done overseas are only just beginning to be felt in Australia. As yet most of the work informed by the new perspective currently under way in Australia has been in urban studies,⁵ and a political economy of housing has been slow to emerge.⁶ The study of housing in Australia is particularly resistant to any alternative approach. Besides the complete mystification of the economics of housing which has been general in all English-speaking countries, housing has never been one of the major social problem areas of Australian capitalism as it has in Britain and other European countries, and in addition there has been a deep emotional commitment to home-ownership which even less conservative observers have found impossible to overcome.⁷ This essay

draws together a number of themes developed in greater detail in other papers, with a view to sketching out in broad terms some of the major issues and problems concerned with the study of housing in Australia within the context of the political economy of Australian capitalism.

The starting point for the study of housing must be a clear understanding of the relationship of housing to profit. As a result of generations of conservative domination, the economics of housing has become so mystified as to require a complete re-evaluation. Traditional housing economics has failed lamentably to elucidate the peculiar status of housing as a consumer good. The most important mystification has concerned the economics of public rental housing. In Britain, where most of the work on public housing has been done, there is not one single major study of public housing, outside the political economy of housing movement, which deals adequately with the concept of 'rent-averaging' and 'pooled historic costs',⁸ and the same is true in the U.S.A.⁹ and Australia.¹⁰

Why is this? Conservative housing analysis has been almost exclusively preoccupied with the subsidisation of public housing by governments, and with administrative problems such as the procedures governing the allocation housing to applicants and the manipulation of waiting lists. Yet this alone does not explain the reluctance to spell out the extent to which public housing tenants actually pay for the great majority of housing costs out of their own rents. The bias appears to conform well to the political tendency in English-speaking countries to play up the extent to which home-owners pay 'market prices', and play down the extent of home-owner subsidisation while stressing the subsidisation of public housing tenants and minimising the extent to which public tenants pay their own way.

Be that as it may, the result of this and other obfuscations in the analysis of the economics of housing in the traditional housing literature, has been a massive public misunderstanding of the relationship of the different housing tenures to profit. I have discussed elsewhere the political economy of housing in general.¹¹ However, the importance of a clear understanding of this fundamental dimension of housing to an overall grasp of the place of housing in capitalism makes a brief summary of that discussion a useful starting point for this wider discussion.

Let us first of all consider the case of completely socialised housing. Such housing would be paid for by cash out of revenue, usually by the state from taxation or its equivalent, just as occurs in state socialist societies and in the same way as governments in capitalist societies pay for schools or other non-housing buildings. 'Rent' in such a system is equivalent to maintenance costs since the capital costs of housing are met out of other sources (e.g. taxation). Indeed, even maintenance costs can be socialised and rent abolished altogether as happens partially in the Soviet Union where 'rent' has not been increased since 1929. This, of course, also happens in capitalist societies with most governmental building. For example, students are not expected to pay 'rent' for attending schools. However, in no capitalist society in the world, even the most 'socialistic', has any government succeeded in completely socialising the capital costs of housing, largely because

housing represents such a large item of expenditure,¹² and is a major source of profit within the capitalist system.

The only type of public housing which has been allowed to develop, albeit often severely limited, is public rental housing which is paid for not by cash but by means of loans. The mortgage-debt on the stock of public housing is met largely or sometimes entirely by the tenants themselves. Paying for housing by means of credit is a very expensive way of financing since, for example, the interest payable on a 25-year mortgage at 10 per cent interest is double the value of the principal. Nevertheless, cost-rental housing¹³ is considerably cheaper than home-ownership, in which a number of other sources of profit exist.

Home-ownership differs from cost-renting in that the mortgage debt of old and new dwellings is not averaged between all households. Rather, each individual householder pays most of his own housing debt (ignoring subsidies for the moment) and so bears the initial high cost and later low cost of debt-financed housing. Apart from that, the housing costs of home-owners and cost-renters are identical: the former pay individually, the latter pool their debt and pay collectively. However, there are additional sources of profit from the home-ownership sphere, resulting from the fact that every time a household moves home, it sells and buys a dwelling.¹⁴ One result of this is that whereas the debt-burden of a stock of cost-rental housing is permanently fixed to the original construction cost of the dwellings, in home-ownership the debt-burden approximates to the debt needed to finance the purchase of dwellings at their current market price. *In other words, home-ownership recirculates housing capital at inflated prices so that it can be refinanced with larger loans.* A second source of profit comes from the exchange activity generated by transferring the ownership of dwellings from one private individual to another: solicitors, estate agents, surveyors and valuers all rely heavily on home-ownership as a source of profit.¹⁵ Finally, home-ownership maximises housing consumption because the distorted housing costs of home ownership over the life-time of households encourage trading up but discourage trading down.¹⁶

The final form of tenure to be considered here is private renting, which results in the accrual of 'super-profits' to landlords because, in contrast to cost-renters and home-owners, they, and not the tenants, benefit from the cheap construction costs of old dwellings. This is reflected in the fact that rents are tied to the current market value of the dwelling and landlords receive a rate of return commensurate with market price rather than original construction costs. Thus, for example, a house which a landlord bought for \$500 in 1935 may now be worth \$30 000 and bringing in a rent of, say, \$50 per week. This represents a gross return of 520% a year on the original investment. By the turn of the century, assuming an average annual rate of inflation of 5 per cent a house price of \$80 000 would produce super-profits of approximately 1100 per cent a year. That is, the landlord would be extracting from the tenant a rent which produced a rate of return *over ten times greater* every year than the original investment.

The economic differences between the tenures are therefore clear. Dif-

ferent forms of tenure facilitate different degrees of exploitation by different vested interests. The most profitable of these is private renting, followed by home-ownership and then cost-renting. The tenures can therefore be seen to represent a continuum in terms of profitability. The tenures involve different degrees of the socialisation of housing capital.¹⁷ In fully socialised housing, capital is, of course, completely socialised. In cost-rental housing, capital is partially socialised to the extent that a dwelling is mortgaged only once, after which it is permanently removed from circulation. In home-ownership, housing capital is recirculated every time a household raises a new mortgage on an old house. In private renting, the whole of the housing capital is being continuously 'profit-indexed' so that the current market value of the dwelling always determines housing costs.

Let us now consider the relative profitability of the different forms of tenure as they operate in Australia today. Since the rate of exploitation and the destination of profits varies from tenure to tenure, we need to distinguish between the tenures in order to be able to derive total and per capita profits. Table I summarises the total housing stock in terms of tenure according to the 1971 Census. It is clear that 90 per cent of the housing stock is in the two most profitable forms of tenure: home-ownership and private renting, while public cost-renting accounts for only 5 per cent of dwellings. If we wish to compare the tenures in terms of profitability, we need to know what rent-levels or housing costs would be if the housing stock were fully socialised and completely removed from profit-making.

TABLE I: TENURES IN AUSTRALIA (1971 CENSUS)

<i>Tenure</i>	<i>No. of dwellings</i>	<i>%</i>
Home-ownership	2 425 845	68.7
Private Renting	754 379	21.4
Public Renting	176 666	5.0
Other or not stated	176 434	4.9
<i>Total</i>	3 533 324	100.0

The starting point for an estimate of profit from housing must therefore be the construction costs of the entire stock of dwellings. Unfortunately, Bureau of Statistics data go back only to 1945/6, so we must estimate the construction costs. We know that it was possible to build a house in the 1930s for approximately \$500, and that by 1945/6 the average value of a new dwelling amounted to just under \$2000. Since then construction costs have risen to \$6700 in 1960/1, over \$10 000 in 1970/1 and to over \$26 000 in 1976/7.¹⁸ Since approximately half of the total current housing stock was built before 1947 a reasonable average construction cost for the whole stock would probably be in the region of \$6000 per dwelling. Let us therefore take this figure and compare the different forms of tenure in terms of the exploitation of housing for profit. Since we are interested in the relative amounts of exploitation for profit in the tenures we may begin by consider-

ing the tenure which, of all the major tenures, approximates most closely to full socialised housing: public renting.

At first sight, it would appear that public rental housing is completely removed from exploitation since finance comes primarily from the Federal Government in the form of low-interest loans. These loans, the amount of which is fixed at three-yearly intervals in Commonwealth-State Housing Agreements (CSHAs), are currently (1978-81) repayable over 53 years at 5 per cent interest. However, there are a number of reasons why public rental housing cannot be defined as completely socialised housing.

The first is a question of definition. Do interest-bearing loans as a means of financing public construction represent a 'subsidy' or a 'tax'? As a means of spending public money, it is clear that CSHA loans are a highly lucrative investment for the taxpayer, relative to other forms of expenditure, since not only is the money repaid, but it is repaid with interest, in marked contrast to spending on non-housing construction (e.g. schools, hospitals) not to mention roads and other fixed capital assets. Furthermore, even if CSHA loans are to be regarded as a 'subsidy' it is not at all clear that public tenants receive greater subsidisation than home-owners. Indeed, recent estimates suggest very clearly that the total *per capita* subsidies are marginally or even considerably higher for home-owners than public tenants.

Second, CSHA funds only represent a proportion of total housing finance available to the Housing Commissions. Thus, for example, in South Australia CSHA loans account for little more than half of the outstanding loans, the balance being made up approximately equally by State Government loans and by debentures secured from private finance institutions.²⁰ Since the latter are raised at market rates of interest (about 10½ per cent), public rental housing is more accurately described as 'partly socialised' housing.²¹

Third, the sales policy of the Housing Commissions means that approximately one-third of dwellings constructed are sold into owner-occupation, and in addition, tenants are able to buy their dwellings on decidedly favourable terms.²² The significance of this for profit is considerable. This type of costly asset-stripping by the public housing authorities represents a continual process of 'denationalisation', whereby publicly-owned assets are sold into private ownership by means of subsidised loans. As a result, a cost-rental dwelling is converted into a far more profitable owner-occupied dwelling. That is, housing capital is returned into circulation for further exploitation, since, as we have already noted, cost-renting does not maximise housing exploitation because such housing is not sold over and over again with larger and larger mortgages as is the case in home-ownership.

Bearing all this in mind, it is clearly difficult to quantify the total amount of exploitation involved in public rental housing. Leaving aside exploitation by the government whereby public housing tenants cross-subsidise other forms of government expenditure which do not yield a return, it is clear that private exploitation of public housing is minimal, if not on a per capita basis, then certainly in terms of the total housing stock of which public housing constitutes only 5 per cent. As might be expected, the most pro-

fitable tenures in Australia are those which together account for 90 per cent of dwellings: private renting and home-ownership.

The three-quarters of a million privately rented dwellings in Australia include some of the poorest and most deprived households in the country and contain over one-fifth of the population. Yet it is precisely these households which are the most heavily exploited in terms of housing of all Australians, as well as receiving by far the worst deal from governments in terms of housing subsidies. Let us return to our estimated average construction cost of the total housing stock of \$6000 per dwelling. Although the private rental market is disproportionately made up of flats and therefore likely to have a lower average construction cost than the national average, we may retain the estimate as providing us with a conservative basis for evaluating the profitability of renting. If private landlords were to make 6 per cent interest *on the original investment*, this would suggest that the average rate of return would be around \$7.00 per week, plus maintenance, rates, insurance, taxes, etc. of say, 2 per cent of the current market value—in this case \$11.50—making an average rent of \$18.50 per week. Another way of looking at this is to calculate what rent levels would be under cost-renting (where no landlord profits are made), and to assume that housing is financed with 100 per cent home-ownership mortgages on the average construction cost, less home-owner subsidies. In that case, and assuming that running costs are still \$11.50 per week, the rent-level would be \$19.50 per week.

It is clear, then, that the profit-margins of private landlords are considerable, since average rents are well above \$20 per week, and are probably somewhere around \$40 per week. This means that landlords extract approximately \$20 per week per tenant in the private rental market in the form of surplus rents, or net profits. This works out at one thousand dollars a year per household or a rate of return of over 30 per cent on the original investment, generating net profits of over 1.2 billion dollars a year at current prices, or a total of over \$750 000 000 a year in extra rent payable by private tenants beyond what would have to be paid in a cost-rental sector where landlord profits were eliminated.

This is clearly an extremely high rate of exploitation, particularly in view of the preponderance of low-income earners in the private rental market. Just where all this profit goes is difficult to estimate. Not all of it will accrue to landlords even though they are the immediate recipients of the profits, since a proportion will be eventually paid to finance institutions and other creditors from whom landlords may have borrowed to finance part of their investment. Furthermore, it is clear that only a tiny proportion of this profit was reinvested in rental housing. If it were all reinvested in dwellings with an average price of \$30 000 then (even assuming that no credit was used) approximately 40 000 new dwellings would be added to the stock of rental dwellings per year, which would mean that one-third of all construction was for private rental dwellings. Although Australian Bureau of Statistics data do not distinguish between rental and other tenures so as to indicate how many dwellings are built for the private rental market, it is quite clear that nowhere

near this number of new dwellings are added to the private rental market each year.²³

Finally, we may consider home-ownership. As distinct from private renting, profits related to home-ownership come largely from interest on debt, with additional sources from transfer fees paid to estate agents, solicitors, etc. The total debt-load on the owner-occupied housing stock is difficult to estimate. We know that outstanding advances held by the two most important lenders—the savings banks and building societies—amount to over \$14 000 000 000.²⁴ Using Hill's estimate that approximately 25 per cent of the current market value of the owner-occupied housing stock is mortgaged to finance institutions,²⁵ this means that the total value of mortgages held by all finance institutions, including finance corporations, Life Offices and other institutions is probably in the region of \$20 000 000 000. If we add to this a proportion of 'private' debt owing to estate agents, solicitors and other miscellaneous sources, then it is probable that at least \$25 000 000 000 of debt requires servicing. This means that at current rates of interest total interest and principal repayments amount to approximately three billion dollars a year.

How does this compare to the debt-load on an equivalent stock of cost-rental dwellings? On our figure of \$6000 for the average cost of a dwelling, and even assuming 100 per cent home-ownership mortgages, the total debt load on the same number of dwellings as exist in the owner-occupier sector would amount to approximately \$15 000 000, producing annual mortgage repayments of approximately 1.9 billion dollars. In other words, the total debt-load on home-owners is approximately 50 per cent more—a billion dollars per year—than it would be in an equivalent cost-rental system.

We are now in a position to summarise the total extent of housing exploitation in Australia. Table II presents the main elements in such a summary. 'Gross return' refers to the amount of profit extracted from housing over and above running costs incurred by the landlord or mortgagor, and any repayment of principal by the householders directly (excluding taxation subsidies). Gross return therefore represents the rate of interest earned by capital from housing. In the case of home-ownership most of this is a transfer payment from home-owners to savers and investors with a margin accruing to finance institutions as credit intermediaries (it should be noted that this calculation excludes profits and fees made by transfer agents such as solicitors and estate agents). In the case of private renting, the landlord is the main beneficiary, with a proportion going to finance institutions where landlords raise credit to supplement their own capital. In public renting the government is the main beneficiary, with private finance institutions playing only a very minor role.

It will be seen from this that the total surplus value extracted from housing from the three main tenures amounts to almost three and three-quarter billion dollars a year, while the average return per dwelling amounts to over a thousand dollars a year, producing a gross return in the housing sector of the economy of approximately 15 per cent a year. Equally significant are the enormous differences in profitability of the different tenures.

The average gross return per dwelling per year from home-ownership is almost ten times greater than for public renting (though at least half of this profit is paid for by the government in the form of direct and indirect subsidies), while the average gross return per dwelling per year from private renting is almost fifteen times greater than for public renting.

We can now consider the implications of the role of housing (as a source of profit) for the nature of housing policy in Australia over the post-war period. The traditional literature on housing policy is abysmally inadequate in providing any useful analysis concerning the relationship of housing exploitation to housing policy. Most studies take a narrow and normatively deterministic view and argue that people prefer home-ownership to private renting and so the current patterns of housing tenure represent the outcome of the free play of market forces accurately reflecting household preferences and demand.²⁶

TABLE II: HOUSING EXPLOITATION BY TENURES (1971 DATA)

<i>Tenure</i>	<i>Average % gross return per dwelling per year</i>	<i>Gross return (\$000 000)</i>	<i>Average gross return per dwelling per year (\$)</i>	<i>Main beneficiary</i>
Home-ownership	10	2 500	1 000	investors/ finance institutions
Private Renting	30	1 200	1 600	landlords
Public Renting	3.66 ¹	20	110	government
<i>Total</i>	14.5	3 720	1 035	—

¹Pooled interest rate on CSHA loans.

This, however, is an argument which conveniently overlooks perhaps the single most important characteristic of housing policy in most capitalist societies: the deliberate suppression of demand for, and supply of, public rental housing. The traditional housing literature dismisses public rental housing as a form of 'welfare' for those unable to buy their homes; and given the way in which public rental housing has been structured, this is an accurate, if superficial, interpretation of housing policy. The housing tenures have been so organised that the majority of households must choose between, on the one hand, heavily subsidised and legally protected home-ownership and, on the other hand, private renting, where landlords make super-profits and where tenant rights are severely circumscribed. In this context, the aim of public rental housing has been to cater for the very poor who are neither able to buy nor can afford to rent privately. As such it has not only been stigmatised as 'welfare housing', but has been structured so as not to offer comparable socio-legal status to public tenants as against home-owners, in such things as occupier autonomy in the home and residential mobility, both of which are severely limited in public rental systems. In spite of such negative discrimination, the demand for public rental

housing remains high in all capitalist societies, and rigorous means-testing has to be enforced in order to keep waiting lists within credible limits.

In the light of this it is quite extraordinary that home-ownership can be maintained to be the 'natural' tenure choice of households. There are as many households on the waiting lists of housing commissions as there are public rental dwellings, and this, it might be noted, excludes any demand by those whose incomes are over 85 per cent of average weekly earnings and who are therefore ineligible to be on waiting lists. How can we account for this flagrant discrimination against cost-renting? We have already noted that cost-renting is a form of socialised home-ownership and, moreover, that total per capita subsidies to public tenants are almost certainly lower than for home-owners. This by itself disproves any claim that public renting is a 'burden' on the taxpayer and a form of 'welfare'. The answer, it seems, can be found if a broader and cross-cultural view of housing policy is taken, and if housing policy is directly related to the different degrees of profitability of various forms of tenure.

Although it is true that in the vast majority of capitalist societies cost-renting is discriminated against, and the majority, or overwhelming majority, of households are forced to choose between owning and private renting, there are two important points to note about comparative housing policies. First, there is considerable variation between capitalist societies concerning the degree to which public rental housing has been suppressed. Thus, for example, in Britain over 30 per cent of dwellings are publicly-owned, while in the U.S.A. only about 1 per cent are publicly-owned, and as we have already noted, in Australia (and, incidentally, New Zealand) the figure is about 5 per cent. Second, and more important, there are a number of societies where cost-renting has been allowed to expand to meet demand and is not stigmatised and suppressed: notably, Sweden, West Germany and The Netherlands. In such societies the home-ownership rate has remained relatively low, at around one-third of households, as against between half and two-thirds in often poorer home-owning societies such as Australia.²⁷ Moreover, in these cases cost-renting has retained a balanced cross-section of the population and prevented a mass flight of middle-income earners into home-ownership.²⁸

What appears to happen is that cost-renting tends to be most heavily discriminated against, in societies where working-class pressure for socialised housing is weakest, and where the welfare state is the least well-developed.²⁹ In such societies the two most profitable forms of tenure dominate the housing markets, and cost-renting is by and large not permitted to compete for households. This is clearly true of the majority of capitalist societies, where there is the rather odd situation of two distinct and separate rental sectors existing side by side.

In societies such as West Germany, Sweden and The Netherlands, the demand for cost-renting is not artificially pent-up by means-testing, the supply of housing is not prevented from expanding to fulfill demand, residential mobility from one cost-rental dwelling to another is not bureaucratically regulated, and tenant autonomy is not circumscribed by petty

regulations. Public and private cost-rental organisations are therefore allowed to compete with private profit-making landlords for tenants. The result has been that private landlords have been forced to forgo super-profits and to lower rents in order to be able to compete with cost-rental organisations, as well as offering tenants security of tenure, housing standards, etc. comparable with those offered by cost-rental organisations. The result has been that these societies possess one mixed rental sector in which rents are at or near cost, and in which there is a high degree of security of tenure and tenant autonomy in the home. In such societies there has not been a mass exodus of middle-income families out of renting and into home-ownership, as has occurred in English-speaking countries over the post-war period. Renting remains the largest single form of tenure, and home-ownership rates have fluctuated around only one-third of dwellings.³⁰

However, although this explains why 90 per cent of dwellings in Australia are in the two most profitable tenures it does not explain why home-ownership is favoured in preference to private renting. After all, private renting is considerably more profitable than home-ownership, and if we are going to argue that the most profitable tenures are those which are encouraged, then it would appear that the emphasis upon home-ownership disproves that assumption—at least as far as private renting is concerned. It is clear that there can be no simplistic direct correlation between profitability and tenure patterns. This is true for a number of reasons.

First, whether home-ownership or private renting is favoured will depend on the relative power of different fractions of capital: in this case finance capital and landlord capital. It is quite clear that the growth of finance capital as a major component of capital has been phenomenal. The fact that many studies of the ruling class in capitalist societies focus upon finance capital as the central element supports this view.³¹ Thus, the trend to home-ownership and away from private renting reflects, in part at least, the relative power of finance capital over private landlordism.

Second, home-ownership generates considerable profits for various professional and other petty bourgeois elements. The legal profession benefits considerably from the vast amount of conveyancing work resulting from home-ownership: indeed, conveyancing is the single largest source of income for the legal profession. By ensuring that the ownership of property must be changed every time a household wishes to move, and every time an individual householder dies, a vastly greater amount of business is generated than if conveyancing were limited to the transfer of property between landlords. The real estate business also profits considerably from home-ownership, and I have calculated elsewhere that approximately \$200 000 000 a year in commission is earned by the real estate agents from home-ownership alone.³²

Third, it is clearly in the interests of employers that the housing costs of workers be as low as possible. It could be argued that it is in their interests that housing be completely socialised in order that wages can be minimised. To that extent, home-ownership would represent a good compromise between high profitability (private renting) and low profitability (cost-

renting). It is interesting in this context to note that the South Australian Housing Trust was set up in the first place, partly to attract industrial capital by providing cheap housing which would keep wages down, saving employers approximately £500 000 a year in 1936.³³

Finally, there are probably a number of other reasons. One of these might be working-class pressure for an alternative to private renting: rent strikes and housing unrest have occurred at one time or another in all capitalist societies. It is notable that one of the main political justifications for home-ownership has been to combat communism and social and industrial unrest.³⁴ Another advantage of home-ownership to potential creditors, perhaps minor in itself, is that home-ownership provides households with modest capital assets, which can be sold and the proceeds used to pay off creditors in cases of bankruptcy in a way which is not possible when housing capital is socialised as in cost-renting. It also provides middle-income households with a security with which to obtain consumer credit. Thus, in the 1970s automobile boom in the U.S.A., many working class home-owners re-mortgaged their homes in order to finance the purchase of cars.³⁵ Further, as is argued later in this essay, home-ownership maximises the consumption of housing and, most importantly, at the expense of public expenditure (such as urban infrastructure). It is therefore clearly in the interests of the house-building industry to encourage home-ownership, and so we should not be too surprised if the Housing Industry Association is a strong advocate of extending home-ownership.

All of this points to the need to develop a political history of the housing struggle in Australia. There is little doubt that, insofar as the dominance of home-ownership represents a compromise in terms of the maximisation of the exploitation of housing for profit, it is a compromise which benefits finance capital and other vested interests, and one which only marginally reduces housing exploitation. As such, the spread of home-ownership is an extremely modest working-class gain, and one obtained at enormous social and political cost. One such cost is the drastic fragmenting effect which home-ownership has on any potential housing struggle, and this will be considered further below.

However, we do not even possess an institutional political history of the sponsorship of home-ownership. What is also needed, therefore, is an analysis of the way in which the economic, political and legal framework of housing has been manipulated to favour home-ownership and to disadvantage public renting. This involves focusing upon the discriminatory treatment of tenures by which home-ownership is encouraged *at the expense of* less profitable forms of tenure (notably public renting).

First it may be noted that considerable effort has been expended on setting up, guaranteeing, and otherwise facilitating the institutional credit structure which is fundamental to extending home-ownership to middle-income earners. The elaborate housing finance industry, with savings banks, building societies and other credit institutions specialising in housing finance for the household, tends to be taken for granted as part of the financial structure of a capitalist society. Nothing could be further from the truth.

The great stumbling block to extending home-ownership to average income earners, has been the inherent riskiness of providing large-scale credit to wage and salary earners, whose total annual income is only a fraction of the amount they need to borrow to buy dwellings, and whose job-security is at best limited.

The most important steps in overcoming this problem have been: (a) the setting up of public credit institutions—State and Commonwealth savings banks—specifically to allow ordinary households to buy dwellings by mortgaging to the banks; and (b) State and Federal schemes either to guarantee banks their loans to low-income households for the purchase of modest dwellings, or to insure them.³⁶ In both cases governments have effectively taken over the risk from private finance capital of making credit available to low (or rather, medium) income earners. At the same time, Housing Commissions have been generally prevented from raising home-loans from finance institutions, so as to prevent them from competing for funds with individual home-buyers. Thus, for example, the South Australian Trust can borrow privately, only in order to expand its housing stock by raising debentures on which there are higher rates of interest than on savings bank or building society loans.

Second, care has been taken to protect and enhance the legal status of home-owners, particularly in terms of security of tenure and autonomy in the home. It is notable that the distinction between debt-free (i.e. freehold) and debt-encumbered (i.e. mortgaged) home-owners is minimised and is effectively unimportant in terms of security and autonomy. In particular, specific actions are taken from time to time to shore up the home-ownership sector during times of economic depression so that debt-encumbered home-owners will not have their mortgages foreclosed. This happened during the 1930s,³⁷ and more recently the Housing Industry Association has lobbied to enable the purchasers of new dwellings who become unemployed to defer mortgage repayments by lengthening repayment times until they are back at work.³⁸

The contrast between the treatment of mortgagee home-owners and public tenants is remarkable. In theory, these two categories are virtually indistinguishable. The only difference in terms of indebtedness between home-owners and public tenants is that while the former repay their housing debts individually, the latter repay their collectively. There is therefore no reason why public tenants should not have exactly the same rights and obligations as home-owners and be legally defined as part-owners. In fact, the legal position of public tenants is, if anything, worse than even that of private tenants, with Housing Commissions offering leases which are usually less favourable to tenants than those available from private landlords.³⁹

This brings us back to the general difference between home-ownership and public renting. It is clear that if public renting were to be made more attractive, or (even more radically) to be given equal legal and social status with home-ownership, the demand for public renting would be even greater than it is today. The problem of long waiting lists, in the face of government unwillingness to see public renting expand to meet demand, would be

considerably worsened and, in addition, the credibility of home-ownership as the only real alternative to private renting would be undermined.⁴⁰

We have so far considered some of the implications of different degrees of profitability and housing policy at the most general level. It is now necessary to consider some of the wider implications of home-ownership as the dominant tenure in Australia today. To do this it is necessary to move away from narrow conceptions of housing as 'the study of dwellings' and to consider the inter-relationship of housing with the wider social structure. One of the reasons for the sterility of traditional housing studies, is that the literature has failed to place housing in the wider social context and has hived off the study of housing into a specialised and narrow academic ghetto. It is therefore essential to go beyond the limits of studying 'housing' as an abstract specialism. One of the changes which a new political economy of housing must involve is therefore to 'de-specialise' the study of dwellings and to relocate the study of housing as part of a wider analysis of social structure.

Three such wider aspects of housing call for consideration: poverty, lifestyles and urban structures, and the relationship between housing and the welfare state.

The phenomenon of 'the poverty cycle' is well-established in the literature on poverty and inequality. According to this, low income households move through different degrees of poverty depending upon which stages of their family cycle they happen to be in. Thus, the two main troughs of extreme poverty occur in the child-bearing years, when there are lots of mouths to feed but often only one income in the family, and in old age. One of the great *lacunae* in the housing literature is the effect of home-ownership upon this poverty cycle. This is especially significant in Australia, where a high proportion of lower-income earners are home-owners. Unlike different forms of renting (fully socialised housing, cost-renting, and private renting) the housing costs of home-owners fluctuate violently throughout the family cycle. Ignoring for the moment some of the minor fluctuations (such as when 'trading up'), the housing costs of home-owners tend to fall (as a percentage of income) as the household ages. How is this likely to affect the poverty cycle?

In the most general terms, home-ownership redistributes housing costs from the old to the young. The effect of this is to deepen poverty during the early stages of the family cycle and to ameliorate poverty in old age. More specifically, a number of stages can be distinguished.

First, although for the single-person household and for childless couples gross per capita income may be enough to prevent great poverty, the need to save for a deposit to buy a dwelling is likely to drive post-housing income, (defined here as the income which is available after all housing costs have been met) well below that which would be available on the basic minimum wage for renters not saving for a deposit. Such aspiring home-owners would be likely to overcrowd in cheap rental housing and to go short of many essentials in order to save enough each week.

Second, buying a dwelling will necessarily involve deep indebtedness,

often resorting to second and third mortgages, and in extreme cases paying up to 85 per cent or more of the main income-earner's wage in mortgage repayments.⁴¹ One likely consequence of this is that marriage or child-bearing may be delayed so that two incomes can be maintained for long enough to get beyond this stage in housing. In addition, first-time buyers are likely to be forced to buy low-standard housing which would be inadequate for an expanding family.

Third, the early years of child-bearing would be accompanied by increasing overcrowding. Although mortgage repayments are likely to decline as a percentage of income, the additional mouths to feed, often together with the loss of the wife's income, are likely to postpone any chance of 'trading up' to more adequate accommodation.

Fourth, eventually the relative decline in the mortgage burden is likely to permit 'trading up', perhaps coinciding with the children's school years which often permits a partial or even complete return to work by the wife. 'Trading up' is likely to continue to the maximum that the family income can bear, maintaining mortgage repayments at a fairly high level.

Fifth, eventually the children will either leave home or will be working and supplementing the family income. This, together with declining mortgage repayments as a percentage of family income and eventually with amortisation of the loan or loans, raises post-housing income above that of renters, and results in surplus housing space (assuming periods of sickness and unemployment are not too extended).

Finally, on retirement, post-housing income falls to at or near the poverty line, though not as low as for renters.

The effect of all this is to redistribute housing from the young to the old, and it is likely that a high proportion of overcrowded households are newly-established home-owners or aspiring home-owners, while a high proportion of households with surplus space are middle-aged and retired householders. Thus, home-ownership exacerbates the maldistribution of housing in capitalist societies. A further consequence, the broader implications of which will be returned to when we consider social security and welfare, is that home-ownership acts as a cheap and inequitable form of retirement pension 'in kind', since the young worker subsidises the retired worker, and the low housing costs of the aged reduces pressure to provide adequate universal retirement pensions.

The dramatic differences between the post-housing incomes of different home-owners is one of the most important characteristics of home-ownership. Home-ownership distorts the housing costs of families so that young families have to overcrowd just when their housing needs are greatest, while the middle-aged and old have surplus space which, because their housing costs are so low, they are discouraged from giving up by 'trading down' to a smaller and cheaper house. What appears to happen in home-owning capitalist societies is that total housing consumption is maximised, because households are encouraged to 'trade up' but discouraged from 'trading down'. It is notable, in this context, the average dwelling size in

home-owning societies is clearly greater than in rich renting societies such as Sweden and West Germany.⁴²

However, the distorting effect of home-ownership housing costs has additional consequences. One of the most important is the effect upon lifestyles and urban structure. One of the most peculiar consequences of home-ownership is that it is quite possible that two identical houses, both built thirty years ago for the same price, may be owned by households who are paying vastly different amounts for their dwellings. One household which has lived in the house for thirty years may be paying nothing at all, while the second, which bought as a first-time home-owner, may be paying 90 per cent of one income in mortgage repayments. Thus the real housing costs of no two households will be the same. This is in marked contrast to renting, where households in comparable homes will pay broadly comparable rents and where it is at least possible to organise rent strikes. By contrast, 'mortgage strikes' are almost impossible to organise, simply because every household will be affected differently by rising interest rates: some greatly, some not at all, and many relatively little. Home-ownership therefore has the important effect of fragmenting working class solidarity in terms of housing struggles.

This fragmenting effect of home-ownership on class solidarity is part of a wider effect of home-ownership which I have called 'privatisation'.⁴³ In this context, privatisation refers to processes which are the direct opposite of collectivisation in the production and consumption of housing. These processes derive from the individualistic economic organisation of home-ownership, reflected both in the way in which housing is paid for and the way in which second-hand housing is continually re-marketed. The ideological basis of home-ownership rests upon the privatisation of housing consumption. By contrast, cost-renting and fully socialised housing involve tenants collectively paying for housing, and organising residential mobility in more efficient (less expensive because less profitable) ways. The argument here is that home-ownership involves privatisation at a number of levels and in a range of different ways, not just in economic terms, and that privatisation has far-reaching social, ideological and political ramifications. Furthermore, Australia's high home-ownership rate must be understood as part of a wider privatisation of Australian capitalism, in contrast to more collectivistic welfare capitalist societies, such as Sweden, and to a lesser extent Britain.

The first point to note about home-ownership in terms of privatisation is the relationship between Australia's high home-ownership rate and the detached house as the predominant house-type. Over 80 per cent of urban dwellings in Australia are houses, and of these the overwhelming majority are detached houses. By contrast, flats are much more common in societies with lower home-ownership rates, notably Britain and even more in Sweden, West Germany and The Netherlands. Privatised dwelling-type therefore appears to be closely related to privatised tenure form, and this is not only true of capitalist societies but also of state socialist societies.⁴⁴

The implications of this for urban structure are far-reaching. It has been noted elsewhere that Australian cities occupy approximately three or four

times more space than comparably-sized European cities.⁴⁵ There are at least two major implications of this. First, transport tends to become privatised, in that low-density urban sprawl is less efficiently serviced by public mass-transit systems and there is much heavier dependence upon the private car. Second, the urban infrastructure tends to remain largely or almost entirely in private control, with poor public amenities resulting from relatively low governmental involvement in urban investment. The emphasis is upon such things as the private garden instead of public parks, and upon maximising housing space at home at the expense of collective facilities such as public libraries, sports facilities, day care centres, etc. The result of this is that low-density urban structures result in privatised life-styles with a heavy dependence upon the home, and upon private facilities rather than public amenities.⁴⁶ In addition, the emphasis upon the family as a private consumer (of both housing and durables) effectively maximises consumption, because it does not allow for economies arising from sharing communal facilities. The privatisation of the family therefore maximises consumption and so expands real markets.⁴⁷

The economic and social privatisation which is associated with high home-ownership rates contrasts with other societies where home-ownership rates are lower, and where collectivisation of urban structures is better developed. Interestingly, conservative political parties in all societies tend to be keen supporters of extending home-ownership, in practice at the expense of cost-renting.

Part of the reason for this is undoubtedly the fact that home-ownership is a profitable form of tenure. However, it is clear from the justifications put forward by conservatives in favour of home-ownership, that perhaps the single most important reason is the assumed conservatising effect of home-ownership, notably by giving workers a stake in the capitalist system, and combatting communism and industrial unrest by encouraging hard work, thrift and self-help.⁴⁸ It is highly questionable whether individual indebtedness locks the worker into capitalism any more than the collective indebtedness of cost-renting as some radical observers argue.⁴⁹ At the same time, the ideological appeal of home-ownership is clearly a strong one. In particular, the myth of 'capital gains' from home-ownership is one which has become very widely accepted in capitalist societies, testifying to the ability of ideology to mystify housing by converting a consumer good into productive capital.⁵⁰

It must be said that the privatisation of mortgage repayments in home-ownership has far-reaching consequences for the nature of the welfare state in capitalist societies. The fragmenting effect of home-ownership on class solidarity has important implications for the attempt to institute comprehensive social welfare and social security systems. It has been noted that the welfare state does not essentially affect the class distribution of wealth in a society, but rather involves cross-subsidisation within the working class—pensions are subsidies from the young to the old, child allowances are subsidies from the childless to families, health benefits are subsidies from the healthy to the sick, unemployment benefits are subsidies from the em-

ployed to the unemployed, etc.⁵¹ The welfare state thus acts as a simple form of universal social insurance against extreme poverty. A large element in such cross-subsidisation is from the young to the old by way of provision for sickness, retirement, and (at least until the mid-1970s) unemployment. However, as noted earlier, home-ownership already involves a considerable redistribution of wealth from the young to the old, albeit in an extremely inequitable manner. Given the powerful pressures on young families to maximise their savings and minimise new housing consumption during the early years of the family cycle when mortgage repayments are high, it is likely that resistance to universal insurance schemes will be greater in home-owning societies than in societies where cost-renting is common. We might therefore expect that capitalist societies with high home-ownership rates will tend to have weaker welfare structures than those with low home-ownership rates. A comparison between Australia, Britain, and Sweden, with home-ownership rates of two-thirds, a half, and one-third respectively, suggests that such an effect is likely, and at the very least requires further exploration (see Table III).

TABLE III:
HOME-OWNERSHIP RATES AND THE WELFARE STATE IN THREE CAPITALIST SOCIETIES

Country	Home ownership rate (1970-71)	% of households in cost-renting	Government final consumption expenditure as a % of total final consumption expenditure	Average % of income paid in direct taxes (after deductions)	Per capita total government expenditure on social welfare and health	Basic married retirement pensions as % of average income	Unemployment benefit as % of average weekly earnings
Australia	69	6	24	14.6	340	25	23
Britain	50	30	33	21.5	500	30	38
Sweden	35	50	47	34.4	650	66	82

The point about such an effect is that young families with high housing costs will be tempted to forego insurance for purposes of health, retirement, etc. until their mortgage repayments decline as a percentage of their incomes. Under largely voluntary insurance schemes such as exist in Australia this is possible as a family strategy. Clearly, such a system effectively undermines the concept of universal social security; and insofar as this happens as a result of home-ownership, it can be seen as one—perhaps a major one—in the privatisation of the working class.

The intimate relationship between housing and wider social, urban, ideological, and class factors underlines the need to develop a political economy of housing in Australia which relocates the problem of housing as part of the wider structure of capitalism. In addition, there are enormous and important gaps in our knowledge of the housing system in Australia. Even basic data about central institutions in housing are missing. The housing construction industry is almost entirely unresearched, and only the most elementary statistics are collected by the Australian Bureau of Statis-

tics.⁵² We know virtually nothing about private landlordism in Australia, who the landlords are and their relationship to other institutions. The real estate business and property speculation are other areas almost entirely unresearched. Indeed, in terms of a political economy of housing, it is more accurate to say that there are gaps in our ignorance rather than gaps in our knowledge.

Finally, there is a need to develop radical alternatives to housing policies as part of a general stimulation of awareness of the political economy of housing.⁵³ Labor housing policies are virtually indistinguishable from those of their conservative opponents, emphasising home-ownership and sustaining the stigmatisation and restriction of public housing. The massive conservative consensus which exists over housing in Australia derives, in part at least, from conservative dominance in the literature and research on housing, with the resulting mystification of housing economics and policy. It is not enough simply to analyse the problem of housing in Australian capitalism. Such analysis must be by way of preparation for the development of radical housing policies as part of the construction of a more general alternative to current patterns of exploitation and inequality.

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THE POLITICAL ECONOMY OF PUNISHMENT

JOHN BRAITHWAITE

THE LANDMARK MARXIST account of the nexus between the economy and social control is Rusche & Kirchheimer's (1939) *Punishment and Social Structure*. Rusche & Kirchheimer's basic assertion is: 'Every system of production tends to discover (and use) punishments which correspond to its productive relationships. During the late Middle Ages, Rusche & Kirchheimer argue, there was no shortage of labour in Europe, at least in the towns. Little value was therefore placed on the human life of the lower classes. In the 16th century, death as the dominant mode of punishment reached its zenith. 'We are told that 72 000 major and minor thieves were hanged during the reign of Henry VIII, and that under Elizabeth vagabonds were strung up in rows, as many as three and four hundred at a time' (Rusche & Kirchheimer, 1939: 19). This when the population of England was only about three million.

Even the most morbid 20th century imagination can hardly picture the horror of 16th century punishment. One reads of strips of flesh being torn off the body with hot pincers while the felon was still alive, limbs being hacked off one after another, nails being driven through the head or eyes, tearing out of tongues, people being buried alive. Rusche & Kirchheimer argue that the shift away from these forms of punishment occurred largely because of the demand for labour with the rise of mercantilism in the late 16th century. Before embarking on this explanation, it should be pointed out that Foucault (1977) has suggested an alternative. His view is that the 'dying a thousand deaths' punishment of the late Middle Ages were not indicative of an attempt to control crime, but rather functioned as a means of publicly demonstrating the awesome power of the monarch. Under feudalism there was no consistently applied justice, most law breaking was tolerated, and often even approved. Moreover, there was not the state apparatus to finance a systematic approach to crime control. Of necessity,

I would like to thank Stanley Johnston and Richard Fox, Peter Grabosky and David Biles and Marjorie Johnson for allowing me to use their hard earned data on New South Wales and Victorian imprisonment rates. I would also like to thank Annette Waters for recalculating many of these imprisonment rates for the purpose of this paper.

therefore, punishment had to be arbitrary, cruel and cheap. Mercantilism, with the new phenomena of population mobility which separated servants from traditional masters, pilfering from employers, urban pickpockets, large urban warehouses which were targets for theft, ushered in the need for a rational crime-control policy. No longer could the ruling class turn a blind eye to most crime. Nor could they hope to enforce horrendous 16th century punishments consistently against every felon caught without wiping out half the lower classes. New modalities of punishment had to be found.

Rusche & Kirchheimer's theory links up with Foucault in the way it emphasises the new importance of preserving the lives of the lower classes. The first manifestation of this was galley slavery. Religious wars and pestilence considerably reduced the populations of some European countries in the early 17th century precisely when there was a rising demand for labour. Criminals became a source of labour. Instead of being hanged, many criminals were used in the army's front line. Some nations sold their convicted criminals to foreign armies. Courts were placed under pressure to step up their supply of criminals for the galleys. A letter to the French public prosecutor in 1676 illustrates this pressure.

Since His Majesty urgently needs more men to strengthen His rowing crews . . . to be delivered at the end of the following month, His Majesty commands me to tell you that He wishes you to take the necessary steps in His name in order to have the criminals judged quickly.

The courts hastened to comply, as the following report of the public prosecutor at Bordeaux reveals:¹

You have frequently done me the honor of writing to me in connection with the supply of prisoners for the galleys and of transmitting to me the express orders of His Majesty relating to the use of such prisoners in the execution of His glorious projects. You will be gratified to learn that this Court has twenty prisoners who will be chained together this morning and sent off.'

The substitution of galley slavery for the deaths and tortures described earlier was not the result of a new humanitarianism but of a new demand for labour. Prisoners unfit for galley slavery, for example those with an arm or leg missing, were still to be put to death according to explicit instructions to the French courts from Louis XIV.

Later, convict labour was found useful as a solution to acute labour shortages in colonies such as America and Australia. During the era of labour shortages, which ended with the industrial revolution in Europe but much later in the colonies, prison industries became highly profitable. These profits were a major incentive for maintaining high imprisonment rates. Rusche & Kirchheimer point out that as labour surpluses developed in 19th century Europe, the comparative advantage of free prison labour dissipated, prison industry became unprofitable, and so fiscal pressure developed for prisons to decrease their populations. It might also be added that as the importance of raw labour power has diminished in favour of skilled labour power, the unskilled workforce of prisons has become less and less economically useful.

Two books have recently appeared which provide Marxist accounts of the function of imprisonment in capitalist societies in the 20th century; both draw heavily on Rusche & Kirchheimer's broader historical analysis of the effect of material conditions on penal ideas and practices. One is Richard Quinney's *Class, State, and Crime: On the Theory and Practice of Criminal Justice*, the other Andrew Scull's *Decarceration: Community Treatment and the Deviant—A Radical view*. Both are Marxist analyses which rely heavily on James O'Connor's *The Fiscal Crisis of the State*; because both books were written at the same time, neither cites the work of the other.

Quinney argues that imprisonment is functional for capitalism in controlling the surplus population created by advanced capitalism; Scull that decarceration (letting people out of prison) is functional for advanced capitalism. The prediction from Quinney's theorising is that as the crises of capitalism deepen, imprisonment of the surplus population will be increasingly resorted to by the state; while Scull concludes that as the fiscal crisis of the state worsens, imprisonment will be increasingly eschewed in favour of community treatment. The purpose of this essay is to attempt a synthesis of these seemingly contradictory formulations, in part by confronting their historical analyses with data on imprisonment rates for New South Wales and Victoria from the mid-19th century to the present.

In the past decade the emphasis in mainstream criminology has shifted away from rehabilitation. The influential review of Lipton, Martinson & Wilks (1975) confirmed the long-standing cynicism of criminologists that rehabilitation rarely works. But the collapse of the rehabilitative ideal has been responded to in different ways by different camps within criminology. For one group, led by conservatives such as James Q. Wilson, it has heralded the need to return to retribution, denunciation, just deserts, deterrence, or some combination of these, as the rationale for the widespread use of imprisonment. For liberal criminologists, however, the bankruptcy of rehabilitation has been construed as justification for deinstitutionalising offenders, not necessarily because community treatment is more effective in terms of crime prevention, but because it is either cheaper, or more humane, or both. The retribution-deterrence and deinstitutionalisation doctrines now distinguish two fairly clearly defined camps within mainstream criminology of the late 1970s and early 1980s. The crucial difference between Quinney and Scull arises from the fact that while Quinney construes retribution-deterrence as *the* mainstream of contemporary criminology, Scull regards deinstitutionalisation as the epitome of mainstream criminology.

Quinney's theory

Quinney uses O'Connor's (1973) arguments to reach the conclusion that as a result of the crises of advanced capitalism a diminishing proportion of the population is involved in producing surplus value for capital accumulation. Concomitantly, an increasing proportion of the labour force is employed by the state in activities to legitimate capitalism and control the surplus population of unwanted labour. As the crises of capitalism worsen, the notion that the social problems generated by capitalism can be solved becomes obsolete.

In the words of James Q. Wilson we must 'learn to live with crime'. Notions of rehabilitation popular during earlier phases of capitalism are jettisoned in favour of retribution-deterrence models.

Quinney sees unemployment as a cause of crime:

Crimes of economic gain increase whenever the jobless seek ways to maintain themselves and their families. Crimes of violence rise when the problems of life are further exacerbated by the loss of life-supporting activity. [p. 58]

Quinney would draw little disagreement from the present author on this question, since there is considerable evidence to support the proposition that the unemployed commit those types of predatory and interpersonal crimes which are the predominant concern of the police, at a higher rate than people who have jobs (Braithwaite 1978, 1979a). But Quinney's theory takes this one step further by arguing that rising unemployment means more crime and therefore a greater need for the state to use imprisonment to control the surplus population. Unfortunately for Quinney, the evidence is not very consistent on the question of whether crime rates go up or down during periods of high unemployment. Elsewhere I have discussed some of the reasons why such time series studies might have produced contradictory results (Braithwaite 1978, 1979a).

Even though Quinney does not produce evidence to show that real crime rates go up during periods of high unemployment, he does provide quite compelling evidence that in the United States between 1960 and 1972, imprisonment rates have risen and fallen in unison with unemployment rates. There is quite a deal of other evidence, not cited by Quinney, consistent with this proposition. Dobbins & Bass (1958) demonstrated a positive correlation of 0.78 between unemployment and imprisonment rates in Louisiana between 1941 and 1954. While the authors interpreted this as showing that real crime rates rise when unemployment increases, the fact remains that the finding is consistent with other theories based on the relationship between unemployment and the punitiveness of the criminal justice system. For the period 1950-1972 in Texas, Vogel (1975) similarly demonstrated a positive unemployment-imprisonment correlation. Greenberg (1977) demonstrated a remarkable 0.92 correlation between unemployment and imprisonment in Canada between 1945 and 1959, and showed that, at best, only a small part of this strong association could be explained by a positive association between unemployment and reported crime rates.

The most directly comparable confirmation of Quinney's finding comes from Grabosky (1979) who for the time period 1930 to 1970 found a strong positive relationship between U.S. unemployment and imprisonment rates. Moreover, Grabosky's correlation coefficients increased as the unemployment rate was lagged, but decreased when the prison population measure was lagged, suggesting a direction of causation running from size of the surplus population to expansion of the control apparatus.

Quinney interprets his findings as indicative of two things: first, a greater need for the state to control crime when unemployment is high,² and second, a heightened need for class domination during crises of capitalism. Since the publication of Quinney's book, the most sophisticated empirical study

to date has appeared suggesting that the latter is the explanation which is more consistent with the evidence. Jankovic (1977) established a positive correlation between unemployment and imprisonment rates in the United States between 1926 and 1974. He also found no correlation between unemployment, and reported crime and arrest rates. The positive relationship between unemployment and imprisonment obtained regardless of the volume of recorded criminal activity. This was established by entering reported crime and arrest rates into multiple regression analyses and thereby controlling for their impact on imprisonment. Jankovic also showed a 0.84 correlation between unemployment and imprisonment in Great Britain between 1963 and 1973.

Unfortunately, Quinney has put most of his eggs in the wrong basket. His emphasis is placed most emphatically upon the effect of economic crisis on real crime rates without reviewing the evidence for this, and without substantiating the assumption that imprisonment is effective in controlling the crime of the surplus population, or even that the ruling class believes it to be so.

Quinney has offered almost no arguments to support the second, more plausible, string to his bow—that rising imprisonment rates during periods of high unemployment reflect a heightened need for class domination during a crisis. Quinney's only argument here is that imprisonment is somehow a way of getting rid of the surplus population. Not very convincing when one compares the high percentage of the Australian or American population which is unemployed with the less than one-tenth of a per cent who are in prison. Jankovic's unstandardised regression coefficient indicated that an increase of 1000 in the number of unemployed persons corresponded to an increase of 2 in the prison population. What of the other 998?

Quinney's argument about imprisonment as a way of reducing the surplus population also is inadequate for explaining quite different types of data about the connection between economic crisis and the control apparatus. For example, Raper (1933) discovered a correlation of 0.53 between the value of cotton in 9 U.S. cotton states and the number of lynchings between 1901 and 1930. Similarly; Hovland & Sears (1940) compared the per acre value of cotton against against the number of lynchings in 14 Southern states between 1882 and 1930. Using different statistical methods, the correlation coefficients range between -0.61 and -0.72.³ Clearly this kind of stepping-up of social control could never be regarded, à la Quinney, as an economic solution to the economic crisis. It might, however, constitute an ideological defence against it.

Surely the argument that Quinney could have put is that, during a period of economic crisis, the hegemony of capitalist ideology fosters a search for alternatives to the failure of the system as an explanation for the crisis. An explanation which makes eminent sense to everyone is to blame the victims of the crisis for the crisis. The clearest illustration in the Australian context is the way that 'dole-bludgers' are spotlighted as the cause of our economic ills whenever a crisis looms (Bright, 1978). Even though, in objective terms, days lost from strikes in Australia has declined since 1974 (Australian

Bureau of Statistics, 1974, 1975, 1976, 1977, 1978), this does not prevent 'militant unionists' (or 'the English disease') being scapegoated for the current crisis. Similarly, married women and migrants, who are the greatest victims of recession, receive a disproportionate share of the blame for it.

Australian prisons are occupied by members of the surplus population—particularly the unemployed, unskilled, and Aborigines—in numbers out of all proportion to their representation in the general population (Braithwaite, 1979b). Biles (1974: 555) has shown that, while in 1968-69 Aborigines constituted 28 per cent of the admissions to South Australian prisons and 43 per cent of the admissions to Western Australian prisons, Aborigines accounted for only 0.5 per cent and 2.2 per cent respectively of the total populations of those states. It is perhaps more than a coincidence that the two jurisdictions with by far the highest imprisonment rates, the Northern Territory and Western Australia, have the largest proportions of Aborigines among their populations (Biles, 1974). The crimes of the unemployed and black are portrayed in the media not as the *result* of a divided society, but as a *cause* of its lack of harmony. Imprisonment is just one of the many institutionalised means of degradation of the underclass in Australian society. This degradation serves the dual ideological function of locating the blame for the country's ills at the very bottom rather than the top of the class structure, and of providing a tangible basis for a sense of status superiority and satisfaction with their life circumstances among the respectable working class.

Just as the correlation between unemployment and imprisonment in the United States probably cannot be explained by real crime rates, so the crime waves reported in the media bear no relationship to actual levels of crime prevailing in the community.⁴ The crime waves of the mass media are manufactured realities. Cohen (1973) with the Mods and Rockers in England and Braithwaite and Barker (1978) with Bodgies and Widgies in Australia have shown how agents of conventional morality such as ministers of religion and conservative politicians exploit moral panics over delinquency by painting it as part of a general social malaise which is placing society under threat. The social malaise does not arise from the economic order, but from the moral decadence of the scapegoat group.

Through a process of free association, statements conveyed that the problem is not just the Mods and Rockers but a whole pattern in which pregnant school-girls, C.N.D. marches, beatniks, long hair, contraceptives in slot machines, purple hearts and smashing up telephone kiosks were all inextricably intertwined. [Cohen, 1973: 53-54]

A fascinating empirical investigation would be one which links economic crisis to media crime-waves and media calls for crackdowns on crime (such as the call for capital punishment enjoying some currency in the present crisis), and which in turn links this to observed imprisonment rates.

The ideology of law is often used quite explicitly to bolster the ideology of order. Richard Nixon demonstrated how in his eulogy at J. Edgar Hoover's funeral:

The trend of permissiveness in this country, a trend with Edgar Hoover

fought against all his life, a trend which has dangerously eroded our national heritage as a law-abiding people, is now being reversed. The American people today are tired of disorder, disruption and disrespect for the law. America wants to come back to the law as a way of life. [New York Times, 1972: 15]

Nixon's Vice-President, Spiro Agnew, was another advocate of law and order:

When I talk about troublemakers, I'm talking about muggers and criminals in the street, assassins of political leaders, draft evaders and flag burners, campus militants, hecklers and demonstrators against candidates for public office and looters and burners of cities. [The Wisdom of Spiro T. Agnew, 1969: 40]

The ideological purpose of lumping muggers together with demonstrators is transparent. We could say of American society that in the course of world history there have been few societies with such an emphasis on law and order yet so much law violation. This is because the function of the ideological emphasis on law and order is not so much to prevent law-breaking as to foster commitment to the existing societal order. Fervent law-and-order campaigns are most likely to surface during a period of crisis—perhaps an economic crisis, perhaps a legitimisation crisis.

The ideology of legality also performs a much deeper function for the social order. At its enactment a legislative decision seems arbitrary and political. The function of law is to haul political decisions up into the transcendental realm, to transform what was arbitrary into what is legal (and therefore proper and natural). If it can only be shown that an act is legal, then it need not be questioned. Hence so much of the debate over the sacking of the Whitlam government concerned its legality. For the conservative mind a demonstration that Sir John Kerr's action was legal is all that is required. Whether or not the sacking was morally or politically right seems an inappropriate question. The Governor-General, after all, is above the realm of politics; he acts only in the realm of law. Law is just and eternal, whereas politics is cynical and arbitrary. To the extent, therefore, that the economic order can be viewed as legal it becomes more natural, immutable and just. Hence, to the extent that the economic order is viewed as legal, the ideology supportive of that order will emphasise the sanctity of law. That is why, for example, the debate over the legality of Ian Smith's regime in Rhodesia during the period when his party had complete and effective political control of the country had far greater significance than that of a lawyer's quibble.

The handing over of power to resolve societal conflicts into the hands of the legal system takes power to act away from those who are victims of conflict and gives it over to politically neutral professionals who act on their behalf. Law takes the sting of politics out of conflict. The last thing the ruling class wants, of course, is for the people to become politicised. A key case in point is the handing over of industrial disputes to the legal apparatus of arbitration. The workers, no longer required to struggle on their own behalf, are represented by a professional in the niceties of industrial law.

Getting angry and fostering solidarity with one's workmates become irrelevant to success at this mode of conflict.

Bankowski & Mungham (1976) have explained how the substitution of professionalised law for struggle by people on their own behalf renders the masses politically impotent to change the social order. The way that professionalised law neutralises the effectivity of the common person is likened to the way that religion can emasculate man:

Thus, they mirror Feuerbach's (1841) characterization of religion as something that emasculates man. Man creates an entity and transfers his powers to it. Therefore things that I can do I can no longer do because I have given my power up to a non-existent god. I pray to the god for victory and success etc. instead of acting and achieving. I abdicate to him my powers. Thus I accept the idea of someone above me who has control over my life because he has powers that I have not. The same thing happens in the law. We allot our powers to the controllers who determine the content of the just law (if they are good men) and we do this because we assume that we do not have their talents and capabilities. We give them our power and they control us. We, and they, accept implicitly and without question the truth of Cicero's aphorism: 'We are slaves of the law, in order that we might be free'. [Bankowski & Mungham, 1976: 18]

There are consequently a good number of reasons for the ruling class to want to dramatically affirm both law and order and the hegemony of legalism during periods of economic crisis. Politicians like Joh Bjelke-Petersen probably only have a fuzzy understanding of why they scream for law and order whenever they or the system they defend are in trouble. But they know it usually works. One would have thought that this was an obvious kind of explanation for Quinney to have explored.

Scull's theory

Scull's historical analysis is not only about criminals; it is concerned with the mentally ill, the aged, and other institutionalised groups who he collectively refers to as the indigent. Scull points out that, going back many centuries, the extended family played the central role in caring for the indigent, but with urbanisation and the gradual disintegration of the extended family, family-based care became less workable. During the feudal era the nobleman would often play an important role in caring for and controlling his serfs. But the 'proletarianisation' of labour and the detachment of the lower orders from the means of providing for even a bare minimum of their subsistence put severe strains on feudal-familial systems of relief and controls. As Marx & Engels (1968: 37-38) pointed out, the rise of the market system 'has pitilessly torn asunder the motley feudal ties that bound man to his "natural superiors", and has left no other nexus between man and man than naked self interest, than callous cash payment'. Henceforth, relationships between rich and poor were transformed into a purely market relationship between employer and proletarian.

Until well into the 18th century in England and the United States, villages and towns and the local church regularly took care of their own problem

citizens. The village idiot benefited from a community-based treatment programme. Since each case typically was dealt with individually at a town, village or church meeting, there was no need to draw categorical distinctions between the mad and the bad, the able-bodied and non-able-bodied poor.

But with the transition from subsistence to a market economy in the 18th and 19th centuries, the parochial provision of relief for the able-bodied interfered with labour mobility. Labour had to be forced to go where the jobs were, especially given that 'every labourer . . . abhorred the factory, where he felt degraded and tortured' (Polanyi, 1944: 164-165). The new market system had to deal with the problem of stagnant pools of under-employed labour being supported in local communities where there were no factories.

While the non-able-bodied indigent—the aged, infirm and children—still had to be cared for, the new ideology was to withhold community support for the able-bodied poor. 'The Sluggard shall be clothed in Rags. He that will not work shall not eat.' (Bellers, in Scull 1977: 28).

The 19th-century proletarian family, working long hours, subject to cyclical unemployment and cut off from the subsistence available on the land could no longer afford to take care of its deviant family members. There was no choice but to let them be institutionalised. Community-based treatment of the mad and bad was out of the question under the political economy of early capitalism. Treatment in the community would have meant payment to them of some sort of welfare benefit so that they might eat. This would have opened up the possibility of the deviant or his family receiving more income than some of the unemployed or working proletariat. It would have posed a threat to the hegemony of fear of hunger as the means of securing cheap labour and labour mobility. As a practical political matter, the ruling class had to do something to take care of the deviant, but something which provided minimum interference to the dictates of the market. The answer was squalid overcrowded workhouses for the deviant, that no person with any alternative would freely choose.

Why then, under advanced capitalism, is there a movement towards evacuating the asylums and the prisons to return their occupants to the community? The traditional explanations about greater community tolerance, concern for inmates rights, scientific demonstration that institutions do more harm than good, are all wrong, says Scull. Following the arguments of O'Connor, Scull points out that the reality of modern capitalism is no longer one of forcing an abundant mass of unskilled labour to work. Raw labour power has been replaced by skilled, technical, labour power. The goodwill, health, safety, education and feeling of security of the labour force have become important assets to the capitalist. Employers must 'invest in human capital'. Taylorism has been replaced by the human relations movement in industrial administration. The threat of starvation has been replaced by the welfare state, naked compulsion by hegemony.

Given that fear of starvation is no longer the dominant means of securing cooperation from the working class, and given that welfare benefits are now widely available in the community, it is no longer true that supporting de-

vians in the community would pose a threat to either the system of incentives or the prevailing ideology. The principal reason for the incarceration of deviants under early capitalism has evaporated under late capitalism. Furthermore, under contemporary economic conditions the cost of paying the deviant the most generous of welfare benefits to survive in the community is far cheaper than the cost of institutionalisation. It is the latter argument which wins the day in favour of community treatment because of the fiscal crisis of the state (O'Connor again). Because of the necessity of modern capitalist states to maintain social harmony by increasing expenditure on social services, to foster capital accumulation by expanding aid to private industry and provision of economic infrastructure (e.g. roads, education, research and development), and to socialise capitalism's losses (e.g. British Leyland), contemporary capitalist states are experiencing fiscal crises which can only be handled by budget cutbacks wherever feasible. And so the state decides that it can no longer afford the opportunity cost of keeping criminals and the mentally ill in institutions rather than the community.

Scull convincingly reminds us that the decarceration movement cannot be directly attributed to the ideas of Goffman and other late 20th-century gurus. He shows that the ideological protagonists for decarceration in the 19th century were if anything, more vocal and of higher status in the society than their 20th-century counterparts, and the former had more compelling grounds for argument—chaining, flogging, and the more widespread use of painful forms of treatment. The 19th-century advocates of decarceration were not heard, however, because the economic preconditions for decarceration were not yet ripe.

Imprisonment in Australia: decarceration or rising imprisonment in response to crisis?

This section of the essay seeks only to compare historical trends in imprisonment rates for New South Wales and Victoria from the mid-19th-century to date with the predictions of the theories of Quinney and Scull about such trends in capitalist societies. What will be achieved is confirmation or disconfirmation of certain corollaries of the theories, but not tests of the theories themselves. Most crucially, for example, while the predictions of the theories about changes across time in imprisonment rates will be tested, there will be no analysis of whether these trends are due to variations in the punitiveness of the criminal justice system or to fluctuations in real crime rates.

In both New South Wales (Fig. 1) and Victoria (Fig. 2) the imprisonment trends are at least consistent with a rise in imprisonment rates until just past the middle of the 19th-century, as would be expected on the basis of Scull's (and Rusche & Kirchheimer's) interpretation of the rise of capitalism and the rise of incarceration. While both trends are consistent with this picture, because one data set begins in the 1840s and the other in the 1870s we obtain only a highly truncated view of this part of the theory.

Overall, there is a fairly consistent and dramatic decline in imprisonment

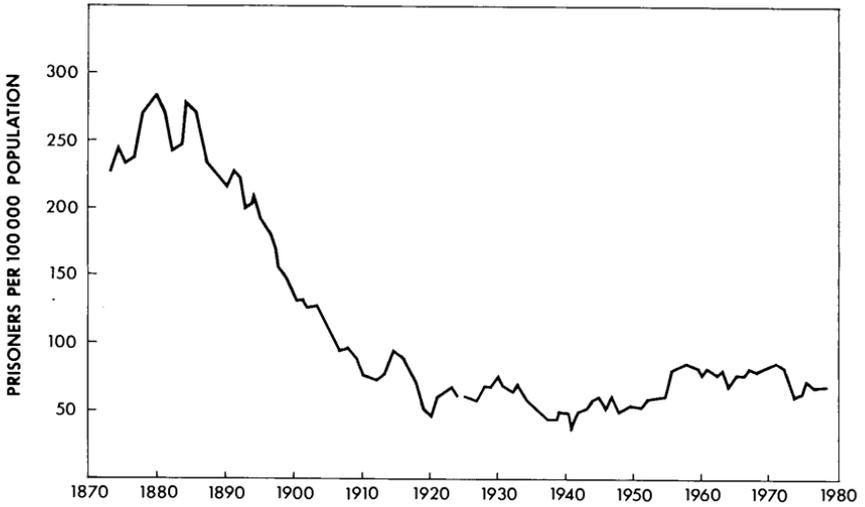


Fig. 1. New South Wales: Imprisonment rate per 100 000 population, 1874-1977. This figure is an updating of Fig. 2.13 in Grabosky (1976). Up to 1960 the data are based on prisoners in custody at end of year. From 1960 the data are based on annual daily averages.

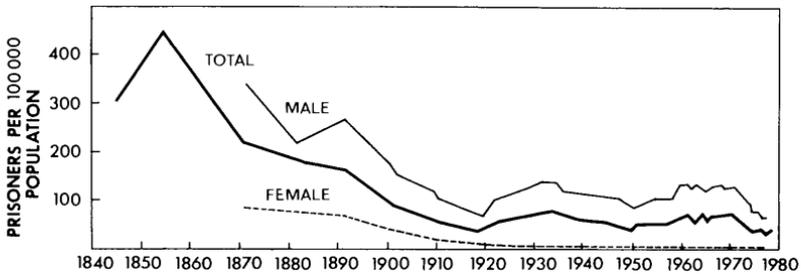


Fig. 2. Victoria: Imprisonment rate per 100 000 population, 1840-1978. This figure is an updating of a figure in Johnston & Fox (1965). Up to 1960 the data are based on 5 year moving averages. From 1960 the data are based on annual daily averages.

rates,⁵ beginning in the 1880s in New South Wales and the late 1850s in Victoria, which continues exactly until 1920 in both states. Since 1920, in both states the gross picture has been one of stability in imprisonment rates rather than one of a consistent upwards or downwards trend. While imprisonment rates today in Victoria are only one-tenth of the peak rate in the 19th-century, and in New South Wales less than one-fifth of the 19th-century peak,⁶ almost all of this decline occurred prior to 1920. The troubling thing for Scull's theory is, therefore, that the decline preceded most of the reforms of the welfare state and the fiscal crisis of the state. Perhaps Scull is wrong in assuming that the penal critics of the 19th-century were not listened to. Ideas sometimes do have an influence on human history before the economic preconditions for those ideas have completely ripened. Certainly

it was quite early in the history of criminology that the prison was recognised by many as an experiment that had failed (Healy, 1915; Hodder, 1920; Smith, 1921; Gordon, 1922).

Rather than jettison material conditions in favour of the centrality of ideas in shaping human history, we should remember Rusche & Kirchheimer's (more compelling) arguments about the economics of imprisonment. It may be that the decline in imprisonment rates between the late 19th and early 20th centuries corresponds with the demise of serious labour shortages in Australia and the concomitant destruction of the profitability of prison industry. The historical work to enable a confirmation or disconfirmation of this interpretation remains to be done.

To be fair to Scull, what we must realise is that Australian criminologists and penologists are some 10 years behind their contemporaries in other advanced capitalist countries such as the United States and Sweden. Deinstitutionalisation, which has been quite the rage in the United States since soon after the spate of publications attacking incarceration appeared in the late 1950s and early 1960s (the most influential example being Goffman's *Asylums* in 1961), has only been a catch-cry in Australia in the 1970s. Imprisonment rates for the whole of Australia have dropped by 10.8 per cent during the 1970s (from 1969 to the latest figures available—December 1978).⁷ There has been, in fact, an upturn since 1974, when the rate had dropped to 25.6 per cent below the 1969 rate.

The latter upturn is certainly consistent with Quinney's prediction that rising unemployment will be associated with increased use of imprisonment. What we may have seen in Australia in the 1970s is in part a tug-of-war between the effects on imprisonment of the deinstitutionalisation movement and the effects of mounting economic crisis. Indeed, the conclusion which should follow from a consideration of the trends in Figures 1 and 2 is that there need not necessarily be a contradiction between the predictions of Quinney and Scull. The person who concludes that the two theories are inconsistent (because while Quinney says that imprisonment is functional for capitalism, Scull says that decarceration is functional for capitalism) is trapped by the scientific limitations of his particular mode of discourse. If we shift to a mathematical or diagrammatic mode of discourse by thinking about Figures 1 and 2, it becomes clear that it is quite possible for there to be embedded within an overall historical decline in rates of imprisonment, periodic jumps in imprisonment rates corresponding to economic crises. The downward trend might continue once the crisis is past.

Fortunately for this analysis, the economic crises of Australian history are fairly clearly defined. The first crisis within the time span of the data set was the crash of the early 1890s which reached its peak with the bankruptcy of numerous banks and building societies in 1892. The most we could say about the association between the early 1890s recession and imprisonment in New South Wales would be that the downward trend in rates for that period was halted during the recession. For Victoria, however, the period showed a marked jump in incarceration, particularly for males. This might

have been predicted by supporters of Quinney since the recession was much more severe in Victoria than in New South Wales.⁸

The next great crash of 1929-33 was associated with clear increments in the imprisonment rates of both New South Wales and Victoria. In Victoria, for which sex-specific rates are available, it can be seen that the depression had no impact on the female imprisonment rates. The only other period, apart from the early 1890s, early 1930s, and current recessions, which might qualify for consideration as an economic crisis was the credit squeeze of 1961. This caused only a ripple of unemployment compared to the other three crises, and it can be seen from Figures 1 and 2 that the 1961 credit squeeze was associated with only the tiniest of upward movements in imprisonment rates.

The Victorian data in Figure 2 shows that even though the absolute decline in female imprisonment has been less than for males (since females have always had a much lower rate), the relative decline has been many times greater. The 1977-78 female imprisonment rate in Victoria of 1.8 per 100 000 is less than one-twentieth of both the peak 1871 female rate of 87 per 100 000 and the 1977-78 male rate of 79 per 100 000. Quinney does not seem to have given any thought to the female criminal. He does point out (p. 134) that women are one of the groups which are hit hardest during periods of high unemployment. Presumably this would lead him to predict that their imprisonment rates would jump even more than those of males during economic crises. Clearly in Victoria they do not. The obvious explanation for the fact that female imprisonment rates have not increased during the crises of Australian capitalism is that women, particularly in the 1890s and 1930s, were not fully integrated into the capitalist market in labour, but were largely participants in a separate (domestic) market.

Quinney is correct in pointing out that prison is a place for capitalism's surplus population. Just as corporate criminals are rarely sent to prison because they are regarded as having an important economic role to play, so women are rarely sent to prison in part because they are regarded as having an important role to fulfill in the economy (rearing children).⁹ It is because Aborigines are seen as having no economic role that they find their way into jail. The role of women in keeping the family together surely becomes all the more crucial during a period of crisis when the breadwinner might be unemployed. This line of argument would therefore lead to the prediction that women would be even less likely to be incarcerated during economic crises.

Conclusion

What has been illustrated in this essay is that there is no necessary incompatibility between the theories of Quinney and Scull on the place of imprisonment in capitalist societies. Crudely, within the broader framework of a shift towards decarceration since the latter part of the 19th-century, there have also tended to be jumps in the male imprisonment rate at the times of the major crises of Australian capitalism.

The long-term decline in imprisonment in Australia between the mid-19th-century and 1920 is exactly the opposite to the situation in the United States where imprisonment rates have dramatically and fairly consistently increased between the mid-19th-century and the present (Calahan, 1979). But it may be the United States which is the historical exception. Rusche & Kirchheimer's (1939) work shows a pattern up to 1920 similar to the Australian picture in France, Germany, and Belgium. Italy, however, shows something of a rise in the use of imprisonment in the first 33 years of the 20th-century (Rusche & Kirchheimer, 1939: 150-151). Perhaps this had something to do with Mussolini's ideological dependence on a fervent law and order campaign.

The reasons for the United States being different from Australia and other industrialised societies in so decisively resisting the economic rationality of decarceration are not so easy to pin down. While American mental hospitalisation rates are declining (consistent with Scull's thesis), imprisonment rates have increased to the point where the United States has the highest rate of any developed capitalist country. But then the United States probably has the highest serious crime rate of any developed capitalist society, certainly one that is several times higher than Australia's. The objective seriousness of the crime problem in the United States, combined with the political reality mentioned earlier that 'there have been few societies with such an [ideological] emphasis on law and order' produces extraordinary public opinion pressure on politicians and the judiciary to be seen to be doing something about the crime problem. Moreover, the United States is wealthy enough to be able to afford the economic irrationality of resisting pressures for decarceration. Being uniquely subject to public concern that criminals should be kept off the streets, and being uniquely able to afford fiscal extravagances may have pushed the United States on a different course from other capitalist countries.

It would be remiss of any author to conclude an essay on decarceration without having considered the rights or wrongs of it. Quinney is clearly opposed to imprisonment since it represents a form of class domination. Scull, in contrast, sees decarceration as undesirable. For the sake of maintaining consistency with his analysis that decarceration is in the interests of capitalism, Scull feels obliged to argue that decarceration is therefore bad. Marx was prepared to concede that capitalism can often lead society in a direction which represents an improvement on what existed before, so why cannot Scull? Impressive and creative as Scull's historical analysis is, his arguments about the evils of decarceration are feeble, and limited to the first two and last two pages of the book. The following quote summarises all of Scull's arguments about the undesirability of decarceration:

. . . they [the decarcerated criminals] find themselves released on probation, 'supervised' by men coping with caseloads of one and two hundred persons. This allows the probation officer to give each case an average of ten or fifteen minutes' attention per week.

Excluded from the more desirable neighborhoods by zoning practices and organized community opposition, the decarcerated deviants are in any case impelled by economics—the need for cheap housing and to be close to a welfare office—to cluster in the ghettos and the decaying core of the inner city.

As for the criminal, he is also attracted by the tokenism of police operations in these areas and by the willingness of the wider (white) society to leave ghetto residents to fend for themselves. Decarceration thus forms yet one more burden heaped on the backs of those who are most obviously the victims of our society's inequities. And it places the deviant in those communities least able to care for or cope with him.

In the circumstances, moral panics are an ever-present possibility. Aroused by stories of released mental patients who 'urinate or defecate in public, expose themselves to women and children, ride up and down in automatic elevators, become helplessly drunk and shout obscenities . . .' and by the knowledge that burglars and muggers are being left to walk the streets, inhabitants of black and inner city areas may well resort, in time, to vigilante action. There is, after all, a strong subterranean tradition of such activity in America. And should this happen, who is to guard the ex-inmate against his neighbour? It may well turn out that the protection an institution offers the community from the *deviant* and the protection it offers the deviant from the *community* are of equal importance.

He should have been at Bathurst. Most crims, I suspect, would rather cope with the vigilantes than the screws.

NOTES

- 1 Quoted by Rusche & Kirchheimer (1939: 55).
- 2 Rusche & Kirchheimer (1939) also argued for this hypothesis.
- 3 Mintz (1946) has criticised the Hovland & Sears (1940) study on methodological grounds. Re-analysing the data for three sub-periods Mintz found lower correlations of between -0.28 and -0.34 .
- 4 See Cohen's (1973) case study of the Mods and Rockers, Windschuttle's (1978) work on hooliganism, and Braithwaite & Barker (1978) on Bodgies and Wiggins. Davis (1952) has shown systematically how in Colorado there was no correlation between the number of column-inches devoted to crime in the press and the number of crimes actually committed. See also Antunes & Hurley (1977).
- 5 This decline occurs long after the termination of the transportation of convicts to these states, and therefore cannot be explained by it.
- 6 Imprisonment rates possibly attained a higher peak in Victoria because of the extreme social dislocation of the 1850s gold rush in that state.
- 7 These figures are extracted from Biles (1977) and the monthly publication of the Australian Institute of Criminology, *Australian Prison Trends*, compiled by David Biles.
- 8 *Australian Encyclopaedia* (1963: 336) had this to say about the effects of the 1890s depression in Victoria compared with New South Wales:
The crisis was most severe in Victoria, where speculation had been the greatest; not only the financial losses but also the ensuing distress and depression were there the worst. Heavy unemployment in Melbourne caused emigration to country districts and to other colonies, and for the first time since the gold-rushes the population of Victoria was exceeded by that of New South Wales, whose recovery and subsequent progress in the 1890s was very marked.
- 9 For an opposing view on the latter hypothesis see Scutt (1979).

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9

AUSTRALIAN-BASED INVESTMENT IN S.E. ASIA AND THE PACIFIC

ERNST UTRECHT

To sum up, what is free trade under the present condition of society? It is freedom of capital. When you have overthrown the few national barriers which still restrict the progress of capital, you will merely have given it complete freedom of action . . . Do not allow yourselves to be deluded by the abstract word freedom. Whose freedom? It is not the freedom of one individual in relation to another, but the freedom of capital to crush the worker . . . To call cosmopolitan exploitation universal brotherhood is an idea that could only be engendered in the brain of the bourgeoisie. All the destructive phenomena which unlimited competition gives rise to within one country are reproduced in more gigantic proportions on the world market.

Karl Marx, 'On the Question of Free Trade', public speech delivered before the Democratic Association of Brussels, 9 January 1848, reproduced in *The Poverty of Philosophy* (Moscow, 1973).

CONTINUOUS EXPANSION IS a major element in the nature of capitalist enterprise. When, towards the end of the 1960s, conditions in Australia's manufacturing sector became unfavourable for the further expansion of industrial operations or new investments, Australian-based companies, seeking cheap labour, easier access to raw materials and, in some cases, also easier access to the world market, started to establish subsidiaries or enter into joint-ventures in developing countries. Australian-based companies can be found in Thailand, Malaysia, Singapore, Indonesia, the Philippines, Hong Kong, Papua New Guinea and Fiji [as well as New Zealand which is not considered in detail here]. Australia has become a 'spring-board' for many a giant transnational enterprise to penetrate into the developing countries which are her neighbours in Asia and the Pacific. As Wheelwright noted:¹

being on the receiving end of British, American and Japanese imperialism, at the same time Australia acts in imperial or sub-imperial fashion in Southeast Asia and the Pacific.

At the beginning of the decade of the 1970s, MacFarlane drew our attention to this dual role of Australia in global capitalism; he arrived at the conclusion that Australia:

functions both as a satellite and as a metropolis. It is both exploited and, in relation to the 'Pacific Rim', it exploits New Guinea, Nauru and Fiji. It has a national bourgeoisie which faces conflicts with the multinational corporations, but which also joins them when the international market is in issue. In such a system unstable social forces are engendered and counter-political forces created.²

However, it was only recently, when the present Australian government could not find a solution to the acute problem of ever-growing unemployment, that this development became one of the acute issues of present-day Australian politics. In several reports it was demonstrated that the movement abroad of Australian owned and Australian-based companies had created an 'offshore exodus' of jobs. For instance, Michael Southern, quoting a report by the Metal Trades Industry Association, wrote:³

Since 1969, 41 Australian manufacturing companies have shifted all, or part of their operations to the Philippines. More than half of them made the move in the last two years. There are now more than 50 Australian groups based in Indonesia, the majority of which are manufacturing concerns attracted to that country in the last five years by invitations from the Indonesian government, and in some cases, with a push from the Australian government which felt, after the Sukarno era, that it might be good PR to help this neighbour. In Singapore, some of the industrial estates look more like any of the suburban Sydney or Melbourne estates, with names of Australian companies prominent. Then, there are companies which have shifted a substantial part of their manufacturing activity to Europe, Taiwan, Hong Kong. Anywhere but Australia. The move offshore by Australian manufacturers has become a talking point of some concern in industrial, labour and political circles. For while there is clear advantage to a company in extending its base, the present moves are motivated in many cases by the fact that labour costs are too high in Australia, and protection too low, to sustain manufacturing operations. And that ultimately means a loss of jobs here . . . the president of the Australian Chamber of Commerce, Mr S.N.F. Hickson, raised the matter in discussions with the Treasurer, Mr Lynch, as a matter of serious concern. And he suggested that proper statistics and a survey be undertaken to quantify just what the movement of Australian capital—and jobs—offshore is doing. Another deputation, this time from the N.S.W. Labor Council to the directors of one company which has shifted more than 500 jobs out of Australia to Singapore, took place just a few weeks ago. In that case, it was made patently clear to the union that the company had no choice if it was to survive. In some circles concern about the offshore movement has reached a state of hysteria as workers lose jobs, and Australia loses technology. The Metal Trades Industry Association, in a recent submission to the government on the state of the industry, stated its concern over 'transfer and development of production facilities overseas. Goods produced by Australian companies overseas with low unit cost labour are then imported into Australia'.

Whilst no official statistics as yet are available which quantify the extent of this development, the Metal Trades Industry Association believes that during the next 12 to 18 months many metal trades companies will be faced

with the dilemma of either maintaining low return productive facilities in Australia with the hope that the situation for manufacturers might improve, or establishing plants in low unit cost overseas countries. 'This second alternative will create the sort of structural change that will ensure, continuation of an undesirably high level of unemployment'.

Australia's pressing unemployment problem is partly a structural one, caused by a new international division of labour.

New dimensions in the international division of labour

Since the end of the 1960s the international division of labour has taken on new dimensions. György Ádám, a well known Hungarian political economist, noted that world-wide production is already in full swing, a process which shows its nature in an increasing exodus of labour-intensive industries from developed countries into developing ones where labour is cheap.⁴ The new phenomenon that Ádám mentions is the relocation of production which involves a new pattern of the division of labour. In the first stages of the internationalisation of capital, the giant corporations established their subsidiaries with two main purposes: firstly, to obtain easier access to the raw materials to the benefit of an ever-expanding national industry, and, secondly, to create new overseas markets or an entry to the world market. However, in their home countries, where until recently they had their basic plants that provided employment for their own national labour force, the companies constantly had to comply with the demands from their workers for higher wages and better social conditions. Since they did not wish to cut down their profits, and feared any restriction of the expansion of their investments and the modernisation of their plants (in order to facilitate competition with other companies), they had no alternative but to raise the prices of their products. After most of the raw-material producing countries attained independence, the corporations were facing either the threat of nationalisation of their overseas subsidiaries, or all sorts of restrictions on the export of raw materials by these countries. Hence, restrictions in the acquisition of raw materials became another serious cause of increased production costs. A wave of nationalisation of foreign enterprises in a number of developing countries, such as Indonesia under Sukarno, Tanzania, Cuba and Chile under Salvador Allende, accounted for the loss of important markets.

Excessive production cost became, for many corporations, an inevitable threat of the loss of profits and markets in the affluent consumer societies of the home countries. There developed a new impetus for establishing subsidiaries: to make use of cheap labour in less developed, populous countries in order to continue the accumulation of capital.⁵ Comparative costs of production have shown that there is much more profit to gain by relocating production overseas, in cheap-labour countries, and importing consumer goods fabricated by one's own overseas subsidiaries. That the export of employment is damaging the interests of their own national labour force does not cause too serious considerations for the corporations who have already relocated production internationally. On the other hand, the governments

of the new host-countries have enthusiastically welcomed the establishment of relocated foreign plants, because such an import of employment might help them to solve their pressing unemployment problems. They do their utmost to facilitate the influx of new investments—placing no restrictions on the remittance of profits, granting a ‘grace period’ for the initial investment, ‘encouraging’ local workers to accept low wages, which, however, are not usually as low as those paid by the smaller national entrepreneurs.

TABLE I:
AVERAGE WAGES IN MANUFACTURING IN THREE DEVELOPED AND SEVEN DEVELOPING
COUNTRIES
(US Dollars) 1972 and 1976

<i>Country</i>	<i>1972</i>	<i>1976</i>
United States	3.81 per hour	4.84 per hour
Canada	—	5.81 per hour
West Germany	2.27 per hour	4.60 per hour
Mexico	156.60 per month	194.60 per month
Brazil	86.70 per month	160.00 per month
South Korea	50.40 per month	91.50 per month
Singapore	0.42 per hour	0.65 per hour
Philippines	38.10 per month	44.20 per month*
Thailand	0.50 per hour	35.00 per month
Indonesia	20.00 per month*	27.00 per month*

Source: International Labour Office, *1973 Year Book of Labor Statistics* [Geneva, 1973] and *1977 Year Book of Labor Statistics* [Geneva, 1977].

*Own observation.

In developing countries, working days, working weeks and working hours are considerably longer than in developed countries—on the average 10-20 per cent longer than in the United States, Canada and West Germany. In South Korea, the working week is 51.6 hours (55.3 hours in the clothing industry), in Singapore 49.5 hours, in Columbia 50 hours, in South Africa 46.5 hours, in the United States 40.6 hours and in West Germany 42.7 hours. American companies in the United States were the first to relocate production plants internationally. Big corporations such as Warwick Electronics of Illinois and Arkansas, Advance Ross Electronics, Kimberley-Clark, Motorola, Transitrol, Lear Stereo, and many food and textile companies have moved factories to Mexico, in particular in the Mexico-US border area.⁶

Other American corporations established new subsidiaries abroad further away. Westinghouse closed its TV factory at Edison, New York, and transferred production and employment to one of its Canadian subsidiaries as well as to Japan. General Instruments Corporation moved TV tuner and other component production to Portugal and Taiwan. One of the first American subsidiaries in Europe in search of cheap labour was Weyenburg Shoe Manufacturing Co. in Northern Ireland. Another American shoe producer is Sears Roebuck in Spain. Greece, Spain and Portugal are the

favorite cheap-labour countries in Europe for American investments. Therefore, these countries have to be kept outside the Russian orbit. This is one of the important goals of NATO and the American CIA.

The cheap-labour seekers made large profits. According to *Business International* of 18 June 1971, 19 of 154 U.S. companies, which had exported production and employment abroad, gained 26 per cent of their net profits outside the U.S., and for 32—among them, AMAX, Ampex, American Smelting, Corn Products Corporation International, Fairchild Camera, IBM, Murply Oil, NRC, Pfizer, Upjohn, Squibb, Standard Oil of California, Woolworth—it was more than 50 per cent. The example set by the U.S. corporations was followed by a fast-growing number of European companies. The West German car company, Volkswagen, set up a component industry in Mexican Pueblo. Parts of Volkswagen cars produced in Mexico were exported to West Germany as well as to assembly plants in the United States.⁷ Siemens, another West German industrial giant, has production plants in Brazil, and exports parts of telecommunication equipment from Brazil to its parent company in West Germany as well as to its subsidiaries in the United States and Australia.⁸

The West German camera giant, Rollei Werke Francke und Heidecke, was vehemently attacked by German labour unions when it closed its most important factory in the big West German city of Braunschweig, and moved production and employment to Singapore in Southeast Asia. Rollei argued that it could only survive competition with Japan's rapidly growing camera industry by moving to Singapore, in order to profit from cheap labor and easier access to Asian as well as European markets. Now the company is able to give evidence that it has taken a wise decision; its 35 mm Reflex S/R cameras have entered the world market successfully.

Rollei's example soon caused an influx of West German companies into Singapore: Bayer, Daimler-Benz (producer of Mercedes Benz cars), Grundig, Hoechst, Kloeckner-Humboldt-Deutz (KHD), Siemens. In recent years, West German chemical-textiles in particular have moved their labor-intensive production to cheap-labour countries in Africa and Asia. An uproar was caused in the Spring of 1971 by the closing down of two factories, in the West German town of Hatzenbuehl and Worms, and of the West German shoe giant Salamandar AG in Kornwestheim.⁹ Dutch Philips Gloeilampenfabriek in Eindhoven in the Netherlands has built up an electronic empire in Singapore, and now exports finished products, parts, and technical know-how from Singapore to all Southeast Asian countries, Australia and even Western Europe.

Some giant corporations have even moved their headquarters abroad. The Dutch shipping company Holland-Amerika Lijn, which now concentrates its activities on luxurious travels and cruises for the world's rich in the Caribbean and Southeast Asia, moved its headquarters from Rotterdam to New York. Its ships are manned by cheap Indonesian labor;¹⁰ the headquarters of Canadian Hunter-Douglas (H-D) moved to the Netherlands;¹¹ the British Hudson Bay Co's headquarters went to Canada.¹²

Cheap-labour havens in Southeast Asia—two examples: Bataan and Bangpoo

Facing the insoluble problem of ever-growing production costs in their home countries, in the second half of the 1960s, transnational corporations (TNCs) discovered in Latin America's, Africa's and Asia's most densely populated areas the existence of a huge labour potential. They also discovered that the majority of this labour potential lived under miserable conditions. Underdevelopment of the rural areas, as the inevitable consequence of continued feudal landownership, a western-sustained capitalist plantation economy, or a disastrous failure of the so-called 'green revolution',¹³ has forced millions of poor country people to move to the cities, where they hope to find some employment. The vast majority of the migrants to the city are jobless and willing to work at very low wages.

The elites of the new states, fearing an urban social upheaval, do their utmost to attract foreign investments. They hope that these investments will create new jobs for the thousands of unemployed in the cities, as well as create new possibilities to gain more compradorial income. They are prepared to give foreign investors all kinds of extravagant facilities, and also guarantee that the available labour force will not be given the opportunity to demand higher wages or the right to strike. In some countries, like the Philippines, labourers working for foreign companies are denied the right to join labour unions. The comprador elites offer the foreign investors production and trade enclaves, called 'industrial zones', 'industrial estates' or 'free trade (production) zones' (in Thailand, 'investment promotion zones'), where the labour force 'cannot be affected by seditious and misleading propaganda of disruptive labour unions'.¹⁴ In these enclaves the TNCs can produce for the world market at the lowest possible wages, protected against labour unrest.

A recent study points to 'four paramount considerations in the decision to relocate world market production to free production zones (given that other investment incentives and conditions in the free production zones are taken into account)': (1) the availability of a practically unlimited supply of labour force; (2) the utilization of the most productive labour force; (3) the utilization of the cheapest labour force; and (4) the utilization of the most 'willing' labour force. Taken together, these considerations are related to utilization of such labour force that—at the penalty of starvation—is forced to sell its labour at any price for any kind of work.

The cheapest labour force, however, is only utilizable in manufacturing in so far as the respective qualitative structure of the labour force corresponds with the organization of the industrial process. The unemployed labour force at the sites of free production zones is predominantly unskilled or semi-skilled. Accordingly, a structure of production has come into existence in the free production zones that for the most part is characterized by a product and a process technology demanding mainly unskilled or semi-skilled labour. This, however, does not imply, as is often claimed, only labour-intensive production. Capital-intensive production is just as open (as labour-intensive production) to the use of skilled and semi-skilled labour, a fact that can be seen clearly in the case of the textile industry. Moreover, production in free

production zones is by no means limited to assembly. Modern production technology allows the separation and allocation of operations to unskilled and semi-skilled labour at all levels of production. Precisely those production processes that can be operated either capital intensive, i.e. automated, or labour intensive, i.e. performed manually, are often allocated to an unskilled labour force in world market factories since both automation as well as the employment of an unskilled labour force require the division of the labour process into its most elementary parts.¹⁵

Today we find these production and export enclaves, in which corporations can maximise profits obtained from internationalised surplus-value production, in a growing number of Asian countries: South Korea—Masan Free Export Zone (MAFEZ) and Iri Free Export Zone (IFEZ); Taiwan—Kaohsiung Export Processing Zone (KEPZ) and Nantz Export Processing Zone (NEPZ); the Philippines—Bataan Export Processing Zone (BEPZ), also Mariveles; Thailand—Chon Buri, Chieng Mai, Sukhothai, Songkhla, and some other, new zones; Malaysia—Penang Island and Port Klang-Kuala Lumpur area; Singapore—Jurong Industrial Estate and a number of similar areas; India—Kandla; Indonesia—an area with Tanjung Priok harbour complex near Jakarta.¹⁶

In 1976 I visited Bataan Export Processing Zone (BEPZ) in the Philippines. BEPZ is a modern fully-equipped industrial estate where capital equipment, raw materials, spare parts and supplies may be imported tax-free and customs duty-free for use in manufacturing or processing finished products for export. The zone is located on the central shore of Mariveles Bay. BEPZ has an area of about 735 hectares; 365 hectares for industrial purposes, and 370 for housing and greens. The industrial area is divided into three so-called 'Phases'. Phase I is for light industries. It covers 67 hectares. Phase II, 91 hectares, is for medium and automotive industries. Phase III is for medium and heavy industries. This phase is the biggest of the three, 207 hectares. BEPZ was completed in 1976, but was in operation in 1974.

What are the incentives and benefits to the foreign companies in BEPZ?

Tax benefits. Tax-free and customs-duty-free import of machineries, equipment, raw materials and supplies; exemption of payment of export tax; exemption from payment of municipal and provincial taxes; net operating loss incurred in the first five years of operation may be carried over as a deduction from taxable income during the succeeding five years; accelerated depreciation of fixed assets.

Foreign exchange and financing. Priority in the allocation of foreign exchange for the import of merchandise, equipment and raw materials; zone enterprises qualify for loans from financial institutions whose foreign loans are guaranteed by the Philippine government.

Foreign investors and technicians. Fully foreign-owned or foreign-controlled enterprises are admissible into BEPZ: foreigners investing at least US\$100 000 in a BEPZ enterprise may reside in the Philippines for as long as their investments remain there; foreign technicians may be employed in supervision, technical or advisory positions within five years from registra-

tion of a BEPZ enterprise and up to 5 per cent of the total personnel in each category. They may reside in the country with their spouses and unmarried children under 21 years of age.

Guarantees on foreign investments. Repatriation of foreign investments and remittance of profits and dividends at any time, in full, is allowed at prevailing exchange rates; no expropriation and requisition of property represented by foreign investment except in the interest of national welfare and defense—in which case, payments of just compensation shall apply.

Simplified administrative procedures. There are simplified import-export documentation and procedures under an Export Processing Zone Authority (EPZA) system that assure release of all imports and exports within 48 hours; there are simplified billing procedures integrating all charges for power, water and rental fees in a centralized billing system.

The Export Processing Zone Authority (EPZA) operates a very attractive lending-programme for foreign investors in co-operation with the Development Bank of the Philippines (DBP). Zone export enterprises may secure loans to cover construction costs of their buildings and other site improvements from DBP.

The regulations on labour and manpower are, of course, BEPZ's most important regulations. Firstly, for the BEPZ enterprises there is no need to worry about their labour pool. EPZA actively assists enterprises in BEPZ in recruiting their manpower requirements. The Authority maintains a so-called Manpower Register of about 10 000 workers at any time ready for employment by the enterprises.

Adequate labour is available around the Zone area. Primary labour sources are Bataan, South and Central Luzon and the Greater Manila area. For instance, the Province of Bataan has a total population of approximately 220 000, 75 000 of which is the total labour force, and 15 000 of these workers are available for employment in BEPZ. Central and South Luzon, has a total labour force available for employment in BEPZ of approximately 190 000. The minimum employable age is 14 years, and the law provides for a seven-day working week with one-day rest period for every employee. The minimum wage is P(esos) 10 or US\$1.30 per day. In the manufacturing sector, the official average labour cost per person per month is around P330 (US\$44). Unskilled workers receive the minimum monthly wage of P175 (US\$23). Semi-skilled workers earn P11-12 per day, while skilled workers are paid P13-16 (US\$1.75-2.17). Labour disputes are referred to the National Labour Relations Commission (NLRC) for immediate arbitration.

At the time there were 23 companies in operation in BEPZ. Of these firms, 14 were joint-ventures, and only in 2 of these joint-ventures was there U.S. private investment participation. The majority of the foreign investors were Japanese.¹⁷ Amco Holdings Ltd of Australia was the only Australian firm which operated a subsidiary in BEPZ, Amco Manufacturing (Philippines) Inc., producing denim jeans and jackets. Another Australian company, Ginofarini, Inc. had a plant under construction.¹⁸

About 80 per cent of BEPZ's workers are young women between 16-23

years of age. *In many factories the management has set regulations to disqualify female applicants over 23 years of age. The purpose of this policy is the employment of 'politically innocent' workers.* For most women, the employment at the labour-intensive plants in BEPZ is their first job outside the *barrios* (villages) in the countryside. They are inexperienced and excited and loyal to their employers. It is the first time that they have earned their own money in a place away from parental authority. The employer discourages them, by using intimidation, from joining an existing labour union or setting up a new one. The young women workers start their job-assignments as trainees. Usually the training period does not exceed one year, but the women complain that most managers try to extend their training period. The trainees receive the lowest wages, P6 per day, so by extending the training periods the companies will make more profit out of the use of very cheap labour. After the trainee period the worker earns P8 per day plus a monthly allowance of P50.

The average monthly (female) worker's wage is approximately P180. Because it is impossible to live independently on such a low monthly income, the women have to set up combined households. In order to provide these, most companies have built barracks divided into a number of large dormitories. Each room is shared by 10 women who sleep in double-deck beds. In fact, in each room there is space for only 6 persons, which means that the rooms are very crowded. Each barrack houses 60-100 female workers who constitute one combined household. Each member of the household has to make the following minimum expenses: P20 for bed space; P20 for rice; P40 or vegetables, meat fruit, etc.; P40 for soap, make-up, etc.; P20 for tea, cakes, etc. during breaks in work; P40 for pocket money including clothes, shoes, recreation, transport, etc. The trainees whose monthly worker's wages are even lower, approximately P160, have to be supported by their relatives. Usually they receive rice, salt, sugar, tea and some clothes from their parents, brothers or sisters in the countryside.

Almost all women workers have to work overtime two or three hours per day to supplement their meagre wages. To make things even more difficult, the possibilities for doing overtime work are very restricted because of the extraordinary long working hours. In most factories the labour force works in three shifts of eight hours each.

In December 1975, Intercontinental Garments put into operation a new, harsh work schedule of broken shifts. The women started work at 6 a.m. and continued until 2.30 p.m. At 10.30 p.m. work was resumed till 4 a.m. After a 'nap' of two hours the women had to resume the very same timetable at 6 a.m., as on the day before. The new operation lasted only one week, because the casualty rate was too high; on the second night 4 women fainted and had to be taken to the clinic by ambulance. During the following five nights more than 20 other women collapsed. However, despite the high casualty rate, International Garments achieved a new export record! Before the authorities could interfere, the operation of the new work schedule was cancelled and the normal work schedule in three shifts was reinstated.¹⁹

There exists a similar situation of exploitation of workers in Thailand, although perhaps less harsh. In 1978, I visited the newly opened industrial estate of Bangpoo, situated 25 km east of Bangkok., at Tambol Praegsa, Amphur Muan (City District), Samutprakam province.²⁰ The estate area covers 8000 rais (approximately 3200 acres) of land, 1.7 km off Sukhumvit Highway. It comprises four major zones; industrial, commercial, residential and recreational.

Average wages in Thailand are very low. In 1978, a skilled labourer in the many industrial zones in Thailand did not earn more than 2000 Baht (US\$100) per month. Well-qualified technicians enjoyed monthly salaries between 10 000-20 000 Baht (US\$500-1000).²¹ Since 1973, the 'October students' revolt', there has been much labour unrest.²² *Business News*, a pro-employer periodical, wrote in its April 1978 issue:

Thailand is presently undergoing a series of labour protests and threatened strikes, demands for increased minimum wages, and squabbles among labour leaders. There is now a fear of repetition of the labour unrest and wildcat strikes that occurred during 1973-75. However, the present problems are not expected to assume the proportions of those wild unruly days, as Thai labourers have really come far in the past few years, and many are now fully conversant of labour laws and regulations. Also they know full well that while the present (kriangsak) government appears to sympathise with, and understand labour problems, strikes are still banned under the present martial law.

The current labour problems can be seen to arise from many different causes, including the sharp rise in the cost of living after the government increased the tax on 141 imported items, including petrol, in March this year [1978]. There are also long-pending problems which had no chance of being aired or corrected during the one year under the Thanin government, when protesting labour leaders tended to be arrested for 'endangering society'. Then there was the severe drought last year [1977] which has caused a large-scale influx of farmers into industrial areas looking for work; and of course, the lack of compliance with labour laws by employers and employees, leading to friction and protests. To compound all these problems for the government is the rising number of unemployed each year, which now stands at 1.2 million or 6 per cent of the total work force.

Recent 'off-shore' investment from Australia

After the start of the economic recession of the early 1970s, the outflow of Australian-based corporate investment accelerated. Sections of the Australian business world, as well as some politicians, see the moving abroad of corporate operations as one of the crucial causes of unemployment. This development has drawn the attention of a number of academics and research groups in universities, as well as the business world itself. One of the first academics who made a serious investigation into the operations of overseas subsidiaries of Australian-based companies was David McLean, who wrote on 'Australia and the Expansion of Capitalism to Indonesia':²³

Trade relations between Australia and Indonesia have traditionally reflected Indonesia's satellite status and Australia's place as an outpost of Western imperialism. Australia has imported crude petroleum from international oil

companies in Indonesia; until 1961 Australian exports to Indonesia consisted primarily of processed foodstuffs for resident Westerners and the urban middle class . . . In 1970, Australian exports to Indonesia surpassed imports for the first time ever. With Australian direct investment in Indonesia growing rapidly, Australian sales to Indonesia are shifting from finished goods to equipment and raw materials but they will continue to rise. . . Australia's exports to Indonesia did not exceed one per cent of Australia's total exports until fiscal 1971. Even so, Indonesia has been an important—and potentially large—market for a few manufacturing industries, such as transportation equipment, steel, telecommunications equipment, and agricultural machinery, and of course, foodstuffs such as wheat and dairy products. Australian aid programmes have been designed to encourage the growth of export markets such as Indonesia . . . While Australian aid has a diplomatic purpose—supporting the pro-western Suharto regime—it has had two major economic effects. First, it has helped Australia build and penetrate markets in Indonesia, to maintain capacity use by dumping of surplus commodities, and earn wind-fall profits for Australian companies. This effect has been strongest in the cases of wheat, vehicles, and metal exports. Second, as a corollary to enlarging sales of Australian companies, it has helped depress the production capacity of Indonesia's less competitive industry and agriculture. It has established a dependent relationship, in which Indonesia requires a continuing infusion of parts and assistance to its infrastructure and consumption patterns . . . It is possible, . . . through careful study, to identify about 70 Australian-based companies operating in Indonesia or with direct investment in companies there . . . A recent survey by the American Chamber of Commerce in Australia showed that 48 American companies had designated Australian affiliates as their headquarters for the Southeast region. Forty-one of these companies do business in Indonesia . . . Although a majority of Australian-based investments in Indonesia have been undertaken by Australian capital, most of the large ones involve American or British multinationals. In several cases, Australian subsidiaries front for the parent company. Most Australian affiliates of multinational corporations active in Indonesia are themselves joint-ventures . . . Some companies have entered into joint-ventures with minority American participation, allowing really large international firms to enter the Indonesian market through Australian-controlled ventures.²⁴

Also in the early 1970s, there appeared a study of Australian investment in Fiji, which was called 'a developing Australian colony',²⁵ and one of the operations of Australian firms in South Africa.²⁶ In September 1976, the University of Sydney's Transnational Corporations Research Project published a research monograph dealing with 'Industrial Estates and Australian Companies in Singapore'.²⁷ This study also contains an analysis of the new dimensions in the international division of labour. Before the closing of the year three other reports were published: the report by the Metal Trades Industry Association on an 'offshore exodus' of Australian jobs noted earlier; a study on 'Overseas Performance of Australian Multinational Companies' by the New South Wales Department of Decentralisation and Development; and a survey of 'Australian Enterprise Overseas' by Business Administration students at Macquarie University.

The New South Wales Department of Decentralisation and Development survey 'took a look at some 50 companies which were identified as having

three or more subsidiaries (overseas), and then took out 20 of them for a detailed look' (Table II).

TABLE II: TWENTY TRANSNATIONAL CORPORATIONS WITH THREE OR MORE SUBSIDIARIES OVERSEAS
(Returns from overseas as a percentage of total profits)

<i>Company</i>	<i>Year</i>	<i>Paid capital \$m</i>	<i>Group sales \$m</i>	<i>Net group profit \$m</i>	<i>Approximate percentage profit derived from overseas sources</i>
ACI	1975	60.5	431	14.7	74
	1974	60.5	375	28.5	40
BNP	1975	392	1763	110	1.5
	1974	392	1298	100	1
Burns Philp & Company Ltd	1975	35.1	n/a	7.8	63
	1974	35.1	n/a	9.2	58
W.R. Carpenter Holdings Ltd	1975	21.8	n/a	8.3	71
	1974	21.8	n/a	8.2	68
William Charlick Ltd	1975	2.1	n/a	0.49	4
	1974	2.1	n/a	0.63	12
Clyde Industries Ltd	1975	8.6	n/a	2.0	6
	1974	8.6	n/a	2.1	6
Davis Consolidated Industries	1975	5.7	n/a	1.5	48
	1974	4.5	n/a	1.5	45
Hanimex Corporation Ltd	1975	3.8	57	1.8	73
	1974	3.8	40	2.4	49
Kiwi International	1975	10.3	37	0.66	22
	1974	10.3	30	1.0	75
Mauri Bros & Thomson Ltd	1975	19.6	113	3.5	30
	1974	19.6	88	3.8	17
Nicholas International Ltd	1975	40.2	95	2.3	80
	1974	40.2	85	4.2	61
Pioneer Concrete Services	1975	32.2	244	8.1	9
	1974	29.3	212	9.1	33
Repco Ltd	1975	37.7	234	11.1	4
	1974	37.1	212	11.6	5
Rocla Industries Ltd	1975	9.3	34	1.7	10
	1974	7.5	33	2.0	35
Siddons Industries Ltd	1975	2.8	30	1.2	16
	1974	2.4	23	1.0	18
Sims Consolidated Ltd	1975	16.9	152	10.8	6
	1974	14.1	123	7.4	—
H.C. Sleigh Ltd	1975	43.8	257	0.37	7
	1974	43.8	203	4.2	31
Thiess Holdings Ltd	1975	17.1	210	6.1	21
	1974	9.0	138	3.2	16
Thomas Nationwide Transport	1975	27.3	288	9.0	—
	1974	23.2	249	7.1	—
Wormald International Ltd	1975	13.9	n/a	4.2	15
	1974	11.3	n/a	3.2	12

Source: New South Wales Department of Decentralization and Development, *Overseas Performance of Australian Multi-National Companies*, Sydney, 1976.

The 20 companies saw a total of \$31 million in 1974, and \$32 million in 1975, come into their net profits from overseas sources, while their total investment abroad in those two years amounted to approximately \$194 million and \$215 million respectively. A number of companies found the process of overseas expansion costly for instance, Thomas Nationwide Transport suffered overall losses from foreign operations in 1973-74, and 1974-75, in an effort to maintain an extremely rapid expansion programme. Also Rocla Industries, and Pioneer Concrete Services suffered some downturn in profits from overseas sources due to expansion and acquisition coupled with depressed markets.

On the other hand, ACI gained sizeable profits from their overseas investments in New Zealand, Papua New Guinea and Southeast Asia. Also Davis Consolidated Industries, being involved with important acquisitions in the United States and Canada, enjoyed rapid growth. Other companies which were showing impressive gains from overseas investments included Mauri Bros and Thomson, Sims, Thiess Holdings and Wormald International.

Ten of the 20 companies had their operations in Papua New Guinea (Table III).

Six companies went to the Pacific Islands (Table IV).

TABLE III: PAPUA NEW GUINEA
Total contributions to group profit: \$7 479 873 (1974) and \$7 661 132 (1975)
Disclosed capital investment: \$22 321 206 (1974) and \$28 387 393 (1975)

	<i>Papua New Guinea profit</i>		<i>Percentage of group profit</i>	
	<i>1975</i>	<i>1974</i>	<i>1975</i>	<i>1974</i>
	\$	\$		
<i>Most benefit</i>				
Burns Philp & Co.	3 523 811	3 824 932	45.1	41.6
W.R. Carpenter Holdings	2 653 000	2 528 000	32.1	30.8
Thiess Holdings	124 000	446 000	2.0	13.9
Broken Hill Proprietary	929 000	267 000	less than 1	less than 1
<i>Significant setbacks</i>				
Pioneer Concrete Services	-86 271	-73 352	—	—
Mauri Bros and Thomson	-40 778	-4 573	—	—
William Charlick	-36 915	115 120	—	18.2

Source: N.S.W. Department of Decentralization and Development, *Overseas Performance of Australia Multi-National Companies*, Sydney, 1976.

TABLE IV: PACIFIC ISLANDS
Total contributions to group profit: \$4 539 971 (1974) and \$4 572 786 (1975)
Disclosed capital investment: \$20 770 668 (1974) and \$21 082 873 (1975)

	<i>Pacific Islands profit</i>		<i>Percentage of group profit</i>	
	<i>1975</i>	<i>1974</i>	<i>1975</i>	<i>1974</i>
	\$	\$		
<i>Most benefit</i>				
W.R. Carpenter Holdings	3 166 214	3 032 000	38.3	37
Burns Philp & Co.	1 361 178	1 506 004	17.4	16.4
<i>Significant setbacks</i>				
Pioneer Concrete Services	-51 921	-6 950	—	—

Source: As for Table II.

Thirteen had their activities in East Asia, the 'Far East' (Table V).

TABLE V: FAR EAST

Total contributions to group profit: \$1 820 762 (1974) and \$3 885 547 (1975)
 Disclosed capital investment: \$2 007 766 (1974) and \$2 508 843 (1975)

	<i>Far East profit</i>		<i>Percentage of group profit</i>	
	<i>1975</i>	<i>1974</i>	<i>1975</i>	<i>1974</i>
	\$	\$		
<i>Most benefit</i>				
Hanimex Corporation	543 450	537 365	30.8	22.8
Pioneer Concrete Service	1 096 583	894 731	13.5	9.8
Mauri Bros and Thomson	511 714	79 237	14.4	2.3
Thiess Holdings	1 126 000	50 000	18.4	1.0
Sims Consolidated	446 000	266	4.1	—
<i>Significant setbacks</i>				
None	—	—	—	—

Source: As for Table II.

Fourteen of the 20 companies operated in Southeast Asia (Table VI).

TABLE VI: SOUTHEAST ASIA

Total contributions to group profit: \$475 818 (1974) and \$1 117 871 (1975)
 Disclosed capital investment: \$2 240 132 (1974) and \$5 980 235 (1975)

	<i>Southeast Asia profit</i>		<i>Percentage of group profit</i>	
	<i>1975</i>	<i>1974</i>	<i>1975</i>	<i>1974</i>
	\$	\$		
<i>Most benefit</i>				
Siddons Industries	41 225	26 330	22.0	14.7
Repro	55 636	32 303	12.4	6.0
ACI	536 131	369 297	7.6	4.9
Sims Consolidated	241 000	—268 000	36.3	—
BPH	230 000	—	—	—
<i>Significant setbacks</i>				
Thomas Nationwide				
Transport	—70 810	—22 007	—	—
Kiwi Internaitonal	25 936	219 918	17.7	29.5
Davis Consolidated	5 879	51 797	—	80.0
Clyde Industries	—20 132	2 396	—	—

Source: As for Table II.

Fifteen of the 20 companies established affiliates in New Zealand, 7 in Central and South America, 14 in the United Kingdom and Eire, 10 in North America (the United States and Canada), 9 in the African continent, 10 in Europe, 2 in the Middle East, and three in the Indian sub-continent.

The study *Overseas Performance* shows that for 1975, at least 6 of the 20 selected companies earned more than half of their profits from foreign operations. One of these 6 companies, Nicholas International, gained 80 per cent of its profit of \$2.3 million abroad. The company undertook highly profitable activities in the African continent, the United Kingdom

and Eire, Central and South America and the Indian sub-continent. But it was not so fortunate in North America, Europe and New Zealand. BHP, Australia's largest company, earned only 1.5 per cent of its \$110 million profit from operations abroad.

The areas where Australian and Australian-based foreign companies have had their subsidiaries and agencies for the longest time, are New Zealand, Papua New Guinea, the United Kingdom and some Pacific islands. New Zealand, followed by the United Kingdom and Papua New Guinea, still makes the most significant contribution to profits of Australian and Australian-based TNCs. Fifteen of the 20 companies in the study *Overseas Performance* have their operations in New Zealand, covering various activities from glass packaging, plastics, household and automotive products to fire protection and transportation.

However, the older Australian, or Australian-based, TNCs are now bypassing New Zealand or reducing their investment there. New Zealand is now generally seen as 'a country which is making worthwhile contributions to the Australian kitty at a time when local performance has been suffering, but has limitations in future expansion because of its small population'.²⁸

In its colonial days, Papua New Guinea was particularly attractive to Australians. But since independence in September 1975, Papua New Guinea's attractions have diminished—rising wages and other costs, a 15 per cent withholding tax on dividends, the exodus of Australian expatriates, declining copra prices, and the inclination to economic decolonisation in the attitude of the new, national, government in Port Moresby. However, an Australian investment survey mission in February 1979, reported a favourable climate for foreign investment there.²⁹

In the Pacific Islands, Fiji is still the main centre of investment. But according to *Overseas Performance*, Fiji is now causing concern to investors with price controls coupled with labour-union pressure on wages. The general world depression in the prices of commodities affected a number of companies.

Overseas Performance singles out Southeast Asia as having excellent prospects for Australian TNCs. However, 'the comments one hears from companies operating in Indonesia hardly bear out such optimism'.³⁰

Australians are not new to the multinational business. Probably the first of them all was the Bank of New South Wales, which opened an office in London in 1853. Then, there was the move into Fiji by CSR in 1882 to protect the Australian company's sugar from a competitive threat in the then British colony. But the great thrust has come in the last 15 or 20 years, with the growing realisation that there are limits to the domestic market in Australia, and so, for many companies, limits to growth unless they took on the world. The extent of the move by Australians abroad can be gauged from the fact that total investment grew from \$225 million in 1961 to the \$845 million figure of 1975. The annual average growth rate over that period was 10 per cent. Between 1968 and 1972, it was 13 per cent and while it came back to 8 per cent in 1973-75, in actual dollar terms it was much

greater than in the early 1960s. The pattern of investment has also begun to change, with a swift move away from the traditional areas such as the United Kingdom, Papua New Guinea and New Zealand to the Pacific Basin countries and, in particular, Canada and the United States.³¹

The Macquarie University report, *Australian Enterprise Overseas*, analysed the activities of 99 Australian TNCs. Of the total profit of the \$95 million these companies made in 1975, \$19 million came from New Zealand and \$11 million from Papua New Guinea. The biggest losses they suffered were in Europe and North America. Hence, the investments in the developing countries were the most profitable. The report points to the important fact that in certain areas, particularly in those which involve highly developed technology, Australian firms have gained world leadership. Such an area is the manufacture of concrete pipes. Also, the Australian way of management in the transport industry—for example, the management of TNT—is said to be unique. This is thought to be due to the scale of problems in a country like Australia, where people have to cope with long distances and extraordinary weather conditions such as heavy floods and cyclones. According to the report, Australian politicians should not criticise foreign companies which maintain control over their Australian subsidiaries. The report argues:

Australian companies have generally preferred, and still prefer, 100 per cent ownership of foreign operations. Almost exclusively, overseas operations have been tied to head office by rigid reporting systems and procedures. If anything, the trend is for this rigidity to become more widespread, with little indication of desire to change organisational structures to those obtaining in modern multinational models.

In 1977, The University of Sydney's Transnational Corporations Research Project published a second research monograph analysing the operations of Australian companies in a Southeast Asian cheap-labour haven—Kate Short's essay on 'Australian Manufacturing Companies in Indonesia: A Case Study'.³² She arrived at the following conclusion:³³

In sum, it must be concluded that direct investments by Australian firms in Indonesia's manufacturing sector result in, or augment, the generation of serious economic problems. It operates, as did former colonial investments, as an enclave. It is characterised by sophisticated, capital-intensive technology, limited employment generation, the production of commodities unsuitable for consumption by the mass of the people. It does not have the capacity to assist, by the generation of spread effects, the development of a mature and diversified industrial sector within the Indonesian economy. What industrialisation does occur there will be that which is complementary to the needs of the capitalist nations, rather than that which can begin to fulfil the needs of the mass of the Indonesian people.

In another study on cheap-labour havens published by the Transnational Corporations Research Project, I reached the following conclusion:³⁴

The champions of cheap-labour havens, i.e. the foreign investors and their local compradors, always point to the rapidly increased Gross National Product (GNP) of most of the host countries, the improved infrastructure (new roads, new bridges, new harbours etc.), the many giant office buildings, the modern shopping centres, in some countries (for instance, Singapore) the

impressive workers' flats, the luxurious hotels, and the expensive establishments for the entertainment and recreation of the thousands of tourists. South Korea's performance in 1976, for example, was impressive by any token: a GNP of US\$25 billion (a real increase of 15 per cent), exports worth \$7.8 billion (a 56 per cent increase despite slack international trade), a tolerable current account deficit of \$274 million (\$2 billion in 1975), and an inflation rate of 12 per cent (down from 26.3 per cent).

Such figures and facts, however, are misleading to anyone who makes a serious effort to find out the host country's real economic performance. If one explores the world outside the comfortable managers' flats and villas, the shopping centres, the luxurious hotels, the expensive restaurants, night-clubs, and bars, and the casinos, one will find a labour force that still lives in inadequate social conditions. In some countries, for instance Indonesia, one will even meet with badly impoverished workers, notice the ever-growing gap between the rich and the poor, between the compradorial class which benefits from foreign investment and the masses of those who are exploited by these foreign investments. Inevitably, one has come to the conclusion that the cheap labour havens have mainly contributed to the welfare of the local bourgeoisie who render compradorial services to the foreign investors. Growth only occurs in those sections of the national economy of the host country in which the interests of a compradorial bourgeoisie lie. In other words, cheap-labour havens have only promoted unequal economic development in the host countries and endowed them with repressive governments.

Despite the high tariff-barriers recently set up in many countries, the changes in tax regulations in Australia,³⁵ the emergence of the developing countries' own TNCs (the 'Third World TNCs'),³⁶ and the losses made by a number of companies who went 'offshore' earlier, the movement 'offshore' of Australian corporate operations still continue:

Many companies, finding that they must learn to live with limited growth in Australia, seek to export their knowledge to other countries. Others seek to use the lower labour costs abroad . . . In Singapore and Malaysia, Humes has long had a presence. But one of the companies which is now one of the largest of our operators in the region is ACI. It is gaining increasing returns from the investment which would explain why it has been among the more vocal critics of the government's plan to put Australian tax on some of the incentives granted by overseas governments.

Australian companies have probably less well established presence in Indonesia. However, the word went out after the change in government that Australian companies would be welcome. Many have gone there. Most report considerable difficulty in coming to terms with the way business is conducted in the area. Groups such as ACMIL which were in the red are now trading better. ACI increased its Indonesian profit from \$237 000 to \$395 000 and CIG has an expansion planned for the area. As favourable reports begin to filter through the director management network more companies will probably move. Overall, Australians have a considerable advantage in trading in the Southeast Asia region. For the most part we do not encounter the problems the U.S. or Japanese companies have. Many of the people trained in Australia under the Colombo plan have moved into senior management positions in the region, which makes the process easier.³⁷

These comments relate to the latest available detailed study of Australian

TABLE VII: AUSTRALIAN BUSINESS ABROAD, 1976-77

<i>Papua New Guinea</i>	<i>Profit</i> \$	<i>Loss</i> \$
Amatil	22 000	—
Ansett	—	84 000
ARC	189 000	—
APPM	53 000	—
Arnotts	428 000	—
ACI	786 000	—
AGC	319 000	—
ANZ Bank	516 000	—
Bank NSW	1 600 000	—
Boral	137 000	—
Burns Philp	3 600 000	—
BHP	796 000	—
W.R. Carpenter	5 000 000	—
Comalco	24 000	—
CIG	271 000	—
Concrete Ind.	157 000	—
CRA	17 200 000	—
Dunlop	223 000	—
Hooker	29 000	—
Herald and W/T	206 000	—
ICI	672 000	—
Lend Lease	—	116 000
Mayne Nickless	136 000	—
National Bank	455 000	—
Pioneer Concrete	1 200 000	—
Reckitt Colman	178 000	—
Repco	126 000	—
Rothmans	757 000	—
Thiess	205 000	—
Wormald	36 000	—
<i>Malaysia</i>		
Acmil	—	8 000
ACI	387 000	—
CRA	870 000	—
Dunlop	239 000	—
Hooker	—	55 000
Humes	272 000	—
Repco	119 000	—
Sims	17 000	—
Thiess	—	12 000
<i>Fiji</i>		
Amatil	—	46 000
ACI	47 000	—
Boral	151 000	—
Burns Philp	1 800 000	—
W.R. Carpenter	4 800 000	—
CIG	184 000	—
CRA	—	1 300 000
Herald and W/T	173 000	—
Hooker	69 000	—
Humes	173 000	—
ICI	43 000	—
Pioneer Concrete	117 000	—
<i>Philippines</i>		
ANI	—	471 000

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<i>Singapore</i>		
ANI	32 000	—
Acmil	112 000	—
ACI	304 000	—
BHP	32 000	—
Clyde	—	41 000
Hooker	—	13 000
Humes	759 000	—
Lend Lease	4 000	—
McPherson	69 000	—
Reed	125 000	—
RepcO	28 000	—
Sims	366 000	—
Thiess	183 000	—
TNT	232 000	—
<i>Thailand</i>		
ACMIL	10 000	—
CIG	151 000	—
CRA	—	36 000
<i>Indonesia</i>		
ACMIL	—	85 000
ACI	395 000	—
BHP	122 000	—
CIG	222 000	—
Concrete Industries	—	35 000
James Hardie	76 000	—
Nicholas	—	41 000
Sims	—	71 000
Thiess	484 000	—
Tubemakers	—	949 000

Source: Chanticleer, 'Fast-growing interest in offshore operations', *Australian Financial Review*, 28 August 1978.

investment overseas, by the Sydney Stockbrokers William Tilley, Hudson, Evans & Co., *Offshore Ahoy, The Opportunities So Far Taken By Australian Companies Venturing Overseas*, (Sydney, 1978). The authors state that by the end of the financial year 1978-9 the extent of Australian-based corporate investment overseas would probably be about one billion dollars, involving over 600 companies. Investments in S.E. Asia had doubled in the last five years. Table VII show the profits of some of the more important companies.

Unemployment and protectionist policies

The outflow of corporate activities from the developed to the less developed countries, included not only the export of capital but also that of technology and jobs. Of these three exports, the most important is that of technology. Compared to the export of technology, the outflow of capital is certainly of less importance. Figures obtained in Singapore and the Philippines, for instance, show that about 75 per cent of capital in operation by the overseas subsidiaries, has been generated locally: loans from local banks, Asian dollars, loans from local government institutions.

Also, the amount of new employment created in the developing nations by corporate activities brought in from the developed countries is relatively

small. In Indonesia it is only 3 or 4 per cent of the total Indonesian labour force, that finds employment at the foreign-controlled establishments. In Thailand and the Philippines, the figures amount to between 4 and 6 per cent. It was only Singapore, the new industrialised city-state, that enjoyed a rise of 20 per cent.³⁸ Assuming that in labour-intensive industries, such as textiles, garments, electronics, the loss of one job in the developed countries creates one and a half to two similar jobs in the developing nations,³⁹ then in the developed countries the export of jobs to overseas cheap labour havens is not the main 'job-killer'. In the Netherlands, for example, the outflow of employment to Latin America, North Africa, Singapore, Hong Kong and Indonesia accounted for about 3 per cent of total employment in the first half of the 1970s. However, in some West European countries this was enough to mobilise the workers against a further outflow of capital and jobs to the cheap-labour havens. The workers 'occupied' the offices of their managers as well as the workshop or the factory. In this way they forced the government to intervene and to put pressure on the owners of the enterprises to stop the implementation of their plans.⁴⁰

The most important creator of unemployment is the developed country's own, newly acquired, highly advanced and labour-saving technology, i.e. the further mechanisation, automation and computerising of its own industrial apparatus. The most recent developments in Australia are documented in *The Job Killers*.⁴¹ It points out that the issue is, who is to control technology for whose benefit?

Technology is being used to centralise decision making power in a few hands. Workers are being further isolated in the work place and process. Many are losing their jobs. And those who are keeping their jobs are losing their skills and being more tightly controlled. The way the new technology is being used now means that the machines are running the workers. We need to turn technology around so that the workers run the machines. *A first priority is job security and increased employment.* To fight capitalist technology requires first of all that *no jobs are lost through technology . . . When jobs are lost through technology the whole struggle gets distorted.* We get people talking about splitting up and sharing out the jobs that are left in . . . way that the bosses save money and the workers get divided.

. . . At this stage in the development of technology in Australia, management seems to be at least as interested in the ensuring *control through technology* as it is in making profits. So our second priority should be *how* technology is used.

The central decisions around which labour needs to fight are: *when* technology gets introduced; *where* it is placed in a factory line or an office; *who* gets to work closely with the new technology or has their jobs changed because of it; and *who* controls the technology.⁴²

An important part of the new technology has been exported to the less developed countries and put into operation in their free trade and production zones. Although this new technology, domesticated in the developing countries, is not in the first place producing for the benefit of the population of these countries, it often puts at their disposal technology which is more advanced the sophisticated than that in many of the developed countries. For

instance, the Singapore production units of the Dutch electronics giant Philips are equipped with the company's most advanced technology. The parent company's laboratories at Eindhoven in the Netherlands undertake the necessary scientific research work, but it is at the subsidiaries in the cheap-labour countries where most of the highly advanced new technology is put into operation.⁴³ Another example is West Germany's Volkswagen plant in Brazil. Some economists even arrive at the conclusion that 'Brazil has saved Volkswagen'. And the highly advanced German camera technology is used less in Germany itself and more in Singapore and Latin America.⁴⁴

The rise of industries using the most advanced new technology in the less developed nations has made them strong competitors of the traditional industrial world. These new industries are able to produce goods of better quality at much lower prices. This is certainly true for the electronics industries, textiles, garments and footwear. And in many a traditional industrialised country, factories and workshops in corresponding sectors of the manufacturing industry have ceased to be competitive and were forced to close down.⁴⁵

The EEC has become the Third World's most important market, not only for its commodities, but also for the consumer goods and components produced in its free trade and export zones. Especially in textiles, garments, footwear, leatherwork, household utensils and several kinds of small machinery, the Netherlands, Belgium and West Germany have also to cope with strong competition from the industrialised socialist countries in East Europe. In the late 1960s and early 1970s, competition from both the newly industrialised developing countries and the East European bloc was so strong that Holland and Belgium even had to endure a virtual 'de-industrialisation' in garments and footwear. To protect the smaller industries that were still able to survive, the EEC members, led by strongly protectionist-minded France, started to put up tariff walls.

The rise of industries using the most advanced new technology in the developing nations has also affected Australia's manufacturing industry. The annual loss of Australian jobs in particular sectors as a result of the export of technology from the developed nations, to the cheap-labour havens in Southeast Asia is quite considerable, as Table VIII shows.

McFarlane estimated the annual loss for all manufacturing to be of the order of 20 000 jobs, and remarks:

Clearly, left unchecked with no counter-strategy this will lead to the de-industrialisation of Australia—especially as there is a growing trend to reduction in government protection and assistance.⁴⁶

It seems that, for the moment, protection of Australia's manufacturing industry against imports of cheaply produced goods from the ASEAN free trade and industrial zones is the only policy the Australian government can pursue to prevent a further increase in unemployment and de-industrialisation. McFarlane suggested an alternative:⁴⁷

There should, of course, be an aggressive strategy of developing industrial exports. That is one side of the coin—the Swedish approach of concentrating on a range of specialised exports geared to local minerals, power and skills. But such a 'solution' is a longer-term one, and will have to await some abatement of the current economic collapse.

In the meantime, a shorter-term policy is needed. The essentials of this need to be *import controls against manufactured goods, amounting to protection against de-industrialisation which should be given to industry in accordance with detailed planning agreements signed with unions and a National Economic Authority.*

TABLE VIII: DISPLACEMENT OF AUSTRALIAN LABOUR BY ASEAN IMPORTS, 1976-77

<i>Category of industry</i>	<i>Persons employed 1976</i>	<i>Value of imports necessary to displace one person</i>	<i>Number of persons displaced through Imports from ASEAN</i>
Food, beverage, tobacco	196 000	\$21 800	3900
Chemicals, petroleum products	60 500	\$29 400	4900
Basic metal products and fabricated metal products	339 900	\$20 200	3300
Other machinery and equipment	168 400	\$17 700	1500
Miscellaneous manufactures	65 300	\$18 500	2300

Source: Bruce McFarlane, *Multinationals, Free Trade Zones, and Fraser's Economic Policy as Causes of Severe Long-run Unemployment*, Address to Metal Trades Federation Seminar, 25 February 1979, Adelaide, p. 5.

Such a policy, of course, is not acceptable to free trade economists and Liberal politicians. When the Fraser government took office, it had hoped that it could create new jobs by attracting large amounts of new foreign industrial investment. But the present slow-down in capital spending in the centres of metropolitan capitalism had already set in and prevented this.⁴⁸ The situation is now even worse; a survey conducted by the American Chamber of Commerce shows that Australia is losing favour as a basis for American companies in Asia; hence it is possible that in future the outflow of capital will exceed the inflow, and job creation resulting from foreign capital will be negative:

During the past five years, the number of U.S. companies locating their regional headquarters in Australia has fallen by 6 per cent, to 160 companies, compared to 170 companies in 1973. The study also found out that the largest number of changes occurred in 1977, which may indicate that the speed of the move out of Australia might be increasing. Possibly of greater interest, of the 160 companies listing Australia as their regional centre in 1973, the latest survey found that 37 no longer had regional responsibilities for the Asian area. Several companies have ceased business operations within Australia altogether, and a number have had their responsibilities curtailed. The shift could represent a change in the emphasis placed on the Asian market by the parents. The major reason for moving away from Australia, the study

says, is the lure of a new strategic location in Asia, offering lower travel time and expenses, as well as providing greater market coverage. Next, most important factors were corporate reorganisation along with the establishment of a local plant or subsidiary in a Southeast Asian nation. Then comes concern over operating costs found within Australia and industrial unrest factors.⁴⁹

ASEAN and other Third World countries have vehemently attacked increasing protectionism in the traditional industrialised countries. Senator Gordon D. McIntosh commented on the attack by ASEAN countries in a paper to a conference, 'S.E.A.T.O. to A.S.E.A.N.', held in Sydney, 1-4 September, 1977:

One important issue here is that some of the beneficiaries are clearly going to be Australian companies who have relocated part of their operations in A.S.E.A.N. countries . . . It appears that a least some of the pressure for trade liberalisation from A.S.E.A.N. has arisen from the activities of Australian-based transnational companies operating in Southeast Asia. The Thai ambassador to Australia in an interesting statement in June 1977 said that Thailand did not fully support some recent Malaysian statements criticising Australian trade policies. He said that many Australian interests operating in Malaysia were behind some of the Malaysian Government's strong statements on trade. One clear example of such pressure has come from the Midford Clothing factory in Kuala Lumpur, which was established primarily to export to Australia but which was refused an import quota by the Australian government. Some of the benefits of trade liberalisation with A.S.E.A.N. could therefore end up primarily assisting Australian companies.

Another important issue is the question of how widely the benefits to be gained from increased A.S.E.A.N. trade with Australia will be shared within the A.S.E.A.N. countries themselves. It is a well known problem of economic development in most of the A.S.E.A.N. countries that the development often takes the form of highly capital intensive foreign owned industries operating in urban areas. The benefits from such enterprises very often go to the foreign owners and a small group of wealthy members of the national elite of the country concerned, to the detriment of the mass of the population, particularly in the depressed rural areas . . . There may be relatively little that Australia can do to influence the A.S.E.A.N. countries in the type of economic development strategies they are following, but it is important to realise the possible implications of the A.S.E.A.N. states' pressure on Australia on the trade issue.

Despite its internal divisions on issues of political and economic co-operation, A.S.E.A.N. is rapidly gaining greater recognition from external powers. A.S.E.A.N. itself is likely to continue its strong emphasis on its external relations, particularly in economic matters. As Lee Kuan Yew candidly admitted after the Kuala Lumpur summit, 'It is psychologically easier to deal with A.S.E.A.N.'s external partners than to sort out the intra-regional arrangements between the partners themselves'. Australia's attitudes and policies towards A.S.E.A.N. are therefore likely to continue to increase in importance and they raise

crucial issues about both Australia's own economic and industrial development and the type of economic development being pursued in A.S.E.A.N.

International organisations such as the World Bank and the International Monetary Fund (IMF), the directors of a number of giant TNCs, and even some progressive third World political economists have come out strongly against protection. The arguments of these anti-protectionists, the majority of them free trade economists and liberal politicians, vary. The World Bank for instance, points to the 'evils of protectionism' particularly for the countries introducing it. The Bank claims that by discouraging the growth of trade, protectionist policies would disrupt the increasing division of labour that has been a major source of growth for industrialised countries over the past 25 years. According to the Bank, by delaying 'structural change', protectionism delays the shift of labour out of traditional industries where labour productivity is low, such as textiles, clothing and footwear, into industries where labour productivity is higher, such as machinery and chemicals.⁵⁰

McGuiness, economics editor of the *Australian Financial Review*, has given a serious warning that 'gradually the higher tariffs will distort Australia's industrial structure'.⁵¹ Bhattacharya, of Sydney University, an economist from India known for his progressive views, has also inveighed against protectionism:

. . . protection is a popular issue in Australia. This is a sad reflection on the consciousness of the people in Australia. Australians do not realise that the burden of tariff is borne not by foreigners, but by themselves. Neither do they realise that protection does not protect jobs in the long run. Unemployment rates are high for reasons that have nothing to do with imports from developing countries. Neither are they due to tariff cuts. As Gruen has observed: 'The total number of people who had claimed income maintenance as a result of the various tariff decisions remained very low—below 6000 until the end of September 1974, 15 months after the tariff cut'. Moreover, the use of protection to create employment and investment does not produce the desired result . . . The rapid growth of the developing countries, stimulated by the removal of protection in Australia, would offer new opportunities for exports to these countries by Australia's efficient manufacturing and natural resource based industries. We must also consider the possibility of retaliation against Australia over its protectionist trade policies . . . The fears in the developed countries of job erosion as a result of imports from developing countries are often exaggerated, as are the hopes that strong doses of protectionism would cure its unemployment ills. Baldwin has found that the U.S.A. can participate in a substantial tariff cutting negotiation without causing significant adverse trade and employment effects in the country. An investigation of West Germany has found that more than 80 per cent of the displaced workers could find employment elsewhere in the export-oriented activities.⁵²

However, other third World economists, in particular, those belonging to the group led by Samir Amin, are prepared to support transient protectionist policies, on the condition that at the same time measures will be taken to put

the activities of the TNCs' parent companies under some kind of worker control; and those TNCs of their subsidiaries that are vital to national economies should be *nationalised*. Implementing protectionist policies without control or nationalisation of the TNCs concerned would be disastrous; for instance, a company which cannot import components, or wholly fabricated consumer goods, produced by its affiliates in free trade zones because of too-high tariff walls, will certainly move to another host country where it is allowed to import such goods at more reasonable tariffs. In that case, protectionist policies would create more unemployment in the country imposing these policies.

Other possibilities are that labour unions in the developed world could give strong support to labour unions in the Third World in their struggle for higher wages, better working conditions, the termination of female labour slavery which exists in all ASEAN's cheap-labour havens, and the abolition of child labour. And the governments in both the periphery and the metropolitan centres could come together to plan and structure a new, international, division of production for the future.⁵³

Many Third World economists see the current problem of protectionism as part of an international class struggle. So far the industrialisation in developing countries has mainly benefited the corporate comprador elite. A continuation of the existing free trade system would undoubtedly continue to benefit both the comprador elite in the peripheral world, as well as the capitalist owners of the giant TNCs and their clients, many of whom are in key governmental positions in the metropolitan centres. The words of Fröbel, Heinrichs and Kreye provide an appropriate conclusion:⁵⁴

We have investigated a new development, the emergence of a new international division of labour, and its implications for the industrialised and the underdeveloped countries. These implications are structural unemployment in the former, and continued underdevelopment . . . in the latter. But . . . the issue is not whether the corporations act morally or not. In the process of capital expansion the corporations are not free agents but are compelled to adapt to the new conditions . . . If one does not want to accept these consequences . . . one should not just put the responsibility for undesirable consequences on the corporations but rather seek to understand the structure and the rationality which governs the social formation within which the corporations, in principle, can only act as they do. Alternative courses of development are thus a question of an alternative mode of production or of an alternative form of society.

APPENDIX

100 Australian Companies in Southeast Asia and the Pacific

There are in Southeast Asia and the Pacific approximately 1000 subsidiaries and agencies of Australian or Australian-based companies. The following list gives the names of 100 of the largest ones.

<i>Local company</i>	<i>Parent or associated company in Australia</i>	<i>Activities</i>
INDONESIA (PT = Peseroan Terbatas = Ltd)		
1. Associated Australian Oil-fields and Richer Drilling Pty Ltd	Associated Australian Oilfield (AAO)	Oil drilling and exploration
2. Australian Indonesian Consultants	Australian Indonesian Consultants	Architecture, engineering, townplanning, property valuation
3. Bank of New South Wales	Bank of New South Wales	Banking
4. PT BHP Indonesia	The Broken Hill Proprietary Co. Ltd	Tin mining and mineral exploration
5. PT BRC Lysaght Indonesia	John Lysaght (Aust.) Ltd	Manufactures of steel, etc.
6. PT Dairyville	Peter's Ice Cream	Ice cream manufacturers
7. PT Diamond Cold Storage	AMATIL (Allied Manufacturing and Trading Industries Ltd)	Cold storage, manufacturers of dry ice, ice cream and ice confectionery
8. PT Harflex Indonesia	James Hardie Asbestos Ltd	Manufacturers of asbestos cement building materials
9. PT Impact 5 International	Impact International Pty Ltd	Collapsible tubes, zinc battery cans
10. PT Indo-Extrusion	Comalco Ltd	Aluminium extrusion
11. PT Indomilk	Australian Dairy Board/Asia Dairies	Sweetened and reconstituted milk, recombined butter, ice cream mix
12. PT IGI (Industrial Gases of Indonesia)	CIG (The Commonwealth Industrial Gases)	Industrial gases
13. PT Jaya Ready Mix	CSR-BMI (Colonial Sugar Refining Co.—Blue Metal Industrial Ltd)	Readymix concrete
14. PT Kangar Consolidated Industries	ACI (Australian Consolidated Industries)	Glass containers and bottles

<i>Local company</i>	<i>Parent or associated company in Australia</i>	<i>Activities</i>
15. PT Kiwi Indonesia	Kiwi International Pty	Shoe polish, floor polish, general household cleaning products, insecticides
16. PT Leighton Indonesia	Leighton Contractors Pty Ltd	Contractors
17. PT Monier Indonesia	Concrete Industries (Monier) Ltd	Concrete blocks and tiles
18. National Bank of Australasia	National Bank of Australasia	Banking
19. PT Nicholas Laboratories Indonesia	Nicholas Pty Ltd	Pharmaceuticals
20. Qantas Airways Ltd	Qantas Airways Ltd	Airline service
21. PT Rheem Indonesia	Rheem Australia Pty Ltd	Manufacturer of drums and pails
22. Repco International	Repco Ltd	Automotive parts and equipment
23. PT Sidney Cooke Indonesia	Sidney Cooke Chemicals	Manufacturer of printing ink
24. PT Stormline Indonesia	Guthrie Australia, Chris, Turner & Scott	Metal fabricated building materials (louvres)
25. PT Tropic Endeavour Indonesia	Endeavour Co. Ltd	General mineral exploration

MALAYSIA

(Sdn Bhd = Sendirian Berhad = Ltd)

26. Ansell International	Dunlop Australia Ltd	Manufacturer of latex rubber gloves
27. Malaysian Carbon Sdn Bhd	Australian Carbon Black Pty Ltd	Production of blacks suitable for the Malaysian rubber goods manufacturing industry.
28. Nylex Malaysia Sdn Bhd	Nylex Corporation Ltd	Nylon, etc.

<i>Local company</i>	<i>Parent or associated company in Australia</i>	<i>Activities</i>
THE PHILIPPINES		
29. AMCO Manufacturing (Philippines) Inc.	AMCO Pty Ltd	Denim jeans and jackets
30. Ginofarini Inc.	Ginofarini Pty Ltd	Garments
SINGAPORE		
31. Adhesives (Far East) Pte Ltd	Davis Fuller Adhesives Pty Ltd	Adhesives
32. Associated Merchant Bank Ltd	Associated Securities Ltd	Merchant bankers
33. Australian Chemicals Holdings	Australian Chemicals Holdings	Chemical and engineering manufactures
34. BRC Weldmesh (Southeast Asia) Pte Ltd	ARC Industries Ltd	Welded wire fabric
35. Broken Hill Pte Ltd	The Broken Hill Proprietary Co. Ltd	Iron and steel products
36. Credit Corporation (Singapore) Ltd	Australian Guarantee Corporation Ltd	Finance
37. Dimet (Singapore) Pte Ltd	Dimet Corrosion Pty Ltd	Industrial protectives
38. Ferro Cement Marine (Singapore) Pte Ltd	—	Builders and designers of ferro cement boats
39. Foxboro Pte Ltd	Foxboro Pty Ltd	Industrial control instruments
40. Gillette (Singapore) Pte Ltd	Gillette Australia Pty Ltd	Razor blades
41. Gollin (Southeast Asia) Pte Ltd	Gollin Ltd	General merchants
42. Hardie Trading (Services) Pte	Hardie Trading Ltd	Laundry and textile machines
43. Hume Industries (Far East) Ltd	Humes Ltd	Liquified petroleum gas cylinders, steel structures and piping, asbestos cement pipes and beams
44. Iplex Asia Pte Ltd	Iplex Plastics Industries Pty Ltd	Pipes and fittings
45. Kelley & Lewis Pte Ltd	Kelly & Lewis Pty Ltd	Pumps
46. Kiwi International (Southeast Asia) Pte Ltd	Kiwi International Pty	Polishes and waxes

<i>Local company</i>	<i>Parent or associated company in Australia</i>	<i>Activities</i>
47. Kookaburra Paper Products Pte Ltd	Kookaburra Industries Pty Ltd	Paper products
48. John Lysaght (Southeast Asia) Pte Ltd	John Lysaght (Aust.) Ltd	Steel floor, roof and wall cladding
49. Marine Charters (Singapore) Pte Ltd	Lombardo Marine Group Pty Ltd	Boat owners and charters
50. Norton IAC Pte Ltd	Norton Australia Pty Ltd	Cellulose tapes
51. Patience & Nicholson (Singapore) Pte Ltd	Patience & Nicholson Ltd	High speed drills, files and rasps
52. Pillar Naco (Singapore) Ltd	RTZ Pillar Pacific Pty Ltd	Aluminium and steel louvres and frames
53. Quikasair Pte Ltd	Thomas Nationwide Transport Ltd	Transport
54. Reed Consolidated Industries Asia Pte Ltd	Reed Consolidated Industries Ltd	Transport operation services
55. Rheem Hume Pte Ltd	Humes Ltd	Drums, hot water
56. Singapore International Shipping Agency Pte Ltd	Sims Consolidated Ltd	Shipping
57. Sola Optical Singapore Pte Ltd	Sola International Pty Ltd	Plastic optical lenses
58. Southeast Asia Development Corporation	Development Finance Corporation Ltd	Finance and management services
59. Thiess-Petrosa International Pte Ltd	Thiess Holdings Ltd	Construction contractors
60. Wormald International (Singapore) Pte Ltd	Wormald International Pty Ltd	Fire protecting systems

THAILAND

61. Asoke-Presha Engineering Co. Ltd	Presha Engineering Pty Ltd	Steam generators and water tube boilers
62. CIT (Carpets International Thailand) Ltd	Pacific Carpets International Pty Ltd	Carpets
63. TGI (Thai Glass Industries) Ltd	ACI (Australian Consolidated Industries) Ltd	Glass and container pace-setters
64. Thai Industrial Forgings Ltd	ANI (Australian National Industries) Ltd	Iron industry
65. Thanakorn Aluminium (Loxco-Comalco) Ltd	Comalco Ltd	Aluminium industry

<i>Local company</i>	<i>Parent or associated company in Australia</i>	<i>Activities</i>
PAPUA NEW GUINEA		
66. Angco New Guinea Pty Ltd	Angco Australia Pty Ltd	Exporter of coffee, cocoa, tea and rubber
67. ANZ Bank	ANZ Bank	Banking
68. ASP (New Guinea) Pty Ltd	ASP Dryers Pty Ltd	Copra and cocoa dryers
69. Bank of New South Wales	Bank of New South Wales	Banking
70. Bank of South Pacific	National Bank of Australasia	Banking
71. Boroko Motors Ltd	W.R. Carpenter Pty Ltd	Motor car dealer
72. Brewo Motors Pty Ltd	—	Motor car dealer
73. Broken Hill Proprietary Co. Ltd	The Broken Hill Proprietary Co. Ltd	Mining
74. Burns Philp (New Guinea) Ltd	Burns Philip & Co. Ltd	Shipping, commerce, industry
75. W.R. Carpenter (PNG) Ltd	W.R. Carpenter Pty Ltd	Shipping, commerce, industry
76. W.R. Carpenter Estates Ltd	W.R. Carpenter Pty Ltd	Plantations, commerce, property
77. Dulux New Guinea Pty Ltd	—	Paint, enamels, adhesives
78. Dunlop (PNG) Pty Ltd	Dunlop Australia Ltd	Commerce
79. Gillespie Bros (PNG) Pty Ltd	Gillespie Bros. Pty Ltd	Shipping, commerce
80. Gollin-Cil (New Guinea) Pty	Gollin Ltd	Plantations, export of coffee
81. S.A. Heath & Co. Ltd	VM Diesels Australia Pty Ltd	Engines, centrifugal pumps
82. Hooker (PNG) Development Pty Ltd	L.J. Hooker Ltd	Estates, property
83. John Lysaght (PNG) Pty Ltd	John Lysaght (Aust.) Ltd	Commerce, industry
84. Mauri Bros & Thompson (PNG) Ltd	Mauri Bros & Thompson Ltd	Commerce
85. Panaga Airways Ltd	—	Airline
86. Papua New Guinea Brewery Pty Ltd	San Miguel and Swan Holdings Ltd	Brewery
87. Plantation Supply & Service Ltd	VM Diesels Australia Pty Ltd	Engines, centrifugal pumps

<i>Local company</i>	<i>Parent or associated company in Australia</i>	<i>Activities</i>
88. Queensland Insurance (PNG) Ltd	Queensland Insurance Ltd	Insurance
89. Rabaul Metal Industrie Pty Ltd	—	Metal industry
90. Sheet Metal Industries (PNG) Pty Ltd	John Lysaght (Aust.) Ltd	Metal industry
91. South Pacific Brewery Ltd	—	Brewery
92. Southern Pacific Insurance (PNG) Ltd	—	Insurance
93. Steamships Trading Co. (New Guinea) Ltd	Steamships Trading Co. Ltd	Commerce, shipping, plantations
94. Steelcon (New Guinea) Pty Ltd	Steelcon & Co. Pty Ltd	Industry
95. S.E. Tatham (PNG) Pty Ltd	S.E. Tatham & Co. Pty Ltd	Shipping, commerce
FIJI		
96. Burns Philp (South Sea) Co.	Burns Philp & Co. Ltd	Shipping, commerce
97. Carlton Brewery Fiji Ltd	W.R. Carpenter Pty Ltd	Brewery
98. W.R. Carpenter (South Pacific) Ltd	W.R. Carpenter Pty Ltd	Shipping, commerce
99. Mainline-Millers Construction Fiji Ltd	W.R. Carpenter Pty Ltd	Building
100. S.E. Tatham (Fiji) Ltd	S.E. Tatham & Co. Pty Ltd	Shipping, commerce

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10

UNEMPLOYMENT AND CLASS CONFLICT IN AUSTRALIA: 1978-79-?

KEITH WINDSCHUTTLE

UNEMPLOYMENT AND HIDDEN UNEMPLOYMENT

THE TOTAL OF 493 516 people registered as unemployed with the Commonwealth Employment Service in January 1979 marked the fifth successive year that unemployment has increased in Australia. Even during the short bursts of economic recovery in 1976 and 1978-79, unemployment did not decline but simply grew at a less rapid pace. The Australian total at the start of 1979 was the highest in our history, surpassing the 480 000 jobless recorded in the 1933 census just after the peak of the Great Depression.¹

Unemployment rates were highest among youth, with 23 per cent of teenagers in the workforce out of work in January 1979. Women in the 15-19 years age group had significantly higher jobless rates (25.1 per cent) than young men of the same age (21.3 per cent). This concentration among youth, however, should not blind us to the fact that the great majority of the unemployed are not teenagers. In March 1979, there were 279 800 people 20 years and over out of work compared to 145 200 teenagers. Further, the average duration of adult male unemployment is very long. In March 1979, the overall average duration of unemployment was 27 weeks (more than six months) but for the 104 800 males aged over 25 years, the average time spent jobless was 36.7 weeks or nearly nine months.

Moreover, the official statistics for 'unemployment' considerably underestimate the real total of those who want work but do not find it. A little-publicised survey by the Australian Bureau of Statistics found that in March 1979 there were 594 600 people who were unemployed but had given up the search for work or who wanted work but could not get it for a variety of reasons (no jobs in their locality, too old, too young, unqualified, unsuitable hours or personal and family difficulties).² These people were not actively seeking work when the ABS survey was taken, so did not count as officially unemployed. If you add their number to those defined as unemployed in March, the total comes to 1 019 600 or 14 per cent of the potential work-

force. These hidden unemployed have grown substantially in number since May 1977 when a previous survey found they totalled 411 900.³ There was a 44 per cent increase in hidden unemployment in just two years.

Thus the official unemployment statistics now measure only a minority of those people who are denied work. A rapidly growing number of people are giving up the search for jobs altogether as they accommodate themselves to a permanently depressed labour market. One million Australians who want jobs but cannot get them represent a massive wastage of human potential.

The collapse of the labour market has not been confined to Australia, but has been experienced in all the advanced capitalist countries. Except for the United States and Japan, unemployment levels in most O.E.C.D. countries have continued to grow despite the mild recovery evident since the slump of 1974-75. In 1978, there were 17 million unemployed in the O.E.C.D. countries—over 6 million in the U.S.A., 1½ million each in Britain and Italy, and more than 1 million each in Japan, West Germany, France and Spain.

It is plain from these statistics that western capitalism has entered a long economic trough whose end is not in sight. Indeed, by mid-1979 the position was seriously deteriorating. After five years of high unemployment, a new recession emerged in the U.S.A. Despite the attempt of President Carter's economic advisor Lyle Gramley to blame it on a lorry drivers' strike and the increase in oil prices,⁴ the new recession clearly is part of a process that defies explanation in terms of any short-term adversity. The condition of western capitalism is best understood in the light of Ernest Mandel's revival of Kondratieff long wave theory.⁵ We have now entered the downward phase of a 50 year cycle which began during the Second World War, and which produced a long boom for the next 25 years. In the late 1960s, the tide turned. The 1970s were characterised by medium-term to long-term growth rates 50 per cent inferior to those of the 1950s and 1960s. If the pattern of long waves evident from the 18th to the early 20th-centuries is maintained, the present long trough will continue downward until the mid-1990s. The more familiar short-term business cycle of from four to seven years will still be superimposed on this pattern and, in these cases, immediate developments such as oil price rises will certainly affect economic development. But the long-term trough derives not from such changes but from the logic of the capitalist system itself, particularly from the tendency for the rate of profit to fall which Marx identified in Volume Three of *Capital*.

The main function that such long-term troughs serve is to knock out the old inefficient industries from an economy, reduce labour's share of national income and thus pave the way for a new, more profitable corporate base from which recovery can start anew. But the inevitable consequence of this process is long-term high unemployment as people discarded from old industries find their skills and experience are not wanted by the new. Unemployment also plays a necessary role in disciplining those who keep their jobs. Strike action has been seriously impaired in previous recessions by the fear of unemployment among workers, or by the actual presence of the 'reserve army of unemployed' willing to undercut existing wages and

conditions. Unemployment is thus not an aberration caused by mismanagement of the economy, nor a temporary phenomenon due to the bad luck of an economic slump. It is a natural and familiar product of the logic of capitalist development.

Economic recessions throw into sharp relief the underlying dynamic of capitalism—the conflict between employers as a class and workers as a class. Lean times shift the balance of this class struggle decidedly to the advantage of employers. However, the result is a dangerous balancing act in which the trick for employers is to take advantage of their upper hand without pushing things so far that the deprivation they cause results in disorder or rebellion. In my book *Unemployment*⁶ I recorded some of the devastation that recession has wreaked among the culture, psychology and health of its victims, and the way social institutions that serve employers' interests particularly the state under the Fraser government, and the mass media have helped maintain social control. That book was largely completed in mid-1978 and a number of important developments in this area emerged in the subsequent twelve months. The present essay is a report on them. It is the story of a two-sided offensive, one from employers and one from the state, against the interests, power and living standards of the working class.

The employers' offensive

The sector subject to the most structural change in the last five years has been manufacturing. By the end of 1978, manufacturing was offering 212 200 fewer jobs than it had done in 1974. Building and construction also declined, having 70 900 fewer jobs in 1978 than in 1975. Even the boom area of mining showed an absolute decline, shedding 3700 jobs in the same period. In fact, in one year, 1977-78, capital investment in mining increased no less than 56 per cent but total employment that year declined by 3.6 per cent. The main growth area was the tertiary or services sector which added 250 000 additional jobs between 1974 and 1979. Overall, there has been a loss of 85 400 jobs since the recession began towards the end of 1974.⁷ This absolute loss in the number of jobs contrasts with the need to increase employment opportunities each year if all the newcomers to the labour market from the schools, colleges and universities are to find work.

Many people regard unemployment as the product of economic forces that hit employers and workers with equal severity. Firms go broke, owners become bankrupt, shareholders lose their investment and workers lose their jobs, runs the common assumption. In many cases this is, no doubt, true but what should be emphasised is that the great bulk of unemployment is not caused this way, but rather is the result of positive, deliberate steps taken by employers. There are two distinct means by which investment decisions made by profitable companies in the last five years have generated unemployment. Each is examined below in turn.

Technology and recession

A joint submission to the Fraser Government's inquiry into technological change from the the Australian Council of Trade Unions (A.C.T.U.), the

Council of Australian Government Employee Organisations (C.A.G.E.O.) and the Australian Council of Salaried and Professional Associations (A.C.S.P.A.) claimed in 1979 that over 1 800 000 jobs would be lost through automation by 1984. The prediction was greeted with a chorus of dissent from a range of conservative sources. The director of the National Employers Industrial Council, George Polites, said technology would not worsen unemployment and that the unions were wrong to assume that 'technology only destroys jobs and does not create them.'⁸ The Minister for Productivity, Ian MacPhee, said technology created jobs and that failure to automate would be the main cause of future unemployment. 'New technology will play a vital role in helping to create new industries, redevelop existing industries and thereby enhance employment opportunities', MacPhee said.⁹ Economists connected with the IMPACT project (a joint venture of Commonwealth government agencies and university econometricians) agreed that many jobs would be displaced if the economy remained at its present output level but expansion through technological innovation would boost existing industries, create new jobs and increase living standards. Commending the IMPACT study to his readers, the economics editor of the *Australian Financial Review*, P.P. McGuinness, said it showed how 'stupid' was the 'fashionable Luddism of the present day'.¹⁰

The responses cited here all acknowledge that technology displaces labour but they believe the phenomenon is a temporary one, as those who lose jobs will find new skills in new industries. They assume that the history of technological change has produced the same result ever since the industrial revolution, and that there has been a fairly linear growth in progress (measured by higher productivity) over that time. What these assumptions ignore is the different roles that technology performs, on the one hand, in times of long-term growth and, on the other hand, in times of long-term decline. In periods of long-term economic growth, such as Australia and other advanced capitalist countries went through in the 1950s and 1960s, the technology that firms seek is that which increases their output or which updates or modernises their products. Technological innovation is directed at market expansion. In periods of long-term stagnation, however, market demand grows less rapidly and the profitability of companies is determined more by their ability to cut labour costs and increase labour productivity. The technology that companies want in this phase is directed at labour displacement.

There is, of course, a fair degree of overlap in this process. Labour-displacing technology, particularly in the form of main frame computers, was introduced in the 1950s and 1960s. But overall, the tendency described above is a strong one. In the slump of the 1930s, the main innovations were in the production process rather than in the nature of the products.¹¹ In Australia, the present recession has recorded the same pattern. In 1975 there was a total of 3000 computers installed in Australia. By the end of 1978, the number had grown to more than 11 000. The result was the abolition of 150 000 low-grade clerical jobs and the creation of 24 000 new jobs in the highly skilled areas of systems analysis and programming.¹² It might be

argued that this rapid rate of growth derives simply from the smaller size and cheaper prices of computers in recent years. However, Australian businesses increased their total spending on computers at the same time by equally significant amounts. From \$100 million a year in 1973, Australian computer sales in 1979 were calculated to be worth \$580 million and, by 1981, industry estimates put sales at \$1 billion a year.¹³ In other words, employers generally have been prepared to pay more for the labour-saving advantages they have gained.

Survey evidence confirms this thesis. Management consultant W.D. Scott & Co., in June 1979, asked 252 senior managers why they introduced new technology. Some 33 per cent said the most influential reason was cost reduction and 25 per cent named increased productivity. Only 9 per cent were mostly influenced by domestic market opportunities, a mere 2 per cent by export opportunities, and 9 per cent by new product development. Some 49 per cent of these executives said technology had reduced their workforce, while only 16 per cent said it had increased it. Over the next five years, 42 per cent expected further decline in the number of their employees due to technology while only 20 per cent thought it would bring about an increase.¹⁴

This survey backs up an earlier study done for the Department of Industry and Commerce which found in 1977: 'The bulk of capital investment since 1974 has been directed at labour replacement with little investment in increments to capacity'.¹⁵ Apart from this general survey evidence, the history of the introduction of individual technologies paints the same picture. For instance, IBM Australia began marketing a typewriter with a magnetic tape drive and memory in April 1965. But it was not until 1976 that word processors (with magnetic discs plus a video display) really took off in the market place.

Technology, then, should not be regarded as something neutral. It is not something that is put to use whenever it springs forth from the genius of scientists or engineers. Technology is *called up* by companies when they need it, and on their terms. The people who design automated equipment are not pure researchers dedicated to the amelioration of humanity. They get their instructions from the market for their products. In periods of economic stagnation their major design effort goes towards destroying the jobs of others because that is what the buyers of capital equipment want.

The actual details of the technology that has displaced labour and which will do so increasingly in the future have been well documented in recent times.¹⁶ Radical scholarship has demonstrated how automation has been also used to enhance management control of the work process, to divide the workforce between those who understand and control the new systems and those who operate, or increasingly, simply watch machines, and to destroy the skills and responsibilities of those in the lower half of the labour hierarchy.¹⁷ It is worth focussing here on some of the areas where technology will displace workers in the near future.

Although manufacturing has been the major area of job loss in the past five years, the potential for further displacement is considerable. Much of the penetration of manufacturing by computers has occurred in the office of

the manufacturer where it has taken over billing, accounting and payroll functions, and in white collar jobs associated with production, such as process recorders and tally clerks.¹⁸ However, the real impact on manufacturing will occur with more widespread use of 'smart' machines controlled by microprocessors and following the introduction of industrial robots. By mid-1979, the number of robots installed in Australia was small—between 30 and 40, supplied mainly by Unimate. They were used for functions such as spot welding, handling die castings, metal pourings, forging, machine and press loading, and palletising.¹⁹ The price of robots is now so low that they are extremely attractive to companies. They sell for between \$35 000 and \$100 000 and each one can do the work of five people. This means even the most expensive pays for itself in less than one year's operation. With a minimum of mechanical parts, they are extremely reliable with an expected life of 25 years and at least 98 per cent 'uptime'. They are extremely flexible, thanks to the microprocessor. Unlike many conventional machine tools, the robot is not scrapped if the firm stops making one particular product. The robot is easily re-programmed and switched to other jobs. Robots are still in an early stage of development. The next stage will give them sensory control, allowing them to grasp objects. Within three years, generation two robots, incorporating eye-hand co-ordination, will be on the market, eliminating the need for much semi-skilled labour. Generation three robots will have what the manufacturers call factory intelligence, with both hand-eye co-ordination and an artificial intelligence that will allow them to solve problems in the factory.

It is not hard to see why employers will favour robots over people. They don't take lunch or tea breaks. They work 24 hours a day without getting tired. They don't have holidays or weekends off or 'sickies'. They don't join unions and go on strike. They have no interest in wages or superannuation. They learn new jobs within minutes and always do them correctly. They never complain about heat, dust or fumes and never get hurt on the job. They don't attract workers' compensation, insurance, or payroll tax. The A.C.T.U., C.A.G.E.O. and A.C.S.P.A. submission to the Myers Inquiry estimated that smart machines would, by 1984, eliminate the jobs of 1 398 230 process workers. This would greatly accelerate the trend of the 1970s which saw manufacturing's share of the workforce decline from 26.5 per cent in 1971 to 21.8 per cent in 1977.²⁰

Manufacturing is by no means the only area in which blue collar jobs will decline. Just as the early 1970s saw the waterside labour force decline by about one-third through containerisation, the early 1980s will see many of the jobs of storemen disappear. In 1979, Vulcan Australia Ltd installed the latest in computerised warehouses. The firm has a high-rise warehouse the size of an eight-storey building. The picking and delivery of stock to customers is done automatically by four computer-controlled driverless stacker cranes. The warehouse has storage capacity for 10 000 pallets stacked 14 high in a racking which is in a block 150 m long by 20 m wide. In response to computer instructions, the cranes stack or retrieve appliances in the racking, covering a distance of 126 m a minute, with a capacity of lifting

1.3 tonnes at a time. The \$3.5 million warehouse was installed by the Japanese firm Ishikawajima-Harima Heavy Industries Co. Ltd which is one of three companies now competing in this field. The advantages of such warehouses over those manned by people are enormous. A customer arriving at the warehouse with an order will have the appliance on his truck within five minutes at the outside.²¹ This technology will centralise warehousing in this country, giving a considerable competitive edge to manufacturers and distributors offering superior delivery services. Already an automated warehouse less sophisticated than Vulcan's has made Davids Holdings the dominant distributor for supermarkets in New South Wales. The overall result is fewer, bigger warehouses and dramatic reductions in the staff needed to operate them.

The impact of technology on the labour process in the banking industry has been explored in the model study by Ann Game and Rosemary Pringle, which shows the way that the sexual division of labour has been used to divide and exploit banking workers.²² To date, the major form of bank automation has been the traditional main frame computer which has given considerable labour savings to banks in the areas of ledger posting and cheque sorting. The full potential of automation has yet to be realised in banking, however. Automated bank tellers, which have been used by some building societies since 1977, will be introduced by the Commonwealth Bank and some other banks in 1980. They will accept deposits, allow cash withdrawals, pay loan accounts or transfer money from savings to trading accounts 24 hours a day, seven days a week. In 1982, when about 300 automatic tellers are scheduled to be in operation, they can be combined with Bankcard to pay bills or buy goods without the need for cash or cheques.

Banks already have an electronic funds-transfer system, Cemtex, under which, each day, they swap the magnetic tapes on which cheque transactions are recorded. This system will be extended in the 1980s so that funds are transferred electronically from one computer to another. The combination of Bankcard and electronic funds transfer has the potential to make the overdraft obsolete. Instead of an overdrawn account, the amount concerned will be automatically added to the customer's Bankcard where it attracts 18 per cent interest. 'It really amounts', Game and Pringle have observed, 'to quick service in to get your non-interest bearing deposit, and quick service around the corner to get your high-interest loan'.²³ These developments give the potential for substantial changes to the retail side of banking. Bank telling and handling overdrafts are two areas that are now labour intensive. There will not only be fewer of these jobs available but branches will assume different functions. Regional or area branches will handle large transactions such as major loans while small local branches, and the management structure within them, will be replaced by automated tellers. Banks can be set up in supermarkets, hotels, airports or places of entertainment. This will mean less work for builders who once constructed or renovated branches, and for postmen as there will be less need to send accounts through the mail. In the United States, as a result of these developments, estimates put the mail loss at 9 per cent.²⁴

It should be emphasised that the technology described here has yet to be introduced in Australia. Many of the systems are in operation in the United States. Should the Commonwealth Government relax some of its restrictions on the entry of foreign banks, the introduction of automation would thus accelerate. These developments would come at a time when the full impact of main frame computers is now beginning to bite. In 1977-78, for instance, the ANZ Bank group revealed that it had a total staff decline of 445.²⁵ Banking unions have shown that, between 1975 and 1979, 51.8 per cent fewer male school leavers and 45.7 per cent fewer female school leavers were recruited into the industry.²⁶ With a workforce of 75 000, banking is one of the major Australian employers of white collar workers. The technology that will be introduced in the next five years will inevitably see this workforce show an absolute decline in numbers.

A familiar response to arguments like the above is to acknowledge that traditional employment areas will deteriorate, but to claim that new industries are nevertheless created at the same time. The Crawford committee set up by the Fraser government to inquire into structural adjustment in manufacturing industry, urged this as the solution to the decline of manufacturing in Australia. To launch the economy on a 'new growth path' we should 'specialise in capital and skill-intensive products destined for world markets'.²⁷ What are the prospects of this concept being realised?

In the most obvious of the growth areas, the computer industry itself, the future is not particularly promising. Import competition largely closed down the Australian electronics industry in domestic appliances in 1972. Since then a small number of firms has produced local computer peripheral devices, particularly video display terminals, but they remain on a comparatively small scale. For a few years, the electronics industry felt it had a future in the manufacture of silicon chips. The strategy was to make chips designed for special purposes, to fill gaps in the market that the big American manufacturers did not find profitable enough to fill. This was possible while chips were at the stage of each containing up to 250 000 transistors or 'bits', and Amalgamated Wireless (Australasia) set up an electronics company to develop an Australian chip. This concept followed the example of the small, highly innovative American firms which had originally developed the micro-processor or chip, and reckoned without the big research guns of the traditional main frame manufacturers being trained on this field. In July 1979, IBM stunned the computer world by announcing a magnetic-bubble memory device much smaller than any previously announced. While industry pundits were predicting it would take until the mid-1980s to develop a 5-million-bit chip, IBM's magnetic bubble boasted a capacity of 25 million bits of information in an area one inch square, or four million bits per square centimetre.²⁸ (Magnetic bubbles are tiny circular regions of reverse magnetisation formed in thin-film garnet materials in the presence of an external magnetic field. The presence or absence of a bubble can be used to represent the binary numbers of 'one' and 'zero' that make up computer language). Australian computer engineers will find it extremely difficult to enter the big new competitive game opened up by the development of magnetic-bubble memories.

In the peripherals market, the same trend is evident and giant corporations are entering the field in a big way. Concerned at numerous predictions that it would be eclipsed in the 1980s by IBM as the number one corporation in *Fortune* magazine's Top 100, Exxon entered the enemy's territory in 1979. It announced the Qyx 'intelligent typewriter', which was designed to out-compete the IBM Selectric electric self-correcting typewriter at the bottom end of the sophisticated typewriter market, and to make Exxon a major force in the word processing market. Qyx is available in five models, each of which may be built up from the base model. It is a desk-top typewriter that can store and edit text, display text and send letters by data communication lines. Its prices started at less than \$2000 (compared to \$1400 for the IBM Selectric and around \$6000 for the cheapest word processor).²⁹ The newly formed Exxon Information Systems has a range of other electronic communication devices. Whether IBM would respond to this threat to its office products division was uncertain at the time of writing; but one conclusion will inevitably follow—small Australian firms trying to cut a niche in the electronic peripherals market will find increasing competition from the industry giants who have research and development funds undreamed of by the locals.

Further, 'intelligent' typewriters extend the market for word processors to organisations that could not afford the more expensive models. The sort of labour saving achieved by large firms—such as the AMP Society's reduction of typing staff by 45 per cent³⁰—is now available to many smaller companies with repetitive typing tasks. This will erode enormously the employment opportunities of all those young women seeking traditional typist-clerk jobs.

The Crawford committee argued that, because of the comparatively high levels of education in Australia, we should be capable of becoming technological innovators. However, in June 1979, the Senate standing committee on science and the environment released a report titled 'Industrial Research and Development in Australia' which demonstrated how backward Australian research had become. Australian effort in terms of manpower engaged in R&D had declined since 1973, the report said. Australian industry had lost entrepreneurial drive, and promising technology had been left to languish undeveloped or exploited to Australia's detriment overseas. Australian entrepreneurs were generally defensive, exhibiting considerable dependence on foreign developments.

Of 39 000 manufacturing firms in Australia, only 2000 performed research, the Senate committee found. Only 2000 of the 11 000 patents registered in Australia in 1978 were locally inspired and, for 1974-75, Australian receipts from royalties and copyrights totalled only \$9 million compared with the \$75 million paid out for these overseas. While the military-space-industrial corporate sector was responsible for the original development of much of the labour-saving technology now in use, including the microprocessor, Australian defence expenditure produced few local spin-offs. Unlike many countries who fulfill defence contracts locally, most Australian defence equipment was bought abroad. Only 7 per cent (about \$5.5 million) of Australian defence R&D was contracted to domestic civilian industry, the Senate committee found.³¹

There is one area in the computer industry, however, where Australia is something of a world leader. This is in the development of computer languages. The Australian-developed language, POBOL, was marketed to customers in 1979 and is expected to gain international sales. Its marketing agent, Data and Professional Computer Services, expects it to earn between \$4 and \$20 million in sales. As a revenue earner, POBOL will thus have a modest success but, rather than a development that will increase local employment opportunities, it will have the opposite effect. Its development team comprised two Melbourne men. Its marketers may employ one or two additional salesmen. But POBOL is one of the vanguard of 'natural languages' that will make their impact in the 1980s. Natural languages are the latest stage in the evolution of computer programme. The first computer programmes were coded in binary arithmetic, a tedious time-consuming task. Computer languages such as Fortran and Cobol organised these markings into languages. Then came software packages which gave users all the instructions for the tasks required of the computer. Natural languages like POBOL mean that users can communicate with computers in non-technical terms. This means that anyone with an understanding of the operation involved, such as accounting, can programme computers without special training. This will mean that most specialist programmers and systems analysts will find they are no longer employable. All but the most highly skilled programmers who will be needed for some software packages will become redundant. The computer industry itself will have eliminated most of its own workforce. There will, of course, be an expansion of jobs in those few countries that design and manufacture computers. Natural languages, coupled with the microprocessor, will make computers accessible to all sectors of business and industry, no matter how small. The future demand for computers will make the present sales volume seem minute. The chances are, however, that this growth area will completely pass Australia by. The only locals working in the computer industry will be those acting as sales staff for IBM, Honeywell, NCR and the other giants of the electronics industry.

Asia's 'model industrial communities'

In one week in August 1979 two Sydney manufacturers announced they were closing down. Firestone Australia decided to close down its Australian tyre-making operations and gave notice to 700 workers in its Auburn plant in Sydney's western suburbs. The Whitmont shirt-making company announced two days later that it was closing down its factory at Blacktown, also in the western suburbs, and laying off 120 workers. Whitmont would confine its future manufacturing to its Melbourne plant. Both firms blamed their decisions on the flood of cheap imports from Asia that undercut Australian-made products. Whitmont's general manager, Mr Norton Whitmont, commented: 'While our garments are more than competitive in quality and even quantity, we simply cannot compete with the cheap Asian labour'.³² The implication of this increasingly common argument is that the responsibility for the loss of jobs lies with workers—with Australians who demand too much and with Asians who will work for extremely low wages.

However, when the conditions are examined under which this 'flood of cheap imports' is produced a different picture emerges; this is done by Ernst Utrecht in the ninth essay in this volume, in some details.³³ Here it will suffice to note that, in 1979, there were 80 of these export-processing zones or 'free trade zones' operating in the Asian region, with another 40 projected.³⁴ By manufacturing solely for exports, they provide foreign exchange earnings to service the huge capital and balance of trade debts these countries have built up. The firms that set up in these zones are invariably transnational corporations which have the latest technology available to them. As outlined earlier, the new electronic technology has eliminated many of the traditional skills in manufacturing. This means that these corporations are primarily interested in the price of labour, not its degree of skill. Thus, these newly industrialised areas of the Third World offer a triple threat to manufacturing industry in Australia and other traditional advanced industrial countries. They have cheaper, more docile labour, they give huge tax concessions and government incentives and they encourage the installation of the latest labour-displacing electronic technology.

Moreover, the advantages these regions have over older industrial economies are likely to persist for some time. Labour supplies in these overpopulated areas are being continually supplemented by the commercialisation of agriculture in their hinterlands ('the green revolution') which is driving peasants off the land and into the slums on the periphery of the major cities. Official unemployment rates in Third World cities need to be read with a critical eye, as definitions of 'employment' are usually designed to provide cosmetic statistics rather than reveal reality. For instance, in Indonesia, a 1976 survey defined as 'employed' anyone who had worked for one hour in the preceding week. This gave the impression that 97 per cent of the population was gainfully employed. However, a more recent study by the International Labour Organisation which took into account discouraged workers, part-time employed workers and temporarily unemployed workers, concluded that no less than 33 per cent of the workforce could be considered full-time equivalent unemployed.³⁵

The attractions for business of the free trade zones of Asia (plus the growing number of their equivalents in Central and South America and Africa) place some considerable obstacles in the way of the Crawford report strategy. Those firms that do use their ingenuity to develop products with growing local and overseas markets will find the magnet of off-shore operation very hard to resist. Take the case of the recently publicised firm Cheviot Australia. It began as a two-man show making alloy wheels in the mid-1960s in Adelaide. Today it is a leading supplier of alloy wheels to the main vehicle manufacturers in Australia, supplies several brand names (including the Aunger range) for the replacement wheel market, and exports to 20 countries. This is precisely the sort of Cinderella business story that Crawford wanted the government to encourage by various incentives. However, Cheviot's main manufacturing activities are now done in plants in Taiwan and New Zealand, and in mid-1979 it was in the process of establishing a major manufacturing facility in one of the free trade zones of

Malaysia.³⁶ This sort of growth may well make the firm profitable and its principals rich, but it does not go far in solving the problem of providing jobs in manufacturing for Australians.³⁷

There nevertheless remain strong growth areas in manufacturing in this country. The term 'de-industrialisation' which has been used in some recent radical analysis is inaccurate. Manufacturing in Australia is going through a major shift away from the production of whole commodities, towards the semi-processing of the raw materials of the mining and rural industries, particularly the semi-processing of basic metals. In the 1980s, huge investment programmes are due to come on line which will see considerable industrial growth. Almost all of these are closely tied to the minerals sector. In October 1979, a Department of Trade and Resources survey showed plans for resource development in the 1980s which would involve capital expenditure of more than \$16 300 million. Projects valued at \$7045 million were classed by the Department as 'committed', and of these 70 per cent were split between coal and bauxite-alumina and aluminium projects. The Hunter Valley of New South Wales would get \$2500 million of this investment. Four companies, Alumax, Alcan, Pechiney and Nabalco, announced plans to either establish new or expand existing aluminium smelters, after the Wran Labour government of New South Wales had promised almost unlimited supplies of cheap electricity from Hunter Valley coal. The government was already constructing a \$900 million power station at Eraring, and planned to borrow another \$450 million from overseas to build another station at Bayswater near Singleton. This investment represents the biggest minerals and processing rush in our history. Yet the number of jobs to be created is most unimpressive. The Department of Industry and Commerce has listed all the projects together with the number of jobs created by each where this can be estimated. In the production phase the \$16.3 billion investment will create 60 000 jobs. When all the projects come into full operation they will need 44 000 workers to man them. Estimates of the multiplier effect vary from ten additional jobs for every ten in mining, to twenty additional jobs for every ten in manufacturing. A generous estimate would thus put the permanent workforce created by this investment at a total of 120 000. That is less than one quarter of the present number of the unemployed and about the same number of new jobs were need to create each year, anyway, just to prevent the unemployment total from rising. In other words, the massive investment of the 1980s mineral boom will, at best, hold the line on unemployment for one year only.³⁸

Aluminium smelting is one of the industries that best exemplify the results of the philosophy of concentrating 'on what we do best'. This idea, which has powerful support from a wide range of opinion, including the Industries Assistance Commission and the Fairfax press, holds that Australia should abandon the 'over-protected' parts of its manufacturing sector and focus attention on areas where we have natural advantages. Our natural advantages include some of the world's best reserves of coal, aluminium and iron ore. We also have vast open spaces in which to inject the waste and polluting by-products of industries such as aluminium smelting or iron pellet

making, wastes which more closely settled countries like Japan no longer will accommodate. The future for Australian industry thus lies in areas that use large quantities of energy, iron ore or alumina. This future will not only include the semi-processing of minerals but will also see the development of industries that are mineral-intensive and energy-intensive. Hence General-Motors' decision to establish the four-cylinder engine manufacturing plant in Melbourne, as part of its world car plan for the 1980s. Four-cylinder engine manufacture requires cheap energy and cheap iron and steel.

What this direction guarantees, however, is high levels of unemployment for the foreseeable future. We should experience strong economic growth in the coming decade, but because of the narrowing of our economic base, the decline of self-sufficiency in the economy, and our further integration into the world economy, we will be much more vulnerable, and more badly affected by economic downturns in the northern hemisphere. The growth Australia does achieve will leave unemployment high, because it will occur in the capital-intensive rather than the labour-intensive parts of the economy.

Between 1945 and 1975 this country imported 3.3 million migrants from Britain, Europe and the Middle East. Most were wanted as labour for the manufacturing and construction industries. It might be comforting to think that, while jobs are being eliminated in manufacturing where the work has traditionally been dirty, routine, dangerous and unhealthy, these people would find new employment in the one growth area of the services sector. By and large, however, it is not so. Some 70 per cent of manufacturing workers have no formal qualifications (rising to 90 per cent for women in manufacturing), and about half of them are migrants, many of whom have poor English language skills. The jobs that were created in services in the late 1970s were largely available to highly-educated, Australian-born workers. Those displaced from manufacturing have nowhere to go.

The State offensive

Since early 1975, Federal government policy, both Labour and Liberal, has been to support the sort of structural changes described above. In some cases, state policies have positively accelerated these changes, such as the 40 per cent taxation investment allowance introduced by the Fraser government in 1976, which immediately produced a spate of buying of labour-displacing technology. Overall, the general policy has had four aims. First it sought to restore transnational corporations' confidence in Australia after the 'flight of capital' of 1974-75. This involved overturning policies which might be read as hostile to foreign capital, such as Rex Connor's energy policy which would have placed major energy resources in state hands; and bringing inflation down to internationally respectable levels. Second, it involved stopping the expansion of social services generally and cutting back on specific welfare items. Third, it sought to redistribute income away from wages and towards profits by reducing real wages. Fourth, it involved making these changes politically acceptable, that is, selling major cuts in living standards to Australian voters. The Crawford committee on structural adjustment added some specific policy changes of its own, including a

general reduction of tariff protection to expose some of our allegedly over-protected, and thus inefficient, industries to the cold winds of import competition. The Crawford Report also urged a major increase in government export incentives for manufacturers, and a big injection of funding into industrial research and development. Though the last of these measures was the only one seen by the Fraser government to be worth acting upon up to mid-1979,³⁹ this does not mean that Fraser was uncommitted to structural change, as the Fairfax press has regularly charged.⁴⁰ On the contrary, his government has used a whole range of policies and ideologies to further that change. Tariff re-structuring is one of the few areas where it has played a relatively low-key role. The existence of high levels of unemployment permitted many of the weapons wielded by the Fraser government to be more effective, as the following section argues.

Cutting real wages

Real wages fell in Australia in 1978-79. The Consumer Price Index increase of 8.8 per cent for the year was greater than both the adult male index rise of 8.1 per cent and the adult female rise of 7.6 per cent.⁴¹ This marked the fourth successive year that wages had fallen both in absolute terms and in terms of share of national income. *The basic cause has been the fact that wage fixing has become a function of the state through the wage indexation system.* There have clearly been several reasons why workers have accepted this state of affairs. Some have been concerned about job security and have not wanted to risk more militant demands for wage rises. In other cases, union officials have found indexation a convenient excuse for their own inaction. But one important reason has been the success of the argument of the Fraser government that wage increases cause unemployment. Fraser's slogan, 'One man's wage rise is another man's job', has entered the consciousness of many workers. A survey published in 1978 claimed that 70 per cent of workers believed that wage increases meant the loss of a job to someone. The same proportion of those interviewed by the Professor of Marketing at the University of N.S.W., Roger Layton, said they were prepared to forgo another wage increase until the economy 'settles down'.⁴² Another survey found 56 per cent of people would support a wage freeze as a solution to unemployment.⁴³ These sorts of studies ought to be taken with a healthy grain of salt, as they reflect more the answers people think *should* be given, rather than what they will do when confronted with the need to act in real life. But there seems little doubt that Fraser has successfully played upon traditional notions of fair play, and distaste of greed, in the campaign to shift income away from labour and towards capital.

With the release of record unemployment statistics in February 1979, the Minister for Employment and Youth Affairs, Ian Viner, placed the blame on what he claimed were excessive youth wage rates and penalty rates for weekend and night work. 'There can be no denying that the increases in wages for young people in recent years have disadvantaged them in the competition for jobs', Viner said. He also questioned the appropriateness of traditional notions of the five-day Monday to Friday working week. It was

desirable, he said, to have some production and services available seven days a week but high penalty and overtime rates inhibited the creation of additional employment beyond normal hours.⁴⁴ Strong, but little-publicised, evidence exists against both these propositions. Peter Sheehan of Melbourne University's Institute of Applied Economic and Social Research has produced figures to show that youth wages relative to adults remained fairly steady in the great majority of industries from the mid-1960s to the late 1970s. The relative position of young women, in fact, declined in that same period while corresponding to a sharp rise in young female unemployment.⁴⁵ The case against penalty rates received widespread media support in early 1979 and even won the endorsement of one trade union, the Licensed Aircraft Engineers' Association, which offered to waive weekend penalty rates in return for a nine-day fortnight. Retailers echoed Viner's statement on penalty rates, and the executive director of the Sydney Chamber of Commerce, J. David Abba, declared that the sanctity of a weekend was a luxury the unemployed could no longer afford.⁴⁶ The campaign received a fillip when the Minister for Transport, Peter Nixon, and a spokesman for Qantas Airways, promised a tourist-led recovery once penalty rates in hotels and places of entertainment were abandoned. However, the whole thing was stopped in its tracks by the managing director of the motel chain, Travelodge Australia, who claimed the campaign was a smokescreen to hide problems in newly announced air fares policy. He calculated that a \$20 a week cut in penalty rates would only save customers about 50 cents a night. 'I am a capitalist', Travelodge's Roger Kirby declared, 'but I don't think we will get anywhere by turning the screws on bartenders and other workers'.⁴⁷

As well as mounting these ideological attacks, the Federal Government has moved more surreptitiously in its attempts to reduce wages. In January 1979 it began a campaign to increase the supply of skilled labour. At a time when Australian unemployment passed 7 per cent, and when arguments were available from the Williams Inquiry into Education and Training that there were no shortages of tradesmen in Australia, the Immigration Department took newspaper advertisements in West Germany and Holland, calling for applicants from 14 groups including computer programmers, tool-makers, mechanics, plumbers, butchers, bakers and hairdressers. The Minister for Immigration and Ethnic Affairs, Michael MacKellar, defended the move arguing that more tradesmen would lead to more jobs for the labourers they employed.⁴⁸

Cutting the social wage

The social wage comprises goods and services provided by the community through government spending. It includes roads, hospitals, education and social welfare. Since 1975, as Evan Jones has documented,⁴⁹ substantial cutbacks have been made to the social wage in Australia, particularly in the provision of health care. Social welfare expenditure has not suffered the same fate in terms of total amounts outlaid. The number of unemployed has risen and so there has been an increase in those eligible for unemploy-

ment payments. This has pushed these payments to the stage where they are expected to exceed \$1000 million for the 1978-79 year.

I have documented elsewhere the means the Fraser government has employed to deny the dole to those legally entitled to it,⁵⁰ to drive as many people as possible from the unemployed lists and to keep dole payments as low as it could. In July 1979 a renewed attack was made in this direction. New directions were given about the administration of the work test by the Commonwealth Employment Service. The main change was that people who failed the work test, or who became 'voluntarily unemployed without good reason', would have their payments postponed for a minimum of six weeks and a maximum of twelve weeks. In a previous crackdown in March 1976, the Fraser government had reintroduced a Labour-discarded regulation, that the 'voluntary unemployed' have their payments suspended for from two to six weeks. In 1977, the Fraser government had appointed Dr David Myers, the former vice-chancellor of LaTrobe University, to investigate the administration of the dole. One of Myers' strongest criticisms was reserved for the concept of 'voluntary unemployment'. He said those judged to be in this category were treated harshly in many cases.⁵¹ Government inquiries once served one of two purposes: to stall or sweep a difficult issue under the carpet while pretending to do something; or to justify a decision already taken. Perhaps one of the Fraser government's lasting legacies will be its addition of a third reason for an inquiry; to provide recommendations on which the government can do the opposite!

The rest of the measures announced as part of the July 1979 'dole crackdown' package were simple restatements of existing regulations, and appeared more as a public relations exercise than anything else—warning potential malingerers they would be treated harshly, and informing CES officers what was expected of them. The main effort in reining back dole payments came from the Director-General of Social Security, Patrick Lanigan, appointed to the post in 1977 after previously being Deputy Commissioner in the Taxation Office. Lanigan, in March 1979, had given public lectures predicting that spending on social security was likely to increase less rapidly in the future than previously, 'if it increases at all'. The next month he was sending memos throughout his department specifying new methods of pushing the unemployed off the payments lists. In a 'leaked' memorandum, in April, he urged department executives to 'proceed flexibly' to identify classes of cases where payments could be terminated. A large sample of cases should be 'meticulously examined' to enable this, he said. He developed a 12-page questionnaire for use of field officers when checking dole recipients. Questions sought information about a beneficiary's rent, board or mortgage payments, sexual relationships and, according to the journalist who exposed the practice, 'every conceivable question on the beneficiary's past and present. Indeed, the very thoroughness of the operation is likely to attract criticism on the ground that it constitutes a breach of privacy'.⁵²

The result of all this zeal has been to drive considerable numbers of unemployed people off the dole. Only a minority of those taken off the

lists appeal to the Social Security Appeals Tribunal, but of the 14 825 who did appeal in 1978, half won their cases and had the department's decision reversed. Where hard evidence is required of abuse of the dole, however, it is available only in very small quantities. In 1978, about 70 per cent of the unemployed received the dole, that is, at year's end there were 286 091 dole recipients. The same year, there were a mere 600 convictions for dole abuse, that is, 0.2 per cent. In the meantime, all those who claimed unemployment payments were subject to social security checks, lengthy questionnaires into their private lives, and the general assumption that they were guilty until proven innocent. Such methods may be appropriate in the Taxation Office, a bureaucracy long subject to huge numbers of fraud attempts. But they are entirely out of place in Social Security where consistent evidence for every one of the past five years shows insignificant numbers of cases of abuse. The 1979-80 Budget saw the Fraser government try a new tactic in dole administration. It abandoned the policy introduced under the Hayden Ministry of the Whitlam government to make all pensions consistent. Aged, invalid, veteran, widow and supporting-parent pensioners gained index increases, while single unemployed people did not. This left the latter's payment at \$51.45 a week, compared to \$53.20 for single members of the former categories. While the Fraser government lasts, this gap will inevitably widen at every index period. The very young unemployed are the most deprived of all. They still receive the same sum as four years ago, \$36, an amount that in Sydney in 1979 would just allow a young person down from the country to rent a room in a boarding house. It was insufficient to allow such a person to buy any food or clothing, or even fares for public transport so he or she could seek work. Anyone who cares to look, can see the results of these circumstances in the poor suburbs of the major capital cities, where a 'skid row' lifestyle has developed among the most oppressed teenagers. Welfare agencies like the Sydney City Mission have set up soup kitchens, euphemistically called 'drop-in centres', to feed teenage alcoholics, junkies, 'barb freaks' and the homeless who crowd the squatted premises in abandoned inner city buildings. The average age of residents at Sydney's Matthew Talbot Hostel, once patronised exclusively by aged male alcoholic 'derelicts', had declined from over 50 years to 38 years by 1979. On any night of the week, youths of 18 or 19 may be observed at the Matthew Talbot and other refuges for homeless men.⁵³

Selling the cutbacks

In May 1979, Prime Minister Fraser declared his support for a review of dole administration, by assuring reporters that he was against paying unemployment benefits to people so 'they could go surfing on the dole'. Visitors to Australia may well have been puzzled by this statement made in late autumn, when the first cold winds of winter had left the beaches deserted. Nevertheless, the jibe made sense to Australians to whom the 'dole bludging surfer' was a familiar media image. Though more than five years old, the image could still gain favourable headlines for politicians. By mid-1979, most newspaper editorials thought that crackdowns on un-

employed youth had gone a little too far, but the headlines had changed little from the rabid days of 'dole-bludger bashing' of 1975-76; TOUGHER DOLE TEST TO HIT BEACHES, headlined the Sydney *Sun* on 4 July 1979.

Confident that their constituents would still accept the line that unemployment existed primarily because the young did not want to work, conservative politicians maintained this argument at intervals so regular they appeared orchestrated. To the comments by Malcolm Fraser and Ian Viner justifying the new dole crackdown in 1979, should be added those of Deputy Prime Minister, Doug Anthony, criticising those who chose 'alternative lifestyles' on the dole. 'There is a feeling, and a resentment, that some are satisfied to opt for a lifestyle which does not involve any work or contribution to the community, and which is paid for by taxpayers who already are heavily burdened and who are prepared to work for their living'. Liberal Party deputy leader, Phillip Lynch, told a company directors' lunch in April 1979 that the dole was too high. Minister for Education, Senator Carrick, deplored the 'appallingly low motivation and inertia among many unemployed young people', and said they 'not only lacked the basic skills, but also a basic goal in life'. A chorus of Liberal Party backbenchers gained regular press space with the same line of reasoning.⁵⁴

The idea that the victims of unemployment are to blame for their predicament is one that may easily be shown to be false, yet it is one that many people want to believe. It involves accepting that the collapse of the economy in late 1974 was not responsible for the sudden growth of unemployment. Instead, one has to believe that it was mere coincidence that the decline of the work ethic, and the onset of recession, both occurred at the same time. When put this way, the proposition is demonstrably absurd. Yet between 1975 and 1978, opinion polls consistently showed that between 40 and 50 per cent of Australians thought the main cause of unemployment was that the unemployed did not want to work. Politicians and newspaper editors who have convinced their audience that this is true have played upon the alienation inherent in work under capitalism. To most people, work is a sacrifice of their time and labour in return for consumer goods. It is a sacrifice they have to accept in order to survive. The idea that some people gain the rewards of work without having to perform it is one that generates considerable moral indignation, particularly when the rewards come direct from the taxes of those who do work. At the same time, the idea of the indolent life is an attractive one to those who find their jobs frustrating and burdensome. So they are both repulsed and fascinated by stories about young people who go surfing on the dole. Newspaper editors find that such stories boost their circulations much more than reports of surveys conducted by welfare inquiries which have found that there is no evidence of any widespread dole-bludging. There is little mileage for editors in reporting the mundane conclusions of such inquiries, that most unemployed spend most of their time either looking for work or doing domestic chores at home.⁵⁵

The concept of the dole bludger is based on the distinction inherited from the 19th-century between the deserving and the undeserving poor. While governments may 'crack down' on the undeserving, they need to still provide

succour for the deserving if they are to appear to be making a proper response to the total situation. Hence at the same time as bashing the dole bludger, conservative politicians have been concerned to introduce 'positive' programmes as well. In 1976 and 1977, the Fraser government introduced three schemes, the Special Youth Employment Training Programme (SYETP), the Education Program for Unemployed Youth (EPUY), and the Community Youth Support Scheme (CYSS). SYETP subsidised employers, initially for six months and from 1978 for four months, to take on youth with a history of unemployment to give them training and work experience. Evaluation of the programme, however, showed that the training content was minimal and employers used it simply as a source of cheap, temporary labour. Some 65 per cent of youth on the scheme were given the sack when the subsidy ran out.⁵⁶ EPUY is based on the idea that young people are unemployed because they do not know how to apply for jobs, or how to conduct themselves at interviews, and assumes they need instructions in personal dress and tidiness. Evaluation has found that only 28 per cent of EPUY graduates found jobs after its first pilot phase.⁵⁷ But even if the results were better, the scheme would do nothing to solve youth unemployment, because it simply shifts work opportunities towards those who learn job application skills, leaving those who lack such skills to miss out on the same jobs. It does nothing to increase the *total* number of jobs available, except for those offered to the small number of part-time technical college teachers who run the classes. CYSS funds drop-in centres where unemployed youth can congregate for some socialisation or to pick up craft skills from courses conducted at the centres. CYSS guidelines prevent it from operating to create work. Although CYSS serves the traditional function of most welfare schemes—to get the unemployed off the streets and to keep them occupied—in 1978-79 a number of radical welfare workers began to participate in it in an effort to change it from a vehicle of social control into one of social action. Of necessity, these workers have organised to secure unemployed rights such as getting dole payments restored, and have set up schemes such as housing and food co-operatives. But they have also used CYSS as a base for political action. The growing number of demonstrations, protests and street theatre activities evident in Sydney and Melbourne in 1979, had been organised out of CYSS centres, often with the participation of 'left organisations such as the Unemployed Workers' Union, the Unemployed People's Union and the Movement Against Unemployment. CYSS also performs a crucial psychological function for unemployed people, showing them that their condition derives not from their own personal failings, but is caused by the break-down of the economy. On this last ground alone, CYSS is a valuable scheme from any humane perspective. In the 1979-80 budget, funds for SYETP were cut heavily, from \$82.6 million the previous year to \$28 million in 1979-80. CYSS funding was cut from \$10.7 million to \$10 million in 1979-80 which, given a 10 per cent inflation rate that year, represented a cut of 17 per cent. While the demise of the SYETP scheme will have little effect on the welfare of the unemployed, the cut in CYSS funding is a real loss. Ian Viner had hoped to substitute

a programme of his own, called the Voluntary Youth Community Service scheme, in which various community groups would sponsor young people to take on tasks designated as community services. Although this scheme was approved by Cabinet in December 1978, the response to it by community groups, especially at the local government level, raised so many problems (particularly on the question of youth on the dole displacing jobs that may have been done by paid labour) that its future was in doubt in mid-1979.⁵⁸ Other public relations exercises on unemployment have had even more short-term aims. The Hamer government in Victoria established a youth jobs scheme shortly before the May 1979 election in that state. The government provided \$536 000 (of which \$150 000 was spent on salaries for professional and office staff, \$75 000 was spent on a Jobline office, \$9000 was spent on sponsoring a 'jobs show' on Kerry Packer's GTV9, and \$45 000 went to advertising agency Monahan, Dayman and Adams). In a ten-weeks period, some 99 219 telephone calls from young people seeking work were received at the office. Only 419 of these, or 0.4 per cent, were actually placed in jobs. The scheme was abandoned in June after the election returned the Liberal Party to government.⁵⁹

Manipulating the statistics

Apart from dole crackdowns which work to increase the number of discouraged job seekers, and thus make the official unemployment statistics look better than they really are, the Fraser government has also used a variety of techniques to camouflage the official figures themselves. In March 1979, Ian Viner made several changes to the form of the press release that had traditionally announced the number of unemployed registered with the Commonwealth Employment Service. This prompted the *Australian Financial Review* Canberra correspondent, Greg Hywood, to expose the petty means by which the government was trying to manipulate reporters' stores. Not only was the CES result not given until the second page of the release but when it was, a figure which always accompanies each monthly result was missing. That was the amount unemployment had fallen in February 1978, a necessary figure if the February 1979 result was to have a basis for comparison. The fall of 11 809 in February this year was less than the 14 044 decline in February last year. Another 'initiative' in Friday's press release was the inclusion of employment figures for December which had been published for more than a month. These figures, which showed a 20 400 rise in civilian employment in December, were presented near the top of the first page of the press release above a host of new information'.⁶⁰

Viner has also attempted to shift attention away from unemployment figures and towards those for employment. He has included statistics on the growth of the workforce in press releases which once only described unemployment, and made special releases on the size of the total workforce. But these have not acknowledged the rather obvious fact that the size of the workforce must keep rising if jobs are to be available for those coming out of the education system. Growth in the size of the workforce should not be a sign deserving of congratulations, as Viner has claimed, unless the growth

is sufficient to decrease the unemployment rate. The growth that did occur in 1978 was insufficient to do this. Viner has also adopted the technique of congratulating himself for falls in unemployment that would have occurred for seasonal reasons anyway. Unemployment usually increases in December, January and February, then falls until November in a normal seasonal pattern. Seasonal adjustments were abandoned by the government in 1976, which has prevented journalists from seeing if the seasonally-adjusted pattern is better or worse than the previous year. This has left it open for Ian Viner to claim each month from March to November that the situation was improving. Journalists, however, have usually gone along with this subterfuge, reporting the Minister's claims uncritically. Only the exceptions have made the point that the real yardstick is not whether the figures fall from month to month but how they compare with totals of twelve months before.⁶¹

In mid-1979, two final *coups de grace* were given to the statistics. The federal Department of Employment was told to stop compiling its unemployment forecasts for the coming year. And the government decided to stop releasing Commonwealth Employment Service statistics altogether, leaving the sample survey conducted by the Australian Bureau of Statistics as the sole record of jobless totals.⁶² The latter move, however, seems to have backfired. The initial response of Canberra press gallery journalists was to make special requests for the CES figures (the only way they are now made available). This meant that they wrote two stories a month about the size of the jobless population rather than the former one on the day that ABS and CES figures were released together.

Paranoia

In April 1979, the Murdoch press carried stories about police arrests in Queensland and New South Wales of members of the Australian Uniting Republican Army. The army was alleged to be composed largely of unemployed youth who were claimed to be planning a series of bombings and armed robberies 'within weeks, if not days'. Police allegedly found letters to Malcolm Fraser and police commissioners warning that guerilla warfare would break out unless the Federal Government stopped selling Australian assets to multinational corporations. The organisation, the Murdoch papers claimed, 'then intended to adopt IRA-style tactics by warning sections of the media of impending bomb blasts in all capital cities and by telephoning later to claim responsibility'.⁶³ Since these reports appeared, however, no members of the so-called army have been brought before the courts and, at the time of writing, no more had been heard of the matter, despite the huge page-one headlines and newspaper posters which had heralded the alleged arrests.

The story appears almost certainly to have been a plant by security agents. In Sydney the Fairfax press made no mention of the item. Only Murdoch-owned newspapers were willing to take it at face value. In recent years, fringe religious and political groups have been penetrated by security informers who have acted as *agents provocateurs*. On the word of an ac-

knowledgeable police agent who was himself involved in the events, three members of the Ananda Marga sect in 1979 received jail sentences of 16 years each, with no parole period, for conspiracy to commit a murder that never occurred. The Murdoch stories of guerilla warfare from the unemployed should be taken as an ominous portent of tactics that may be in store for groups organising around the unemployed, should the economy deteriorate further and should new ideological armoury be required to supersede the image of the dole bludger.

Conclusion

Unemployment can be eliminated only by creating jobs. Given the campaign of mystification to which the Australian community has been subjected over the past five years, this tautology is one that is still lost on a great many people. Any political movement on the issue should adopt it as a slogan, as the young unemployed in Sydney and Melbourne have done in recent demonstrations with placards reading 'Jobs not dole'. The Labour Party has promised to spend between \$85 and \$100 million on job creation schemes which it claimed would absorb 50 000 unemployed. Such an investment, however, would absorb only one-tenth of the unemployed, which is less than 15 per cent of the workless taken into job relief schemes in the Great Depression. Any political movement seeking to take the issue seriously needs to have such short-term schemes as part of its platform, however limited they might be. But to find jobs for the half million officially counted as jobless (not to mention the other half million among the hidden unemployed, some of whom would be attracted back to the workforce should it show any sign of recovery) requires a strategy that goes much further than this.

Ernest Mandel has emphasised that any strategy for major economic reform would have to be implemented in the face of a massive 'flight of capital' once the transnational corporations felt their interests threatened.⁶⁴ If this is correct it means there is no solution to unemployment possible outside a thorough socialist transformation. Full employment has thus become a transitional demand. It can be seen by most people as humane, fair and just. Yet there is no way that Australian capitalism can deliver it in the foreseeable future. Full employment requires socialism.

The demand for full employment will not be translated into a demand for socialism on its own. But it is one of a number of factors that have the potential to raise socialism as a real alternative for the labour movement. The others are not unconnected and include the de-skilling that accompanies the new electronic technology, the decline in the quality of work, the polarisation of the workforce between managers and operators or dial watchers, the elimination of the concept of career progression for many white collar workers, and the general austerity that the long future of economic decline promises. The success of the responses that may be made is entirely a matter of political struggle. So far, as this essay has outlined, those who side with capital have gained some powerful advantages in the running. The big difference between the present slump and those of the 1930s and 1890s is that the labour movement in both earlier periods was all

but driven out of existence as an organised force. The long boom of the 1940s, 50s and 60s, however, gave working-class organisations in Australia, and in most other western countries, unprecedented industrial strength. The political use of that power will decide the outcome.

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11

LABOR AND ECONOMIC CRISIS: COUNTER STRATEGIES AND POLITICAL REALITIES

THE GOLDEN ANNIVERSARY OF THE CHANT OF JIMMIE SCULLIN, 1929

BOB CATLEY & BRUCE McFARLANE

IN THIS ESSAY we seek to explain the existence of two competing trends within the Australian Labor movement and how each of them reacts to severe capitalist economic crises. We have chosen to do this by drawing our analogy between the 1930s and 1970s, when similar crises threw up a similar array of social forces: international and domestic monopoly and finance capital operating through right wing political forces and the state apparatuses, to shift the burden of the crisis onto working people by cutting real wages, public social expenditure and increasing unemployment, while the capital stock was re-organised. Two tendencies emerged within the labour movement in response to these situations. On the one hand, on both occasions stood those committed to basic labour policy, namely the nationalisation of the commanding heights of capital which were directing the crisis; the expansion of progressive taxation on both income and wealth; and the expansion of social services and employment opportunities through the increased public expenditure programme which would then prove possible. On the other side stand the 'rational economic managers', anxious to accommodate to the process of restructuring being undertaken by capital in the hope of achieving electoral success.

This is the same point we made in *From Tweedledum to Tweedledee* in 1974. Since the message of that book was lost sight of in complaints about the title, we wish to make it clear that this essay is *not* designed as a personal assault on W.G. Hayden, nor is it a defence of a mythical golden age of the Labor Party. We are merely recording, as did V.G. Childe in 1923, the operations of factions within the Labor movement under the stress of crisis. This will entail some conclusions unpalatable to some A.L.P. supporters just as Childe's did in their time.

In 1929, John Maynard Keynes wrote a pamphlet, *Can Lloyd George do it?* It advocated public works expenditure as a powerful contribution to combatting a worrying British economic slump and getting employment levels rising. This brought Keynesianism close to the 'basic Labor Policy' thrown up by working class organisations. In late 1929, Australian Labor Prime Minister Jimmie Scullin was veering towards a similar programme, then being advocated by federal Treasurer 'Red Ted' Theodore, although six months (and many English duchesses later), he was backing off it. In 1979, Labor leader William George Hayden was again advocating 'midly reflationary policies' of like ilk, after an earlier flirtation (in 1975) as federal treasurer with *cutting* public works. The 'mildness' of the Keynes-Scullin reflation as advocated by Hayden under rank and file pressure was not specified with regard to extent, degree, duration, timing or specific gravity. However, the objective was at least clear—to reduce the unemployment level closer to the '5 per cent of the work force' that Hayden, in his role as defender of the 'rational economic management' tendency within the A.L.P., had conceded as 'natural' and 'inevitable' in a modern capitalist economy.

As it turned out, Lloyd George's public works programme as described by Keynes was relatively successful, despite the absence of a powerful theoretical rationale in its adoption, and the idea of a *general* unemployment money benefit was born in the process. Scullin, however, was defeated by the disastrous economic and political effect that stemmed from a high percentage of export earnings being eaten up by the outflow of profits and dividends, by the lack of guts among the A.L.P. federal caucus members, and by the dead hand of the past—the specific economic history of the development of the Australian capitalist system.

This essay argues that whether Australian social democracy, 1979-style, can make any real contribution to solving the unemployment problem, let alone transform a shaky and incompetent capitalist mode of production, depends very much on the *same* configuration of political forces and material realities as emerged in 1929 and on the outcome of the struggle between basic labour policy and 'rational economic management'. It follows that the advocacy of policies faithfully echoing the 'mild Keynesian reflation' of Jimmie Scullin in 1929, could provide an appropriate golden jubilee repetition of the struggle played out at that time. In that sense, an examination of the theme *Can Hayden do it?* paves the way for a fuller understanding of the constraints on social democratic leaders, the rise of an open pro-capitalist faction and the objective role that their policy line within the party is called upon to play in times of deep capitalist crisis.

The development of capitalism in Australia

What was the 19th-century stamp on the capitalist mode of production that the A.L.P. inherited in 1929 and 1974-8?

It will be recalled that in Europe, capitalism had grown from the womb of feudalism. It was featured by a process of capital accumulation dependent upon rural depopulation, the concentration of land ownership and improved

agricultural technology. Economic growth thrived on static or declining incomes of the working population, being harnessed by the burgeoning capitalist class and devoted to accumulation. The process of primitive accumulation was commenced.¹ The massive technological advances which accompanied this process, which spread throughout Western Europe and North America, shifted the centre of world power to these areas. The rest of the world soon felt its impact.

A second source of surplus for the new metropolitan areas became available as the colonial world was created. Civilizations that had shortly before been the equal, if not the superior, of the European were subjected politically and economically. They were transformed during the colonial epoch into adjuncts to metropolitan needs, providing industrial raw materials, foodstuffs and new areas for Western profitable investment.

The political and social impact of this new mode of production amounted to a global transformation. In the metropolises, as Barrington Moore² has so conclusively demonstrated, the accession to political power by the capitalist class was everywhere associated with violent civil conflict. The peaceful social order of contemporary advanced capitalist liberal democracy was everywhere erected on violence. In the world's geographical periphery the colonial conquest, usually itself bloody, preceded a transformation of relatively self-contained societies into adjuncts of the world market with dramatic changes in what they produced. This has been called 'the development of underdevelopment'.³

Contemporary Australia was created by an analogous process but does not readily fit the model of either metropole or satellite. Sinclair⁴ has recently argued that its economic development can be viewed in three stages. The first, from settlement to the 1820s, witnessed a penal settlement outpost of a relatively autarchic character so far as the developing world economy was concerned. The second ran from the 1820s to the 1920s, when a long-term disequilibrium existed between the metropolises' (in this case chiefly Britain) demands for Australia's primary products and its capacity to supply them. The chief bottlenecks responsible for this disequilibrium, he claims, were shortages of labour and capital. The third period saw the closing of this gap and a fifty-year process of economic growth founded on the industrialisation of the Australian economy, originating in the late nineteenth century but accelerating after the first world war following the widening of tariff protection.

An alternative perspective on the same process has now been derived.⁵ But it should be noted that Australian capitalism was established on similarly violent foundations to those of the metropolises—in this case the almost total destruction of the primitive communist society which had previously held the terrain and competed for its use.⁶ Fitzpatrick described the economic development of Australia that followed the breaking out of the restrictions of the penal colony, in terms of the dictates of the needs of British capital.⁷ This was understandable at the time of writing, since the British bondholders had been visibly instrumental in deepening the 1930s depression via policies imposed on Australia by the Bank of England and the Premiers Plan.

Hence Australia became in turn a sheep run, a mine and a cattle farm, as discoveries and technological advance made these advantageous for British investors and importers. Changes in the demand pattern of the British market or investment preferences by British investors could, throughout our economic history, as quickly produce depression in Australia.

Contemporary Left economic historians offer modifications of this 'Fitzpatrick' schema which may be summarised in the following form. The development of capitalism in Australia has been founded on two thirty-year boom periods of rapid economic growth, 1860s-1880s and 1948-1970. Two lesser periods of growth at a lower level exist alongside them, the 1820s-30s and 1900-1930. Each of these periods was characterised by three crucial factors: the inflow of labour attracted by the higher per capita income which served both production and to develop a domestic market; the inflow of capital, supplementing domestic sources, and facilitating a higher consumption level; and the strong demand on the world market for those commodities providing the leading edge for rapid economic expansion.

Each of these growth periods was followed by a sharp economic contraction in the 1840s, 1890s, 1930s and 1970s. The question at issue is why? Fitzpatrick couched his explanations largely in terms of metropolitan needs. Each contraction was the consequence of the depression of foreign markets for Australian primary products and a related reduction of capital inflow. In each case the service debt on previous capital inflows had to be repaid out of reduced export earnings. A corresponding sharp reduction in living conditions for Australian working people and a rise in unemployment was the result. Orthodox academic historians have, by contrast, placed greater emphasis on internal developments. Butlin⁸ and Sinclair, for example, are more inclined to attribute the 1890s recession to the excessively speculative character of the 1880s investment boom, and C.B. Schedvin⁹ has sought to move the explanation for the 1930s depression in a similar direction. In both cases a conjuncture of two crises produced sharp economic contraction: domestic over-investment (in the 1880s particularly in construction and the land boom; in the 1920s in a particularly well-protected manufacturing industry) and a collapse of the world market. Each crisis was compounded by the deflationary policies of governments dictated by their needs to repay the 'coupon-clipping' rentiers and bond-holders who had financed the expansion.

The peculiar nature of the development of capitalism in Australia also explains its contemporary features. First, although Australia's relation to the world market was (and remains) comparable to a Third World Colony—exporter principally of raw materials and importer of manufactured goods and capital—its domestic social structure came to resemble a metropole. Secondly, the long-term import of capital meant that it avoided the direst features of the primitive accumulation of capital and the savage attacks on working people associated with that process. Much of the economic surplus required for capital accumulation was that redistributed by the metropole from other colonies, where it had originally been extracted. Thirdly, with a high land-resources/labour ratio, the commodity labour enforced a high

return. This was facilitated by the absence of the South African solution—cheap native labour—and was ensured by labour's political demand for a white Australia. Humphrey McQueen, indeed, erects his explanation for 19th-century Australia's labour movement politics—chauvinist, imperialist and petit bourgeoisie—on a combination of those factors.¹⁰ Finally, the point should be made, the onset of each depression was accompanied by outbursts of hostility by the labour movement: strike action, nationalist sentiment and demands that Australia's relationship with the world market be changed. Its defeat in each instance has been widely recorded.

The origin and purpose of the historic crises of Australian capitalism, then, have been two-fold. The first is classically and uniquely a product of capitalist economies: the need for a cleansing of the capital stock as the rate of profit declines. Marx describes this in Volume III of *Capital*.¹¹ It involves reducing real wage levels, increasing the rate of exploitation and creating a reserve industrial army of unemployed. In this process capital values will be destroyed and the capital stock will be redeployed away from unprofitable sectors, and lead sectors expanded and consolidated. Finance capital plays a critical role in this process. But, given Australia's role in the world market, such a shake-out can be delayed by expanding external markets and corresponding capital inflow. Their collapse provides the occasion for externally oriented sectors to stagnate and await a new role in global developments, triggering the domestic crisis.

One final question should be raised in this context. Since one of the features of the colonial epoch was the prevention of industrial expansion in the periphery by the metropolises—sometimes by use of armed intervention—what enabled Australia to industrialise with so little resistance?¹² It is true that Japan escaped subordination, and in its role as metropole uniquely industrialised its colonies on the mainland—Korea and Manchukuo. It is also true, that following political independence, industrialisation has been undertaken in some Third World countries.¹³ In Australia's case industrialisation originated, almost uniquely, in the heyday of imperialism, the late 19th-century boom. Following federation and the isolation imposed by the first world war there existed therefore a political alliance of manufacturing capital and the labour movement capable of enforcing protection. Since, as we shall see, this was not entirely disadvantageous to metropolitan capital, it became a cornerstone of public policy—until the next crisis.

Australia, overseas interference and the 1930s World crises: precursor for the 1970s

A starting point for grasping the economic crisis of the 1970s is to re-run the story of the overseas shocks, of economic gurus, and economic policy bungling, which were features of the crises of the 1930s.

While the Great Depression is usually dated at the end of 1929 for the world capitalist economy, the year 1927 already witnessed a crisis situation developing in Australia. The ingredients were a poor agricultural season, falling primary product prices internationally, and a large flood of manu-

facturing imports. The trading banks, cautious in the 1920s, now had difficulty in exercising monetary control, as hire-purchase fuelled the accelerated imports.

It was also in 1927 that a British Economic Mission first visited Australia to report back on problems of trade and settlement of debts. It attributed Australian difficulties to factors which offended British capitalism's *laissez-faire* ideology—such phantoms as: public enterprises; government ownership of the central bank; excessive tariff levels and the use of an arbitration system for determining wage levels. The Mission added that the growing size of the national debt was cause for concern, and that a restriction of future overseas borrowing would produce a useful deflation which, by driving down prices, would encourage employment. Not surprisingly, the Mission was in favour of a strong move towards private enterprise, rather than a radical restructuring of the Australian economy as advocated by some political economists.¹⁴

Within Australia itself, reports of the Tariff Board were drawing attention to the costs of the tariff and the federal government responded by appointing a committee of economists late in 1927 to investigate further. Headed by J.B. Brigden, Professor of Economics at the University of Tasmania, the high-powered Committee also included C.H. Wickens, the Commonwealth Statistician; L.F. Giblin, then Deputy Statistician of Tasmania; E.C. Dyason, a prominent Melbourne businessman; and D.B. Copland, Professor of Commerce at the University of Melbourne.¹⁵ The Committee's final report came out with conclusions that few academic economists then or later found acceptable: that the tariff had enabled Australia to maintain a higher standard of living and a larger population than would otherwise have been possible. It also advanced new criteria for economic policy.¹⁶

Throughout 1928 one finds more unemployment but fewer bankruptcies, even some prospects of recovery as reduced imports eased the squeeze on local manufacturers. This prospect did not last: by the beginning of 1929 business conditions began to deteriorate, while rural incomes were slashed by the crash of wheat and wool prices in mid-year. Pressure on state governments to draw on 'London funds' increased, and in 1929 Queensland was the only state not labouring under both a sizable London overdraft and pressure for payment by London banks.

A reduction of real wages seemed to businessmen and the S.M. Bruce government to be a major way of reducing costs. This necessitated interference with the Arbitration system—a course sought by Prime Minister Bruce, first at a referendum, and then in a general election.

Although the Labor Party replaced Bruce in federal government, its Senate position was parlous: only seven out of thirty-six members. It has been argued that no Australian federal government had ever been elected to office in less auspicious circumstances.¹⁷ With 13 per cent of trade union members out of work, falling government revenues, cessation of overseas borrowing possibilities and rising imports, the ingredients for the Great Crash were looming.

Scullin's new government first tried the weapon of increased tariffs and primage duties in order to discourage imports. Overseas manufacturers countered this move, in large part, by lowering their prices. Next, the government exchanged its gold reserves for notes, thereby in effect, abandoning the gold standard (in December 1929). Although devaluation of the exchange would have made imports dearer and less competitive and raised rural export income, economists and government officials gave little support to this course.¹⁸

Scullin did not wholly ignore the question of rural incomes, however. A Wheat Marketing Bill guaranteed the farmer four shillings a bushel, and organised a wheat pool. The legislation was rejected by the Senate. A proposed wool pool was opposed by graziers and brokers as 'interference' in marketing,¹⁹ and only cotton and wine growers got real financial and marketing assistance.

The Commonwealth Bank of Australia at this time was under the leadership of Robert Gibson, a man obsessed with the evils of inflation. He organised, with support of the trading banks, a strong opposition to Treasurer Theodore's reflationary policy. The hostile Senate completed the rout by March 1930.

At this stage a politically helpless Labor Caucus began to knuckle under to more orthodox economic advice. An Economists' Committee, appointed by the Brisbane Conference of A.N.Z.A.A.S., argued that to restore 'equilibrium' in the economy the impact of falling export income would have to be spread equally throughout the community. 'Equal sacrifice' became a national slogan for recovery, promoted by every reactionary group and newspaper. On top of this, increased personal income tax was needed to balance government budgets. In July 1930 this general line received a boost with the arrival of a leading adviser to the Bank of England, Sir Otto Niemeyer who, in conferences with Commonwealth Bank officials and the trading banks, demanded deflation and balanced budgets. The combined effect of all this advocacy was evident at a Premiers' Conference and Loan Council meeting in August 1930. The trading banks were reluctant to either finance government overdrafts or to hold Treasury bills. This forced the Loan Council to slash loan expenditure. Despite the support within the labour movement of some states for the Theodore-Irvine financial plan, many federal Labor politicians were as afraid of 'inflation' as the conservatives, while State premiers agreed to balance their state budgets. Theodore's political disgrace at this time did little to help the radical cause.²⁰ Many turned to the newly elected N.S.W. Premier, Labor demagogue Jack Lang,²¹ and even some federal Labor ministers publicly supported his criticisms of the federal Cabinet's handling of the economy. All matters dealing with the economy and finance were deferred until Scullin's return from Britain. The government drifted, but resisted, for the time being, the growing pressure for public service wage and salary cuts, and for the lowering of government expenditure.

In December 1930, the Chairman of the Bankers' Conference announced

that no more Treasury bills or government borrowings would be financed without formal Loan Council 'borrowing' approval.

The year 1931 opened with the problem of mitigating the slump unsolved. Only the wheat harvest recovery was a favourable sign, and even this turned sour when prices fell. At this point the orthodox economists intervened. Professor Copland succeeded in a confrontation with Irvine²² before the Arbitration Court over the period December 1930-January 1931, in securing a decision to cut wages. He particularly emphasized the fall in national income of some 70 million pounds that had occurred over the previous two years. A 10 per cent cut was supposed to impose on wage-earners that 'equality of sacrifice' for which the orthodox economists had been arguing since mid-1929. The subsequent enforcement of the wage-cut by the Court and state Arbitration tribunals affected a quarter of the wage earners then in employment. In the process, the principle of a living wage, to the extent that it existed, was totally abandoned in favour of the criterion 'industry's ability to pay'. (A similar exercise was to take place in 1953 when inflation, rather than deflation, was exercising the minds of the ruling class.) A call by the Sydney Trades and Labour Council for a general strike was rejected by the A.C.T.U., and the depression, intensified by falling effective demand, rolled on.

At its January 1931 meeting the Loan Council appointed a Committee to deal with the depression. The new Committee continued to resist a policy of exchange depreciation—although this was already occurring through market pressures. It stuck, instead, to balanced budgets and wage cuts. Loan expenditure approval for public works was again reduced. All this was to 'restore confidence': it bore the unmistakable imprint of conservative neo-classical economics. The meeting of the Premiers' Conference took the same line when, in the 'Battle of the Plans' it rejected both the Theodore-Irvine Plan and Lang's new 'Plan', and embraced the Economists' Memorandum.

In replay, Theodore, newly re-instated, introduced a Fiduciary Note Issue Bill into the House of Representatives, accompanied by a Bill to remove 25 per cent gold reserve required on the note issue and to set a maximum 60 million pound note issue (substituted as a guard against inflation). Theodore argued this would enable the Government to send 15 million pounds in gold overseas, in order to repay maturing loans. The Senate rejected the Bills and Theodore attempted, unsuccessfully, to turn federal politics into the issue of 'the people versus the banks'.

When the Economists' (Copland's) Committee came to examine the actual budget situation, it soon found the interest bill would need to be reduced—a point that Lang had been underlining.²³ The budget deficit for 1930-31 was 31 million pounds. To reduce expenditure further, the Committee recommended that all wages paid by governments, and all pensions, should be reduced to 20 per cent below their 1928 level. Expenditure on unemployment relief was to be limited to 3 million pounds. However, these savage cuts still left an estimated 14 million pounds gap between income and expenditure. Two possibilities left were to raise taxes on property, or yet

more expenditure cuts, where only cuts in the interest bill remained as a possible 'saving'. Since, in the view of orthodox economists, taxes on property would lead to 'a loss of business confidence', they advocated hitting the rentier bond-holders by lowering interest rates on government debt.

This was the plan which was presented to the Premiers in May 1931. Lyons, now leader of the United Australia Party, and Conservative machine man Latham were invited to attend the Premiers' Conference, and secured a voluntary rather than a compulsory conversion of the loans. The States then agreed to lower interest rates on private debts, via the interest rates on overdrafts and fixed deposits.

Subsequently, the state and federal governments carried out their obligations under the plan to varying degrees. Lyons, as new Prime Minister, found his task easiest, as there was a relatively high income from federal taxes. Since unemployment relief was paid out by the states at the time, federal expenditure was moderate. The Commonwealth succeeded in raising sales tax rates and primage duties quite substantially.

What was the effect of all these cuts in interest? They appeared to help those farmers who could pay any interest at all. There was a temporary improvement in London Funds in December 1931, but the painful adjustments demanded by the Premiers' Conference continued throughout that year and until mid-1932. Deflation was finally achieved. The Conservative Plan had triumphed, at a huge social cost. In the years of the Plan, 1931-32, unemployment reached a peak of 29 per cent. The 20 per cent cut in money wages was widely implemented, making for a 10 per cent cut in real wages generally for the urban workforce, while the farmworkers, unprotected by the Arbitration awards, suffered even bigger falls. However, the plan did not really work in relation to the world-wide decline in *primary-product* prices, as the wage-cutting spree did not reduce costs far enough to be effective, even in orthodox economic terms. Instead, real effective demand fell, offsetting the effect of 'cost reductions' in improving profit margins, and Australia's crisis deepened.

Unexpectedly, and despite the Premier's Plan outrage, some of Australia's *manufacturers* began to expand output and employment in 1932. The steel, building supply, textiles and paper industries found themselves in a more favourable situation. What had happened was that the imports had been made dearer by depreciation of the currency, and the 10 per cent real wage cut undermined British competition. The Scullin depression tariff drove out imports and presented these sectors with the entire Australian market, thereby offsetting shrinking local demand, and maintaining profit levels. In this peculiar way, no part of the intention of the orthodox economists, wage-cuts make their contribution to recovery not via 'equal sacrifice' but via increased international competitiveness.

Reduced interest played a small but useful role in stimulating investment in 1931-32, while the economic system was kept liquid by the banks' willingness to deal with Treasury Bills. To these processes of recovery was added the 'stimulus' of the Arbitration Courts' adamant refusal to restore the level of the basic wage in 1932, 1933 and 1934. As late as 1939, Australian wages

in money terms had failed to recover to the same extent as British wages. In this way, the Australian working class contributed to recovery—the burden of the crisis was shifted to it and firmly kept there till the Second World War.

The relative security of Australian manufacturers from British competition was again put in doubt by the Ottawa Conference of Imperial Ministers in July-August 1932. This produced a promise by Australia to reduce its tariffs on British goods, in return for duty-free import of Australian dairy products in the U.K. The Tariff Board recommended a reduction of 12½ per cent to offset exchange depreciation, and repeated its call for tariff cuts in 1934, when it concluded that Australian manufacturers were taking undue advantage of protection by raising their prices.

In the meantime, Australian manufacturers were reaping economies of scale behind the tariff wall. This process reduced unit costs, particularly in non-ferrous metals and heavy chemicals, a process which continued until the British government in the mid-1930s changed its attitude towards manufacturing in the 'dominions', under the pressure of strategic imperialist considerations, and began urging British firms to establish branches abroad; until they became a competitive reality, Australia got away with a 'beggar-my-neighbour' policy. The local manufacturing sector continued to draw strength from tariff protection, and employment rose to 565 000 by 1938.

It was woolgrowers who experienced the first recovery when wool prices rose in 1933 and 1934. This was an economic sector where indebtedness had not been increasing in the 1920s (by contrast with wheat), and it was able to remain stable, sharing in the moderate recovery of export income. The wheat industry took longest to regain its pre-depression position. Its debt burden had gone up during the 1920s; its prices remained below cost of production until 1935. Government legislation giving relief from indebtedness was passed in the states (except Queensland and Tasmania) to save the industry, and the Commonwealth government 'came to the party' in 1934, when it appropriated 12 million pounds to pay off the unsecured creditors and shopkeepers who dealt most intimately with the wheat farmers.

Acceptance of control and a government role in marketing was more widespread in dairying than in wool and wheat, so that Dairy Producers' Boards were established in the states and the domestic price of butter was raised by decree. This regulation of market forces allowed the industry to recover quickly and to switch from reliance on exports to the home market. Similarly, sugar producers succeeded in controlling output and receiving consumer subsidies. No new cane land was allotted. Under these circumstances, those who had survived were able to improve and even to increase their exports. Tobacco benefited from high import duties; dried fruit from increasing subsidies. As market forces were increasingly replaced by regulation, and tariff protection rose (to equal that of secondary industry by 1935), rural recovery followed.

In a modern capitalist economy many of the costs which would otherwise be borne by capitalists are 'socialized' and paid for by the State,²⁴ for example, ports and railways, education, child-care (to a limited extent), roads. During the 1930s the state governments and municipalities which

provided these things found they had to rely on their own general revenue and loans. Only at the end of the 1930s were loans again being raised by such bodies. In the interval, all services supplied by the public sector were slashed—in particular, railways, roads and ports. Only Commonwealth government services (post and telegraph) kept pace with the renewed growth of the economy.

The Labor militants, Professor Irvine, and Douglas' supporters had denounced the 'Money Power', and especially the private trading banks for their role in accentuating the Great Depression. By contrast, Labor 'rat' Joe Lyons took until October 1935 to agree to a Royal Commission into Banking. Its final composition was: J.B. Chifley (the former Defence Minister in the Scullin government); J.P. Abbot, a Country Party machine politician; Justice Napier of the South Australian Supreme Court; H.A. Pitt, Director of Finance, Victoria Treasury; E.V. Nixon, a Melbourne accountant; and R.C. Mills, the successor to R.F. Irvine as Professor of Economics in the University of Sydney. It handed in its review of Australian banking in July 1937, commenting in particular on the need for a central bank to be active within a free enterprise banking system. Only J.B. Chifley's dissenting report claimed that bank nationalisation was necessary for effective monetary policy.

The Commission's majority report did deplore the attitudes and activities of the Commonwealth Bank during the Depression, but it did not tackle the issue of the relationship of this bank to the government. Its rather weak conclusion was that the function of the Governor of the Bank and Bank Board Chairman should be filled by the same person in order to unify the control centres. This assumed, still, that the central bank should be independent of the government of the day.

Actual monetary policy soon had to deal with a drop in London funds as primary product prices again collapsed in March 1936. With the Commonwealth Bank itself lacking London funds, the Bank of N.S.W. supplied them. At this time control over the freedom of trading banks to give loans to importers was non-existent, so that the credit supply was only imperfectly known, let alone controlled. Even on interest rates, the Bank of N.S.W., by raising its own rate, was able to force its will on the whole banking system, including the Commonwealth Bank.

Ultimately, these 'loopholes' in the control system strengthened the argument for a minimum deposit scheme to be introduced into Australia. This was the origin of the 'Special Accounts' scheme, now the 'Statutory Reserve Deposits' system. Trading banks were asked to hold a (variable) proportion of their deposit liabilities with the Central Bank; these were to be increased when the need to restrict credit arose, and decreased when Commonwealth Bank authorities considered it expedient to expand the credit base. The Commonwealth Bank Board itself still preferred these arrangements to be voluntary. Only when the banks would not co-operate and demonstrated this, even while the Royal Commission on Banking was still sitting, did the Board (and the Royal Commission) finally agree to compulsion in the operation of the deposits scheme. The Royal Commission

went on to recommend that a licensing system should be used to make the private trading banks conform to statutory provisions.

Despite violent opposition to the Royal Commission's findings by the private banks, the government, albeit slowly and reluctantly, at last prepared legislation in the second half of 1937. In November 1938 the Commonwealth Bank Bill was introduced—but it was dropped after the second reading. All of its major provisions were postponed until Chifley and H.C. Coombs took control in 1945, and put the legislation through, adding some 'teeth' in the process.

One message above all others that leaps out of this survey is the general failure of market forces; they were the ultimate cause of the Great Crash and of the slowness of recovery. The 1930s left a series of monuments to the inefficiency of market forces: boards and pooling arrangements in primary industry; high levels of tariff protection in secondary industry; a new system of central bank controls in monetary markets; new government regulation on a scale unimagined by the British Economic Mission in 1927.

No wonder then that a Chatham House report²⁵ on the 1930s seemed in essence also to describe Australia's own experience of the 1930s, although prepared from a European viewpoint to explain the world-wide economic crash. Its conclusion was simple—market forces cannot be trusted. This was a sentiment to be echoed for the next ten years,²⁶ in books by businessmen themselves (such as Sir Oliver Franks in Britain) and in government 'White' papers: the Beveridge Report in the U.K. and our own *Full Employment in Australia* (1945). It was to be ignored in the Hayden Budget (1975) and the Howard Budget (1978), both years of violent debate over the very matters which wracked the 1930s.

Summing up: in the 1930s Australia suffered the most severe economic contraction in its history, largely as a result of the world-wide capitalist depression. This was transmitted to Australia via a decline in export earnings, a slow-down in capital inflow, and a capital drain occasioned by the service debt on foreign-owned capital, held then through public bonds. The brunt of the depression was borne by working people as a result of the political actions undertaken by foreign (chiefly British) and domestic finance capital, politicians through the Premiers Plan, the state apparatus, particularly the Arbitration Commission, and the orthodox academic and journalist economists of the period through their championing of wage and public spending cuts. The Labor Party had been either unwilling or unable to do anything about it. In 1979 a similar alliance had been forged to ensure that the burden of the economic depression would be borne by the same sector of the population—working people.

Australia and the Second Long Boom

It was widely believed both by academics and in inner government circles of the Western Powers that a post-1945 peace would bring depression.²⁷ Stalin's economists agreed that this was likely in the capitalist world. Both proved to be wrong, for the two and a half decades which followed the termination of hostilities proved to be a 'golden age' for capital. One of the

prerequisites for rapid *Australian* development was fulfilled—booming overseas markets.

The ingredients of this unprecedented long boom have been sufficiently canvassed to require but brief enumeration here. All the 'metropolitan' (advanced industrial) countries experienced unusually high rates of economic growth, the defeated powers of Japan and Germany being most spectacularly successful in this respect. Business cycle oscillations were minimal, unemployment by historical levels was extraordinarily low, and whole new series of commodities entered into the historically and morally determined wage level of working people. International trade, particularly between the metropolitan powers themselves, expanded rapidly. Governments pledged themselves to growth and full employment and the public sector (welfare state) expanded more or less rapidly, partly in response to electoral demands for improved services, partly to sustain the markets on which the realisation of capital's profit depended. And, despite these features, relative price stability was maintained. Indeed the period has now assumed such golden proportions, that even sectors of the labour movement regard its re-creation as their final objective. It is salutary therefore to give some indication of the bases on which the boom rested.

First, and perhaps most importantly, the structure of world trade continued to depend on the relationship established during the colonial period. Despite political emancipation, Third World countries typically remained oriented towards the production of the specialised number of raw materials for the metropolitan markets. For the most part, the price of these commodities declined during the 1950s and 1960s—the Third World experienced deteriorating terms of trade. In addition, many of these raw materials and energy supplies were produced in facilities themselves owned by corporations from the metropolitan countries. The provision of these cheap commodities was an essential precondition for the metropolitan boom.²⁸ This became perfectly clear in the 1970s when their supply, at cheap rates, was threatened. Further, efforts to nationalise or control the operations of such corporations in Third World countries was met with political retaliations ranging from political subversion to outright invasion.²⁹ In 1979 a catalogue of these activities is hardly necessary.

Secondly, the ownership of the means of production, distribution and exchange became progressively more concentrated in larger and increasingly multi-national corporations.³⁰ Since, in all the advanced capitalist societies, production remained largely in the private sector, a few boardrooms controlled society's output. There has been some argument as to whether such large corporations seek to maximise profits, growth or society's welfare(!). The point is, however, that it is up to their controllers which objective they decide on: and in general the state finds itself adjusting to investment patterns decided on five years before. Again, when serious efforts were made in the 1970s to control this process its importance became clearer.

Thirdly, the distribution of income remained fairly static in the metropolises. This was true not only of personal income distribution, which follows the classical capitalist pattern of a small number of persons with very high

income, and the bulk of the population at the lower end of the income scale, but also of class distribution between labour and capital.³¹ Yet again, one feature of the 1970s crisis was that the equilibrium of income distribution was disturbed.

Finally, the dedication of the state to the maintenance of full employment was widely regarded as being a result of the 'Keynesian revolution' in economic doctrines. This, essentially, committed the state to the maintenance of a high level of aggregate demand by public expenditure, budget deficits and/or cheap money policies. Two points should be made about this strategy, since it was so readily accepted as 'socialist' by social democratic parties, and even heralded as transforming the nature of capitalism.³² One is that it was the view of its founder, Lord Keynes, that the theory was specifically designed to *save* capitalism.³³

Whilst, therefore, the enlargement of the functions of government involved in the task of adjusting to one another the propensity to consume and the inducement to invest, would seem to a 19th-century publicist or to a contemporary American financier to be a terrific encroachment on individualism, I defend it, on the contrary, both as the only practicable means of avoiding the destruction of existing economic forms in their entirety and as the successful functioning of individual initiative.

The other, shared by us, *is that as soon as the general strategy became incompatible with the needs of capital, as happened in the mid-1970s, it was jettisoned by the capitalist state.*

It would be difficult to exaggerate the extent to which contemporary Australia was transformed, and in some senses created, by this long boom.

The population almost doubled, the state capital cities more than doubled in size; new industries were created and new modes of transport—particularly road and air—came to dominate the mobility of people and goods, the education system was reconstructed; the capital became a city with a new industry, government; city centres were rebuilt with monuments to finance capital; levels of consumption leaped; and a new medium, television, rose to ascendancy in the creation and re-creation of ideology. Whether the Australians of the first Long Boom played Ward's guitar around a camp fire, or McQueen's piano in their living room may be in doubt. What is not in any doubt is that after the Second Long Boom they drove home to their suburban mortgage and watched B.H.P. and Exxon take care of dolphins in the Bass Strait, Utah subsidise Australian opera, and wage slaves in the cricket industry toil over a hot pitch.

Australia's participation in the post-war economic boom, shared by all the advanced capitalist countries, created conditions not dissimilar to those of the nineteenth century boom, but with some additions. Australia's traditional primary export industries suffered from a long-term decline in their terms of trade, but new mineral exports were developed to replace them; manufacturing industry blossomed behind the protective tariff wall; a massive immigration programme greatly expanded the working class which was increasingly located in the service industries; foreign capital entered the country almost without restriction; the public sector expanded

rapidly; and capitalist Australia's military policies were directed to the defence of that world capitalist market on which its life depended and from which its culture derived.

Let us look at these issues separately. In 1950-51, wool provided 65 per cent of Australia's export earnings; by 1970-71 it was down to 12 per cent. The combination of worsening terms of trade and synthetic substitution, has produced the long-term decline of what had been Australia's staple export industry. In its place rose the minerals industry which accounted for 25 per cent of exports by 1970-71. Three points should be made about this transformation. First, the minerals industry served a different market and became a central provider for the restored Japanese empire.³⁴ Secondly, the capital invested in the industry was largely foreign-owned. Tom Fitzgerald has pointed out how that capital has been able to evade local taxation requirements—indeed in his estimation the mineral industry was actually a very large net recipient of public money during its formation.³⁵ And thirdly, the new mining industry was heavily capital-intensive and located chiefly in the northern tier of the country: West Australia, Northern Territory and Queensland.³⁶

Australia's manufacturing industry developed under conditions of protection involving direct import controls in the 1950s, and relying chiefly on tariffs after 1960. By the 1970s, a number of key issues were being raised with respect to manufacturing. First, it was highly concentrated, and of the 30 000 firms involved, 200 (87 of them foreign owned) accounted for half the output. Secondly, it was located in the south-east rim of the mainland; New South Wales, Victoria and South Australia. Thirdly, by the 1970s it was experiencing declining profit rates which had already been translated into a low rate of reinvestment and technological development.³⁷ This in turn was producing increasingly loud calls from economic pundits for a restructuring of the protection policy, as Australian manufacturing industry became more and more uncompetitive.³⁸

Jock Collins' study on the post-war immigration programme allows us to quickly summarise its purpose and effect.³⁹ The three million immigrants to Australia provided a source of cheap labour, particularly important to industrial capital. They facilitate upward social mobility for indigenous workers, but were frequently excluded from the process of parliamentary politics. They deepened the fragmentation of the working class and, initially, provided a less visible buffer for indigenous workers in areas of low pay and unemployment. All this facilitated the ideological creation of the typical Australian as middle class, occupant of an office. Two points may be made here. Firstly, it is true that as elsewhere in advanced capitalist society, the service industries provide the most rapid growth of employment. But secondly, this is merely a further application of the division of labour in the interests of capital. As the late Harry Braverman pointed out:⁴⁰

The progressive elimination of thought from the work of the office worker thus takes the form, at first, of reducing mental labour to a repetitious performance of the same small set of functions. The work is still performed by the brain, but the brain is used as the equivalent of the hand of the detail

worker in production, grasping and releasing a single piece of 'data' over and over again. The next step is the elimination of the thought process completely—or at least insofar as it is ever removed from human labour—and the increase of clerical categories in which nothing but manual labour is performed.

Foreign capital is estimated to have produced about 10 per cent of capital formation during the boom. Unlike the situation in the earlier period, the great majority of it was direct private investment in the corporate sector, not the fixed interest loans to government of the pre-war period. The capital also came increasingly from the United States.⁴¹ This capital inflow was a vital component in offsetting Australia's balance of payments, which was almost permanently in deficit. But it contained a number of potential dangers: since it concentrated in high growth sectors, the Australian economy's direction was increasingly determined overseas; if the flow payments were cut off, a balance of trade crisis would coincide with a blockage in capital accumulation; and in that instance the bondholders, as in 1931, would call the tune and repatriate profits. It should finally be noticed in this respect that, by the 1970s, Australian corporations and multi-national corporations based in Australia had begun to export capital in small quantities, particularly to Southeast Asia and Papua New Guinea.⁴² This was the origin of the base and springboard strategy.

As in the other advanced capitalist societies, the role and activities of the state were expanded greatly. This expansion has occasioned a considerable debate in socialist circles about the character of the 'welfare state'.⁴³ Although the Australian state sector is one of the smallest of O.E.C.D. states, the same considerations apply. On the one side it is argued that the state is purely a creature of capital and its expansion resulted from capital's new needs. These included passing to the state the responsibility for orchestration on behalf of this capitalist class on a whole, offsetting the problem of realising profits by sustaining high demand, producing a better trained work force, and so on. Much of this is, of course, true, but overlooks the modicum of truth in the other position—that the state does represent democratic wishes of working people, and on occasion it may seriously conflict with capital's large interests. This happened in 1974-5.

And finally, although the chauvinist and racist history of Australian cultural development helps explain some of its perspectives on Asia, the character of its post-war military policy can only be fully appreciated in the context of American imperial strategy. As elsewhere, American policy in the region was to establish a system of free movement of goods and capital. After the Second World War, with the rival imperial powers beaten senseless, such a policy in fact meant American dominance. In Asia the threats to the strategy were twofold: the old colonial empires, which were dismantled; and communist insurrection, which was everywhere met by force.⁴⁴ Australian military co-operation in this programme was only facilitated by its racist implications, which at that stage were closely tied to apprehensions about China.⁴⁵ In the late 1960s Australia became further enmeshed in central imperial nuclear strategy, with the establishment on Australian soil of a number of U.S. military installations. Those at Pine Gap (Alice Springs),

and North West Cape (Harold E. Holt), were vital elements in the U.S. global defence system. They had to be protected, and not least from subversives. On 2 November 1975, Mr Whitlam suggested, in Port August, that there were links between the C.I.A. and the Country Party; this led to the exposure of Richard Stallings, the man who established Pine Gap and befriended Doug Anthony. Whitlam lasted out the week—just.⁴⁶

The international crisis of the 1970s

The events of the first part of the 1970s were clearly seen by the capitalist class to constitute a crisis, and within its own think-tanks and newsletters, the term was used to describe political, economic and social changes. Indeed a number of major reports were commissioned to determine their origin. We may examine two of these by way of introducing the crisis.

In July 1975, the O.E.C.D. Council commissioned an inquiry into the economic problems which its member states were (and are) experiencing, from eight senior economists from the U.S.A., Europe and Japan. In June 1977, it was published as *Towards Full Employment and Price Stability*.⁴⁷ It listed the major causes. The United States policy of financing the Vietnam War led to the sparking of inflation. This was fuelled by a series of 'wage explosions' in Europe in the late 1960s. As a result, both metropolitan centres determined on a contractionist policy which produced a global recession in 1971. At the same time the efforts of the U.S.A. to maintain the value of the dollar, despite years of declining competitiveness and massive external deficits, produced, in August 1971, the breakdown of the pegged-exchange-rate system. The coincidence of a number of elections in 1972 led to early expansionary policies and a global boom in 1973. This exhibited unusual speculative features, especially in real estate and gold, which combined with crop failures to fuel inflation. In that boom, bottlenecks appeared early further fuelling inflation—and restrictionist policies were applied in late 1973. They began to apply just as O.P.E.C. price rise occurred and the recession was severe. Concern with inflation and the 'worsened apparent trade off between unemployment and inflation', led to the stimulation of 1975 intending to produce a 'moderate but sustained' recovery. It proved 'fragile'.

The report's conclusion was:⁴⁸

the immediate causes of the severe problems of 1971-5 can largely be understood in terms of conventional economic analysis. There have been underlying changes in behaviour patterns and in power relationships internationally and within countries. But our reading of recent history is that the most important feature was an unusual bunching of unfortunate disturbances unlikely to be repeated on the same scale, the impact of which was compounded by some avoidable errors in economic policy. We reject, however, the view that existing market oriented economic systems and democratic political institutions have failed.

It might be noted in this context that in his comment on the Report Mr Karaosmanogh (Turkey) wrote: 'I do not share the degree of faith expressed by the majority of the group in the working of the market mechanism. I do

not think we fully realise the political realities of concentrated economic power in the hands of a few'.⁴⁹

The report made six major policy recommendations: do not disturb the distribution of income; aim for a slow recovery which avoids inflation; announce growth rate targets for the money supply; 'try to reach a consensus on the need for higher profits and investment among the government, labour and management'; restrain state expenditure by 'automatic indexation of the various parameters of the income tax system'; and make a 'sustained effort to remove tariff and other non-tariff barriers to imports'. The fear involved in the last point is that national efforts to offset recession by protectionism could spread, lead to a collapse of world trade and deepen the recession. These recommendations provide the consensus on economic policy which emerged within the capitalist class in the late 1970s, as the most suitable means for protecting capital.

In the political sphere we may examine a report to the Trilateral Commission, *The Crisis of Democracy*.⁵⁰ The Commission appears to have been established at the onset of the crisis, in 1973, with an alliance between Rockefeller money and senior U.S. technocratic intellectuals, particularly Brzezinski. It has commissioned a number of reports including, in 1973, *The Crisis of International Co-operation*. Its major objective appears to be to re-establish a united front between the three capitalist metropolitan areas (Trilaterals) against the Third World on the one hand and the Communist power on the other. In other words it rejected the principles of the Kissinger/Nixon balance of power operation. Since its exclusive membership has included Brzezinski, Jimmy Carter, Mondale, and two Rockefellers, we must credit it some influence.⁵¹

In *The Crisis of Democracy* it is suggested that the quarter-century success story of the advanced capitalist societies has come to an end with economic stagnation. Six principal areas caused concern. First, inflation, 'the economic disease of democracy', is difficult to curb because governments are too responsive to electors. Secondly, the 'democratic surge' of the 1960s has helped undermine the capacity of democratic government itself. Thirdly, although every social organisation requires inequality of authority and distribution of functions, this democratic surge has swung too far in the direction of limiting authority. Fourth, in the Trilateral countries challenges have been made to wide ranges of social forms, including education, the family and religion, led by intellectuals and encouraged by the media. Fifth, young people are unwilling to enter the working class and immigrant labour is no longer available. Finally it fears a resurgence of economic nationalism as weak governments attempt to shift blame away from domestic failures.

The combined message of these two important documents makes clear how seriously the crisis was regarded and what will be sought. Due to some bad luck, and the excessively democratic temper of its citizenry, the advanced capitalist world ran into problems. In order to rectify this situation, economic discipline and a poorer economic performance will accompany less democracy. At the international level close inter-government co-operation will be required.

Are these fair representations of the crisis? From the perspective of capital, certainly. For the sake of convenience we may locate the sources of the crisis in two areas: within the international system and within the character of advanced capitalist society.

The first centres on the decline of American imperialism and its efforts to resist the erosion of its hegemony. As we have seen, the boom was founded on the creation of a freer international market in capital and goods from which American capital was the immediate beneficiary. Its monetary expression was the 1944 Bretton Woods agreement making the dollar, in effect, the capitalist world currency. America backed the reconstruction of European capitalism, particularly with Marshall Plan money, and Japanese capitalism during the Occupation. By the late 1950s inter-imperialist rivalries were once more surfacing as a consequence of two principal tendencies. The E.E.C. and Japan were experiencing higher growth rates and conquering American spheres. Secondly, due to the fixed exchange rates, the U.S. could nonetheless run balance of payments deficits and cover them by printing dollars. This came to a head in August 1971 when Nixon started the devaluation of the dollar, and import restrictions. Expenditure in the Vietnam War exacerbated but did not cause the crisis *which was rooted in uneven capitalist development*. The immediate result was an international transmission of inflation through the enormous boost to liquidity the dollar surplus created. The Nixon/Kissinger strategic response to this was détente with the communist world (out of weakness) in the hope of reducing military expenditure; and trade war with the imperial rivals. American ruling circles have clearly come to regard this policy as inappropriate, and the purging of Nixon was the precondition for efforts to establish what Kautsky once called 'ultra imperialism',⁵² with the Trilateral Commission playing a leading role.

Further, the integration of the economies of the metropolitan powers had strengthened as a consequence of twenty years of increasing trade and investment between them. As a result, as the O.E.C.D. report indicates, they recessed together in 1971, boomed together in 1973, and slumped in 1974. Even those relatively self-sufficient in oil, like Australia, could not escape the exaggerated consequences of those co-ordinated oscillations.

Finally, in the great world boom of 1973, the historic price relationship between raw materials produced by Third World Countries and their manufactured imports changed. The O.P.E.C. oil price rise was only the most spectacular example of this process and the one which, given the political solidarity of the member states and the absence of a short-term substitute for oil, was the most difficult to reverse. The recession which began in 1974 returned the terms of trade to the metropolises' favour, a process which even affected oil. It should be added that the short-term effects of the process were advantageous to the U.S., since it was through its financial institutions that the OPEC dollars gained from the E.E.C. and Japan were recycled. This provided a temporary respite for the dollar, the long-term stability of which would now require reduced energy imports. Carter is gearing up for this task plus an assault on OPEC in 1979-80.

The consequences of these three relations is to place a brake on economic

stimulation as far as each O.E.C.D. state is concerned. An individual stimulation could spark inflation and the destruction of the currency value associated with it; co-ordinated expansion risks a global inflation, and a new surge in commodity prices, as the Third World wreaks its revenge for the colonial epoch.

The character of the crisis within each O.E.C.D. member state can be readily ascertained by reference to the publications of that organisation, particularly the six monthly *Economic Outlook*. The issue for December 1976 charts the features of the mid-1970s crisis.⁵³ It makes quite clear that all the member states experienced the same structural features, although their intensity and relationship varied with national conditions. The principal elements were: the sharpest trade cycle recession since the war; a sharp rise in the inflation rate; an increase in raw material import prices; an unusually sharp drop in the share of profits in the G.N.P.; a massive boost to international and national liquidity; a decline in production; a sharp rise in unemployment, particularly among young people; an initial rise in the share of public expenditure; a rise in the household savings ratio; and rapid currency rate realignments. Among socialists there have been strong disagreements about the internal features of advanced capitalism that have produced these circumstances. But the essential features of the explanation may be summarised in the following form, taking the Mandel thesis as a cornerstone.

Ernst Mandel⁵⁴ argues that, apart from the institutional forms provided by U.S. imperialism, the post-war boom was founded on three processes that occurred during depression and war, 1930-45. There was an extensive destruction of capital; a widespread process of technological innovation, particularly during the war, that enabled the construction of new industries and methods of production; and the labour movement had been widely crushed by fascism and unemployment. As a result, profitable capital accumulation, the development of new industries and a relatively docile work force combined to produce the golden age of capital. Linking his analysis to that of Kondratieff, who had in the 1920s argued that capitalism experienced long-term 15 year cycles, he argues that by the late 1960s the first bottleneck had begun to emerge: stagnation in technological innovation.

The second problem relates to an explanation for the decline in profit rates, so widely documented as an emerging tendency in the 1970s. Here two schools are in evidence.⁵⁵ On the one side range those, termed by their opponents 'vulgar marxists' or the 'capital primacy school' of Mattick, Yaffe and Altvater, who stand by Marx in Volume III of *Capital*. Capitalists are forced by competition to provide ever-increasing units of capital for their labour in order to maintain themselves in the market place. This involves increasing the organic composition of capital. However, if they do *not* increase the rate of exploitation there will be a tendency for the return on additional units of capital to decline. Although a number of factors may delay the operation of this process, Marx appears to think a corresponding decline in the profit rate is inevitable. As this translates into declining

investment and output, a crisis results.⁵⁶ The advocates of this political position argue that just such a process occurred in the early 1970s.⁵⁷

The alternative perspective, termed by its opponents 'neo-Ricardianism', was first popularised by Glyn and Sutcliffe.⁵⁸ The two decades of full employment had produced a militant working class movement undisciplined by unemployment. It had used its organisational strength to increase its share of value and the G.N.P. The initial response of capital was to raise prices to maintain profit's share, but there is a limit to this process provided by competition on the world market. The result was a squeeze on profits, investment and growth; and the final consequence, stagnation. Rowthorn, in a creative review of Mandel, develops this position and aligns himself with the capital squeeze thesis.⁵⁹ He argues that capital returns were squeezed from three directions: worsening terms of trade with primary producers; the expansion of public expenditure in the welfare state; and a rise in the section of the G.N.P. accruing to labour.

Whichever of these two explanations is correct, we can agree that three consequences followed. First, the expanded liquidity base provided by U.S. dollar expenditure, and state-supported expansion of the money supply, enabled this distributionalist struggle to be initially translated into rising prices, as capital sought to protect its return. Secondly, as Stuart Holland so eloquently portrays, not all capitals experienced the same problems, and it was precisely the monopolistic and multi-national corporations that found it easiest to escape the consequences of recession and inflation.⁶⁰ Thirdly, at some stage it would be necessary for the state to intervene in the process to protect profits and the process of capital accumulation, by facilitating the cleansing process to the advantage of strong corporations, and disciplining rival claims on profit, *viz.*, its own welfare state expenditure, working-class power and Third World commodity producers.⁶¹ And this is precisely the shape that the retaliatory measures of the late 1970s have taken in the metropolitan countries. The same proved true in Australia.

Australia's 'Junior Player' role in multinational corporate total strategy

The 1970s produced two rival 'models' for Australia's future economic relations with South East Asia. The first of these is the 'New International Economic Order', which sets out the aspirations of the radical middle classes of Asia. It calls for higher and more stable commodity prices for the products of Asia; for aid grants from the West without strings attached; buffer stocks; food banks; and, above all, reduced trade and tariff barriers against Asian goods in countries like Australia and the U.S.A. Against this, Australia could become part of the second model—the U.S.-Japanese *Pacific Rim Strategy*. The Pacific Rim has been described this way:⁶²

The United States and then Japan stand at the apex of the hierarchy of economic development. They draw resources from the next tier, (Australia and New Zealand) while selling goods in their markets. The advanced countries, moreover, regard the integration of the neo-colonial countries of

the Pacific Rim into their triangular and quadrilateral economic relations as essential to the future of the 'international division of labour' in the Pacific.

In the whole conception of a Pacific Rim Strategy, a country's *status* in the 'three tiered hierarchy' determined whether it would be a raw material supplier or, as in Australia's case, also a springboard for overseas (Japanese and U.S.) investors to get into Asia. How did this figure in the planning of Australian Social Democracy 1972-75 and 1978-79? To answer this requires some more background on the pressures being built up by the multinationals themselves.⁶³

A recent study lucidly outlined⁶⁴ the faster movement in the 1970s towards Australia's economic involvement with the Pacific Rim. In January 1970, the first detailed proposals for acceleration of this process were put forward by Neil McInnes, former Dow-Jones Paris representative and now head of the economic intelligence section of the Australian security service. McInnes said:⁶⁵

The formation of one's own international companies is not just the sop to national pride needed to deal with the giants from abroad but an essential part of international corporate strategy . . . Our interest is to export [old] technology to Asia because Asians are determined to set up such industries. The export of that technology would best take place by classical means—i.e. via the international company which in this case could be our own companies. This would give Australians the feeling they were participants and not merely witnesses in the internationalization of production.

In the wake of the deepening world capitalist crisis, the appeal of this approach was underlined in advocacy of it by Japanese capitalists, the American State Department and the Trilateral Commission, with the endorsement, in general terms, of ALP leader Hayden. To explain this further we may note:

- (a) A leading Japanese capitalist planner Jiro Tokuyama waxed enthusiastic about the desirability of Australian-Japanese joint ventures in the expansion of investment in the Pacific Rim.⁶⁶ The ANU-based economists Sir John Crawford and P. Drysdale agree;⁶⁷ while
- (b) the U.S. Secretary of State, Mr C. Vance, pledged an American commitment to such expanding private investment and trade in the Pacific Rim in his speech to the ASEAN Council of Ministers on 4 August 1978.⁶⁸
- (c) More important for our purpose of study of social democracy was Hayden's full endorsement. This is significant because Whitlam had made consistent efforts to step up Australia's integration into the Pacific Rim economy, and had extolled Indonesia as the model Asian economy for receipt of Australian government aid (both civil and military) as well as Australian private capital investment.⁶⁹ That was in 1974-5. In August 1978 Hayden returned to this theme:⁷⁰

A Japanese economy of this size—greater than the rest of the Asian-Pacific countries combined—must be expected to have a major effect on the pattern of Australia's manufacturing and trade development . . . Australia and Japan have strong regional interests but their emphases have differed significantly

in the past. Those differences are lessening, however, through changes taking place on both sides . . . The most important trading and investment relation of developing countries throughout the region are with Japan . . .

The emergence of more common ground in their regional policies, their positions as permanent members of the region, and their relations with third parties—notably the great powers—offer the scope for a co-operative Australia-Japan role in regional affairs.

For the rest of the speech Hayden called for official, business and academic *joint-ventures* with Japan to get into the Asian-Pacific economy, with some specialized attention on Papua-New Guinea and long-term development investment in the area. He then went on to support the Report of Sir John Crawford and Dr Saburo Okita which lays out the detail on how this might be done.

Whence came the increased pressure on the A.L.P. to get away from Connor's policy and back to Whitlam's 'eighteenth-century' offshore factory and 'springboard into Asia' concepts? One clue is the 'new wave' of plans issued by the Trilateral Commission.⁷¹ This Rockefeller-dominated body produced specialized reports on food, minerals, and multinational development of South and S.E. Asia.⁷² It also produced another series, called the 'Triangle Papers' which call for the integration of the two Communist Asian giants—China and Vietnam—into the Pacific Basin economy.⁷³ How was this to be done?

First, the Japanese, under American prodding were to give China a 'technological fix'—massive transfers of technology over the next 15 years. In return, China would be pressed to continue its moderate (right-wing) lurch in domestic economic policy and 'open up' even further to trade and investment from the capitalist world. Vietnam would get U.N. help, some (disguised) reparations from the U.S.A. and membership of ASEAN in return for a softer policy on multinational corporate investment in the country and cancellation of physical and moral aid to Asian guerilla movements.

Hayden was not slow to take up the Trilateral cue,⁷⁴ advocating Australian support for Vietnam's quick entry into ASEAN and the Pacific Basin economy. Brzezinski appears to have successfully persuaded Japan to provide the planned technology transfers, and then visited China in May 1978 where he announced general agreement between the U.S. and Chinese government on *all* issues. The U.S. also exercised pressure on Vietnam directly (U.N. help) and indirectly (the China-Vietnam border, the Chinese 'minorities' in Vietnam disputes and pressure from the ultra-nationalist Kampuchean leadership of 1977-78 on the Vietnam border) with the result that Pham Van Dong was able to visit ASEAN countries for trade and aid talks.⁷⁵

Should these plans succeed—the integration of a fifth layer (China and Vietnam) into the 'quadrilateral' Pacific Rim—there would be a pentagon or a pentagonal instead. In 1978, Hayden, as well as leading Social Democrats in the Trilateral Commission, clearly considered this a result devoutly to be wished.

Australia and the crisis: Social Democracy's response

The 1970s crisis that developed in Australia, as in the 1890s and 1930s, was a result of two interacting tendencies. On the one side, all the features of the international crisis were transmitted through the movement of capital and the dramatic fluctuations in international trading conditions. On the other, this coincided with a purely *domestic* crisis involving the need for a restructuring of particularly the manufacturing and construction sectors. These processes culminated in state intervention to protect capital's social dividend and to discipline public expenditure and the wage fund. In the first instance, however, its manifestation was merely the election of the first Labor federal government in twenty-three years.

In socialist literature, two general propositions are frequently argued about social democratic governments in office. One is that they only come to office in times of crisis which, as they are unable to resolve it in a socialist direction, produces their downfall, either through electoral defeat or via a swing to the Right which eliminates most of their social democratic features. The other is that because of their greater distance from the internal faction fighting of the capitalist class they are, on occasions, able to impose political solutions to the advantage of that class as whole, which more overtly capitalist parties find themselves too divided to undertake. Without wishing to contest the validity of these points, a third proposition should be added: social democratic governments may also, by accident or design, act in a manner contrary to the interests of capital. All these propositions were, at different times, true of the federal Labor government 1972-5.

We charted elsewhere the history of modern Labor government in Australia.⁷⁶ In this essay attention is now drawn to some wider conclusions from its performance, but first we need to ascertain the reasons for its 1972 electoral victory. There are a number of 'psephological' studies of the election that depict the areas and classes where votes swung, the policies which may or may not have accounted for them and the organisational features of the parties' campaigns.⁷⁷ There was, however, a vital factor which enabled Labor's leader to appear charismatic and its policies attractive. The crisis, which had opened with the 1971-2 recession, had produced deep divisions in the capitalist class which were reflected in three years of savage political infighting in the coalition government. Connell and others convincingly attributed these divisions to four major sources: how to deal with foreign capital inflow; what to do with the tariff and exchange rate levels; whether to move in Gorton's centralist direction; and divisions over the extension of state power into areas of economic planning.⁷⁸ The consequences of these divisions were to discredit a disunited coalition government. Further, some fractions of capital, for the first time in two decades, broke with the tory parties and, since the Labor Party supported their views on the above issues, threw their weight behind social democracy. As a result Labor had the money and media support required for victory. It was on that basis that the 'It's Time' coalition was constructed: but it depended on the support of fractions of capital for its existence.

During its first term, December 1972 to May 1974, the Labor Government demonstrated that in most areas of economic policy it was *less* committed to government intervention than its coalition predecessor. With a view to increasing the economic growth rate in accord with 'free market' economic doctrines which its appointed advisers (Gruen etc.) upheld, it set about forcing 'competition' on the domestic corporate sector and rationalising' the extensive system of subsidies and supports that had developed haphazardly over the previous twenty-three years. This was the central purpose of the establishment of the Industries Assistance Commission and the strengthening of the Trades Practices Commission. They were to be buttressed by tariff cuts and a rationalisation of government revenue collection via the Coombs task-force whose report was a virtual manifesto on behalf of market forces. The role of the two major parties, Liberal and Labor, had become almost the exact opposite of their respective ideological rhetorics: the Liberals had come to represent state intervention via a 'hydra-headed' planning machinery; Labor the 'dream-world' free market forces of the neo-classical economists. As Whitlam put it on 30 August 1973 when addressing the New South Wales Chamber of Manufacturers:

Today we have plenty of competition, of modernisation, of free trade—even perhaps, of free enterprise in its most genuine sense—in the Labor Party. What you are experiencing now is the impact on the Australian economy of the first genuine free enterprise government in 23 years.

The Labor Government was able to engage in a restructuring process for one central reason: it was presiding over Australia during the great global boom of 1973. Hence it could cut tariffs and revalue the currency without dislocating employment; expand welfare services without cutting into capital; restrict capital inflow of a speculative character, which had sparked the inflationary spiral during the preceding two years, without feeling the effects of a capital strike; it could afford a militant posture towards its foreign markets (Connorism) since a commodity boom was in any case underway; and it could support an increase in real wages. Since it repeated its electoral victory in May 1974 it even seemed possible that a state-directed cleansing process could be undertaken—and relatively painlessly at that. We leaned to that opinion in *From Tweedledum to Tweedledee*. The failure of the strategy followed quickly after the second election victory (and the publication of that book!).⁷⁹

The crisis which unfurled in Australia in 1974 exhibited the same general features that were earlier described with respect to the other O.E.C.D. states. In Australia's case, it was compounded by three other features. First, there was a sharp drop in the rate of capital inflow, springing from a combination of government restrictions on it and the apprehensions of multi-national corporations about the nationalist aspirations of the government. Whether this amounted to a campaign to destabilise the government may be disputed—it certainly assisted this effect.⁸⁰ Secondly, there was a sharp drop in the share of the G.N.P. accruing to profits which had been fairly stable (allowing for cyclical fluctuations) since the massive redistribution to profits

undertaken by the Menzies government in the early 1950s.⁸¹ Although typical of a normal trade cycle recession it was particularly large—6 to 8 percentage points—and occasioned an investment strike at a time of record industrial militancy by organised labour. Thirdly, this was worsened by the fact that the manufacturing sector had been experiencing a declining rate of profit since the mid-1960s—a fact that the 1973 boom had disguised. And, as elsewhere, the speculative features of the early 1970s had led to overproduction of central city high-rise development, which caused a sharp contraction in 1974, particularly in Sydney.

The contraction, therefore, occurred as a result of a combination of these external and domestic factors, and at the time that the *inflationary* effects of the world monetary instability (transmitted to Australia via the \$3 billion capital inflow in 1971-2), heightened by rapid food price rises, were becoming most marked. After toying with the deflationary measures urged on it by the state machine in mid-1974, the Labor government at last determined on a Left-centre strategy. This had three principal—and contradictory—elements.

First, the 'wages explosion' of 1974 was to be contained. As in many of the other O.E.C.D. states, the traditional wage fixation procedures had broken down after two decades of full employment. In Australia the jailing of Clarrie O'Shea in 1969 had occasioned this development. Accepting the need to restrain the wages share, the government produced two policies: a 'social contract' budget in 1974 designed to trade off welfare benefits for wage restraint; and, in April 1975, a reimposition of state authority over wages via the Arbitration Commission and wage indexation. It may be seriously doubted that either would have worked without that mechanism which follows quickly an assault on capital's return, *viz.*, unemployment.

Secondly, under Dr Cairns the state did not discipline its expenditure—on the contrary it was precisely at that time that public sector outlays rose as a percentage of the G.N.P. in an effort to pump-prime the economy. Although this was endorsed by wide sectors of capital, grateful for the efforts to stimulate their markets, the nerve centre of capital, finance, was soon complaining.

Thirdly, in an effort to restimulate investment, two contradictory lines were followed. On the one hand, the controllers of capital were assured that the government wished to lift the profitability of its new investments and various moves were made with this intention. The Prices Justification Tribunal was urged to allow price rises to increase profitability; import restrictions were reimposed and the dollar devalued; in some cases outright grants were made to corporations. Yet, at this time two serious attacks were being made on capital with a view to expanding the role of the state in the reproduction process. The first was the effort to tap the massive funds cornered by the OPEC states in 1974 and yet to be recycled, by means of a government loan to undertake national investment projects in compensation for the foreign capital strike.⁸² The second was the efforts to implement the A.L.P.'s Terrigal resolution and establish a government life assurance office and harness a major source of finance capital's revenue.⁸³ In both cases the

retaliatory actions were savage, fuelled by the media in a campaign of salacious scandal and monetarist doctrines.

Following the consequential divisions within the government, this contradictory strategy associated with Messrs Connor, Cairns, and Cameron was abandoned. That which followed was the standard O.E.C.D. model for dealing with the 1970s crisis: discipline the work force, in this case through the Arbitration Commission's indexation procedures; restrain the state sector and lift the squeeze on profits, in this case inaugurated in the 1975 budget which sought to give the private sector room to grow; and reinvigorate foreign capital inflow by reducing the restrictions on its activities. It was with this policy that the government fell.

What broad lessons may be drawn by socialists from the history of the Labor government? Or to put the matter in Marxist form, what strategies do the owners of the means of production, distribution and exchange have at their disposal to prevent their expropriation by a reforming government elected to office in a capitalist state?

The first defence line is to prevent radical Social Democrats getting elected at all, and the historical record of advanced capitalist societies shows that this line is rarely breached. Although gerrymandering and electoral maldistributions may facilitate this process, as social democratic parties are quick to complain, the principal tool is ideological. Curricula in the education system rarely adopt a critical perspective on the free enterprise system and indeed the essence of that vitally important subject, economics, is to presuppose its existence. Further, in the process of education itself, class roles are created and sustained.⁸⁴ This base is continually consolidated by the media, which is in Australia dominated by four profit-seeking and -making corporations who need no prompting to propagate ideas in conformity with their interests.⁸⁵ Politically, they will normally support right wing parties, although in the event of a left-of-centre victory appearing likely, they may throw their weight behind its most moderate spokespersons and policies, as happened in 1972 and 1974.

The second line of defence is a capital strike in the event of its social dividend being assailed and its prerogatives challenged. A cessation of investment programmes—undertaken for whatever reason—will have the immediate effect of slowing economic growth and increasing unemployment. The media can be relied on to blame the government and perhaps throw in a few salacious personal scandals for good measure.

Third in line stands the state itself. In the first instance ministers encounter public servants whose successful career has been founded on the process of administering a capitalist economy. In addition, as highly paid persons they have little personal stake in achieving a massive redistribution of income, wealth and power. Their links with the private sector are often considerable.⁸⁶ And, since constitutions have typically been created by persons of power and wealth they contain extensive provisions to avoid any dramatic alteration in their distribution.

Finally, it should be added to this catalogue, that armed force stands in reserve. In the advanced capitalist countries since the second World War it

has mostly remained there. But in the Third World the list of interventions against reforming governments by both domestic and foreign military forces constitutes one of the great indictments of the system in which we live.

'The State would certainly need to support Capital's share'⁸⁷

The State has four main functions from the point of view of those with a stake in the country. The first is to take responsibility for adjusting claims when the economic system has reached crisis. The second is to administer the essential services, like railways in the operation of which private enterprise could not see much profit. The third is to nurture enterprise including well-capitalized undertakings, by means of tariffs, bounties and other concessions. The fourth is to take responsibility of restoring to private capital from time to time, as far as is practicable, power that has been taken from it . . .

Brian Fitzpatrick, 1940⁸⁸

The Liberal-Country parties that romped home in the December 1975 election following the gubernatorial *coup* and on a platform of blaming the Labor government for the economic crisis, had had ample opportunity to reflect on the situation. After a lurch in the direction of Right Keynesianism in 1974 under Bill Snedden, a new strategy was formulated in 1975. During the hiatus between the first, unsuccessful, and second, successful, effort to displace Snedden, his rival Malcolm Fraser delivered an important speech at the A.N.Z.A.A.S. conference.⁸⁹ In this programmatic statement he distanced himself from the then Liberal leadership. He commenced with a strong attack on Keynesian policies, then being pursued by Cairns and advocated by Snedden, deeming them inappropriate. He located the source of the problems in two areas: 'Trade union leadership is no longer fearful of large scale and continuing unemployment'; and 'national governments have lost the art of restraint'. In addition, Labor's restructuring policies were disastrous: 'You cannot restructure all of industry at once, knock profits and destroy the market basis of companies and expect employment to be maintained'.

Fraser's A.N.Z.A.A.S. statement of 1975 proposed a four-point programme to overcome the crisis. First: 'massive incentives for private expenditure . . . In blunt terms industry, the private enterprise sector, needs a larger share of gross national product'; second, 'a consequential and phased cut in Government expenditure'; third, 'we must reinforce the division of power in Australia and return to a federal system of Government'; fourth, 'a renewed acceptance of a legal framework for the settlement of (industrial) disputes'. In the succeeding three years this programme, which as we have seen represents capital's strategy for the crisis, was adopted by the Liberal Party, displaced the Labor programme in office, and was confirmed at the December 1977 election. How does it work and what are its consequences?

During its last six months of the Whitlam Government, the state had begun its intervention on behalf of capital to ensure the process of accumulation. Following its electoral victory of 1975 the coalition government attached a new urgency to the policy. State controls on prices, via the Prices

Justification Tribunal, and collusive corporate practices, via the Trades Practices Commission, were relaxed. 'Domestic' capital, (which might actually be foreign owned), was afforded new levels of protection with commitments to a new policy of market shares.⁹⁰ As Ian MacPhee, later Minister for Productivity, argued in response to socialist analysis of the distribution of wealth and income in Australia: 'At times of economic recession—such as Britain has been experiencing over this period of study by Glyn and Sutcliffe—one would expect the capital share of the national income would drop, and if you believe in a mixed economy, then the state would certainly need to support capital's share of the mixed economy'.⁹¹ Similarly taxation concessions were introduced—including an investment allowance and revised stock valuation procedures—which had the effect of not only reducing corporate tax levels but also encouraging the redeployment of capital to the process of accumulation. In April 1976, the leading business newsletter *Syntec* warned that stable Australia was 'at risk' if profit levels were not raised to their pre-existing share of national income.⁹² In May 1977, Treasurer Lynch made clear that his primary objective was the restoration of profits' share of G.N.P. at 17.5 per cent; at that stage it had been restored to 14.7 per cent. He added, 'In the view of this government, restoration of that profit share to normal levels is an absolute precondition for the restoration of economic growth, for the further curbing of inflation and for the provision of employment opportunities'.⁹³ By the December quarter of 1977, profits as a percentage of G.N.P. had in fact tailed off to 14.1 per cent as the economy once more contracted.

The second and concomitant objective was the reduction in the real wage level. This was undertaken principally through the indexation system which had been created by the Labor government. In the eight decisions which followed the coalition's accession to office, in only two was the full value of the increase in the consumer price index passed on in the form of full wage indexation. This followed from the Commission's acceptance of the government's submission, that real wages needed to be reduced, in order to check inflation and lower the price of labour to a level where its employment could become more widespread. In this respect the government argued that the ratios established in the 5 years 1968-73 had been disrupted, and that the Commission should play its part in restoring the wages-government-profits proportions. This campaign had the support of a number of professional economists anxious to argue the existence of a 'real wage overhang' as a cause of unemployment. According to this concept, derived remotely from Keynes, if wages grew faster than productivity they should be pegged back, since they would be 'excessive' and productive of inflation. In other words, income cannot be distributed from capital to labour in a capitalist society. This went against all that John Stuart Mill wrote in his *Political Economy* about the laws of distribution *not* being inexorable but subject to social decision. However, for the backers of Fraser, the 1968-73 income distribution was a law of nature beyond reproach.

Subsequently in two consecutive budgets, 1976 and 1977, the social welfare share of the G.N.P. (excluding unemployment benefit) was con-

tracted.⁹⁴ Involved here were three processes. First, public expenditure on social welfare programmes—education, housing, health, urban and regional development—were contracted in real terms, and the social wage was reined in tightly. Secondly, despite the indexation of the income tax scales, the new Medibank levy ensured that the contribution to state levies made by wage and salary earners would expand. The combination of this and the partial indexation of wages led to a skilled metal tradesman losing between 20 and 25 dollars a week in real terms during the first 2 years of coalition government. Thirdly, the tax burden on profits was lifted by the new deduction concessions to such an extent, that the *rate* of profits tax had to be increased in 1977 in order to avoid a rather transparent fall in total company tax in *money* terms.

Increasingly, in the circles of government economic advice, it was proposed that the rate of inflation would be progressively curtailed, although not immediately, since the restoration of profit's share assumed an increase in prices while it was achieved. The depressed economy, a tight control on the money supply, a contraction of real wages and a dwindling public sector would theoretically achieve this effect—at the expense of working people. The government also hoped to reinvigorate foreign capital inflow. On first assuming office, its policies differed little from the newly-relaxed equity requirements Labor had introduced in late 1975. Mr Anthony quickly came in for criticism from his Country Party branches in Queensland and West Australia for this posture. During the following two years, even those restrictions were gradually eased. But despite optimistic statements concerning the possibility of 6 to 12 billion dollars of investment being in the pipeline for minerals and energy development, little concrete resulted.⁹⁵ In fact, on the contrary, the lack of capital inflow to offset the usual balance of payments problem put considerable pressure on the dollar. In November 1976, it was devalued following an inspired leak concerning cabinet discussion to the *Melbourne Age* which led to the reorganisation of the Treasury. In late 1977, the dollar came under further pressure, only to be temporarily sustained by government borrowing overseas of a sum comparable with that sought by Connor in 1975. The government's anxiety to gain capital inflow also ensured it could do little to check the repatriation of corporate profits, of which Utah's \$137 million in 1 year was but the most spectacular example.

By mid-1978, however, it had become clearer that government policies, however in accord with the interests of capital they might be, were not producing sufficient results. Following the lifting of serious electoral constraints by the December 1977 election victory, the Fraser government began to step up its efforts to bolster the corporate sector. It also issued two bleak diagnoses of its prospects. At the June 1978 Premiers' Conference, Fraser warned that the international economy would remain depressed for some years but that when some recovery became evident foreign corporations would first evince interest in 'disciplined' economics. He intended making Australia such an economy, with minimal inflation, strikes wage rises and interference in capital's prerogatives. This could be viewed as the '1970's Premiers Plan', this time initiated at the behest of international private

capital rather than the Bank of England. The Treasury's analysis of the economy, contained in the 1978 budget papers, similarly contained few optimistic projections: profits remained too low, wages too high, capital inflow minimal and the balance of payments in regular deficit.⁹⁶ The 1978 budget corresponded to these diagnoses and sought to use fiscal policy to further increase net profits by reducing corporate taxes and increasing the subsidies to corporate profits; and by increasing taxes on workers and reducing social wage expenditure. The sum transferred by this mechanism alone would be approximately \$1.5 billion in the fiscal year 1978-9, the same sum Labor had promised to transfer by a slightly different scheme during the December 1977 election campaign.

Three aspects of the reaction to the 1978 budget, which even the capitalist press had to concede was the most savage since the early 1950s, should be noted. First, both domestic and foreign stock exchanges reacted with a sharp rise in share prices, with finance and mining companies leading the surge. However, the windfall gains the budget provided to multinational corporations gave no assurance that capital inflow would be in sufficient quantities to offset the continuing balance of payments problem. Indeed, by 1979 the position was even worse, with at least one Wall Street broker having warned that Australia's 'Triple A' borrowing status was at risk following the massive government borrowings (about \$4 billion) to maintain reserves levels.⁹⁷ The screws would need to be tightened further. Secondly, the budget produced widespread industrial and political protests from the Labor movement, and campaigns were initiated by some of the more militant unions to gain compensation not only for the gross drop in earnings administered by the Arbitration Commission, but also for the further nett losses which the increases in income and indirect taxes now imposed. Thirdly, the ALP federal leadership received a considerable filip to both its morale and its standing in the public opinion polls. The question was: what would it do?

We have documented elsewhere in this essay the party leadership's acceptance of the international reorganisation of capital, and the consequential redistribution of Australian capital and labour which may be summarised as 'the Pacific Rim Strategy'. We have similarly outlined its acceptance in 1975 of the need to regulate wage and public spending policies, to accommodate the demands of corporate capital. But by 1979 the issue was being more sharply posed. Would Labor be prepared to undertake the massive redistributionalist programme and reduction in the real wage level that had emerged (as in the 1930s), as the consensus policy demand among corporate planners and their ideological agents, the bourgeois economists? There were already indications that Labor would engage the 1980 election contest with an affirmative answer.

In New South Wales the State Labor Government stood for the 1978 State election essentially on a platform of having made the state attractive to multinational corporate investors as a result of its programme of subsidies and controlling the work force. Following its handsome electoral victory, it emphasised its 'moderation' by threatening to use emergency powers to

force striking unionists back to work. The South Australian State government, under an intense media campaign and the threat of a strike of capital, reacted in a similar direction. Its 1978 budget slashed unemployment relief schemes by \$14 million and redeployed the savings towards an extensive system of subsidies for private capital. The latter were widely advertised alongside a photograph of a carrot!⁹⁸ It also sought to borrow overseas \$185 million of the state government's proposed contribution of \$253 million for 'infrastructure financing', to subsidise a petrochemical plant to be constructed by Dow Chemicals, the napalm manufacturer. Similar moves were being urged on the federal leadership.

The centrepiece of Labor's 1977 federal election platform, the redistribution of \$1.5 billion from wages to profits, had been the brainchild of one very influential economic journalist. During 1978 another entered the lists; P.P. McGuinness, the economics editor of the *Australian Financial Review*, and former full time adviser to Bill Hayden, began to campaign in those papers most widely read by corporate executives and senior officials of the state apparatus. In a series of articles⁹⁹ he argued that it was the consensus among businessmen and professional economists that real wages should be reduced more rapidly and profits increased. The Fraser government was trying to achieve this desirable objective but was being obstructed by various institutional forces, including the Arbitration Commission and the High Court, and the resistance of unionists who would not collaborate due to the Government's confrontationist policies. In private, however, both union officials and rank and file conceded that wages should go down. Hence what was required was a government capable of negotiating the necessary reduction. The Labor Party would be able to fulfil this role. In such fashion is social democracy groomed as the alternative party of capital, able to more harmoniously implement capital's interests, owing to political affiliations with organised labour. The Australian scenario is for a re-run of Britain 1974 when Wilson's social contract proved more capable of reviving corporate fortunes than had Heath's Selsdon Man and statutory wages policies, with all the overt class conflict they produced.

The Fraser Government's strategy was thus fully in conformity with the needs of Australian capitalism when faced with the crisis of the 1970s. Given Australia's role in the world capitalist system and the position of its indigenous capitalist class, there remained some ambiguities, particularly concerning the level of protection, but its thrust was evident: a restoration of the corporate sector at the expense of the welfare state, the wage fund and the growing number of unemployed. It is to the structural, international and political implications of this model we must finally turn.

Internal and external dimensions of the crisis re-stated

The function of the crisis is the destruction of capital values. Or to put the same thing another way, its effect is to liberate capital and create a reserve army of labour, both of which may be redeployed in industries more appropriate to the needs of the domestic and world capitalist market. This is the

'cleansing process' or 'shake out' that capitalism, as a mode of production, periodically undertakes in order to renew and refurbish itself. The early Labor government's efforts to achieve this, under state direction, failed. The present government is permitting capital to undertake that task while making certain adjustments and handouts to ease the pain for its supporters. What will be the effect of the structural change?

Domestically, the principal effect is the winding down of large sectors of manufacturing industry. The Industries Assistance Commission,¹⁰⁰ itself formed by Labor as an instrument for the shake out, the inter departmental Project Impact¹⁰¹ and a series of economists¹⁰² have urged that this task be undertaken in the interests of furthering Australia's 'comparative advantage'. The shipbuilding industry was an early casualty. Textiles, footwear, furniture and, later, automobiles will follow. Their optimistic projections are that, eventually, the labour and capital thereby liberated will be redeployed in the minerals, energy and service industries, although they offer no guarantee in this respect.¹⁰³ As has already been pointed out, any future foreign capital inflow is likely to be in these directions, as was the case in the early 1970s.¹⁰⁴ Further, the two largest national corporations, B.H.P. and C.S.R., have made clear in their investment programmes announced in 1977 that they see their future bound up with mineral development.

The effects of this development are far reaching. Firstly, the minerals and energy industries are export oriented and depend on world market conditions for their success, unlike the domestic-oriented manufacturing sector. A depressed world market—likely until the 1980s—ensures minimal capital inflow, low export earnings and balance of payments crises. Secondly, they are highly capital intensive and unlikely to provide employment opportunities on the scale required to compensate losses in manufacturing. This is useful for class discipline. Thirdly, they are geographically remote from the major population centres built up during the industrialisation epoch.¹⁰⁵ And fourth, particularly if the New Federalism's dispersal of political power gains force, the states of Queensland, West Australia and Tasmania (and possibly Northern Territory?) will acquire more political weight—and continue their swing to the Right as local capital and state apparatuses see their development future as dependent on the growing presence of multi-national capital.¹⁰⁶ Finally, no tax of any kind has been placed on super-monopoly rents, as is the standard practice in other O.E.C.D. states.

Externally this process involves a realignment of Australia's role in the world market as pointed out in an earlier section. This will involve a number of changes. First, Australia seems likely to become a vital source of minerals and energy for the metropolitan powers, particularly Japan,¹⁰⁷ especially if (and when) uranium is developed. Secondly, Australian-based multi-national corporations and the larger Australian corporations will penetrate southeast Asia with industrialisation programmes based on the exploitation of thoroughly cheap labour. Australia will be a base and springboard for capitalist penetration of ASEAN,¹⁰⁸ where import-substitution development strategies are being discarded for export-oriented industrialisation programmes based on multi-national capital.¹⁰⁹ Thirdly, the political repercussions of this

process involve a closer integration with the governments of the region and complicity in their repressive and militarist policies.¹¹⁰

In orthodox academic circles, two favourite models of development, recommended as an alternative to national liberation, are Taiwan and South Korea. As to the former, Gregory Clark (*In Fear of China*) has pointed out that considering Taiwan could draw on massive U.S. capital (for strategic reasons) and an efficient Japanese education system (imposed in its colonial period), and the skilled bourgeoisie fleeing from China, it would be surprising if, under these unusually auspicious conditions, Taiwan did not produce above-average growth. South Korea owes its economic boom, such as it is, to two major circumstances: female slave labour (58 hours per week at 20 cents an hour) and the technological transfer from MNCs—technology and management skills of an extraordinarily productive kind.

How does all of this affect Australia? It means there is an additional reason why Hayden can't 'do it'. Alongside the traditional socialist objections to Keynesian demand management techniques—that they are elitist, technocratic, undemocratic and operate to consolidate the prerogatives of capital—must be added another: they can't work. In a world where the internationalization of production and capital movement is already a reality, the leverage possessed by a government in a country the size of Australia over capital location and production output is severely limited. This is particularly so in a region where the attractions of Free Trade Zones—12 of which now function in Sri Lanka, the Philippines, South Korea and Malaysia—taxation holidays, free land, power, water, and cheap and oppressed labour are widely publicized.

The external dimension to inflation should also be borne in mind. The O.E.C.D. and the Fraser government always tend to depict inflation in terms of internal domestic changes in consumer prices, or the result of domestic budget deficits; yet domestic deficits are *not* inherently inflationary if a country disposes of adequate foreign reserves. The Australian ones have been historically inflationary, not because of 'real wage overhangs' or trade union greed but because of Reserve Bank bungling in the management of Australian reserves, and the weakening international balance of payments position. Inflation is largely reflected in the declining spending power of the Australian dollar as compared to gold. The Reserve Bank, instead of assessing this in the 1960s, persisted in accumulating currencies destined to be soft ones. This fact, with the poor assessment by international currency markets of Australia's economic performance, has accentuated real inflation—the falling value of a dollar against gold.

It is not necessary to be a bullionist to spell out this particular dimension of the crisis: inflation is *not* merely domestic prices reacting to changing costs, be it wages (as argued by the Fraser government and neo-classical economists), or dearer imports, interest rates, the taxation system etc. Rather, an all round assessment of inflation means going beyond movements in the Consumer Price Index and noting the assessment of our currency's purchasing power by world market prices, the effects of which can only be temporarily staved off by extensive overseas borrowings. With

no higher economic performance, no increase in the real value of output, no tangible collateral, there is no solution to this external dimension to inflation. This situation is compounded, as Australian export earnings and Reserve Bank holdings are chiefly in soft devaluing currencies—like the \$US—and its import bill increasingly in more stable revaluing currencies—like the mark and yen.¹¹¹

Labor, social democracy and capitalist crisis

We have referred elsewhere to the trade cycle as a method of ‘cleansing’, of flushing out obsolete capital stock or capital investments which are depressing the average rate of profit. A crisis is one way by which the system of capitalism can be refurbished at a higher level of technical efficiency. The alternative is a planned strategy of moving new capital and labour from less to more productive sectors. The Whitlam government first tried the latter. Running into problems, it let the former do the job.

It might be anticipated that a cleansing process like the crisis of 1974-5 would prove electorally unpopular. Indeed its early ‘flush-out’ led to the demise of the Labor Government whose unpopularity was an essential precondition for the coup of 1975. Why was the same not true of the coalition government? In early 1976 the Labor Party was urged to develop a countervailing strategy to mitigate the effects of the crisis. In the event it took the course of saying little about alternative strategies in the belief that Fraser would fall like a rotten apple.¹¹² And indeed the Fraser government’s public support steadily declined during its first two years,¹¹³ and on the announcement of an election for December 1977 a Labor victory seemed a possibility. The government then unveiled its secret weapon: Labor did find a policy. First, its policy speech promised to abandon the (highly regressive) income tax cuts scheduled for 1 February 1978, and redistribute one and a half billion dollars from wage and salary earners to capital by simultaneously scrapping payroll tax. Mr Fraser dubbed it (correctly) a handout to multi-national corporations. Second, Senator Wriedt announced that the party would reduce tariff protection if elected. Mr Fraser (correctly) announced this would increase unemployment. Third, at Melbourne Trades Hall, Mr Hayden said he thought party policy was *not* to support full wage indexation. Public opinion polls swung sharply against Labor and in the election it performed about as well as in 1975. This result does not vitiate the ‘cleansing’ analysis¹¹⁴ referred to above. What it shows is that a social democratic government can only make windmill-tilts at the whole problem of structural crisis unless it can stay in office for 40 years (as with the Swedish Labor Party), or is prepared to make a concerted assault on the citadels of economic power (as J.F. Cairns, in opposition, had been demanding for a decade). Indeed, Mr Hayden had expressed the same view himself ten years earlier in his Fabian pamphlet, *The Implications of Democratic Socialism*:

A democratic socialist government is faced with two alternatives. It can *work for* the ‘commanding heights of capital’ by not resisting the economic power

which these 'heights' represent. In this way moderate and uninspiring reform could be achieved at a depressingly slow rate. The alternative is to resist this power and to build up a countervailing centre of power through competing state enterprises to moderate the established power of capital, and thus be free to carry out a more radical . . . reform policy.

Instead, there was a profound political re-alignment within the Whitlam government as a result of its inability to do either, and this was confirmed at the half-hearted election bid in December 1977. The main effect of this realignment was eventually stated in blunt terms by former A.L.P. Minister for Labour, Senator J. McLelland:

While industries need to be phased out . . . and populations moved from one centre to another if Australia is to overcome problems . . . It will require collaboration with the unions but it cannot be accomplished by a party which is dominated by the unions. So long as it is now perceived as a party which can nearly always be leaned on by the unions, it can never emerge as the party of national consensus. (It is) heartening to see Labor policy moves which qualify certain sacred tenets such as nationalization. Nevertheless the objective is still here, although in diluted form.¹¹⁵

Such is a 'Swedish' Social Democrat's vision, turned sour and turning in upon itself, as the frustrated social democrat rails against the working class for standing in the way of re-structuring, whether by market force or by sheer force. In summary, the federal Labor leadership had become irrelevant as an instrument for defending the interests of Australian working people in the face of the deepening crisis for two reasons: it could not win elections; and even if it did, it intended to act as the agent of capital in an assault on labour.

Lest we be misunderstood, our argument is not merely that 'leaders' mislead the public, or the workers, or their supporters. The policies are the result of the social forces at work which produce the policies which the 'leaders' are pushing.

In Canada, Prime Minister Trudeau moved from a liberal economic position to a Keynesian reflation policy, and finally to a very conservative stance close to that of the Fraser government here, with real wage cutting, cutting back on social services, maintaining a permanent pool of unemployment.¹¹⁶ The same forces and the same changes have been 'rung' in Australia, except that three different governments were involved in promoting the required changes in social and economic policy. Anyone who has closely followed P.P. McGuinness, the economics editor of the *Australian Financial Review*, who has been in turn a welfarist, a monetarist, a Labor policy adviser who wanted to go back to less strict budgetary cutting and, finally, an advocate of real wage cuts, will see that the 'Trudeau Case' is not an exclusively Canadian phenomenon.

What general conclusions can we draw from these episodes about Social Democracy under conditions of late capitalism? During 1931, the Great Depression struck the U.K. A Labour government headed by Ramsay Macdonald was in office. The Minutes of Cabinet meetings held at that time show that the majority, under enormous ruling-class pressure, conspired

with bankers, overseas investors and their own political opponents in order to rat on the labour movement as a whole.¹¹⁷ The Budget deficit became the lead-cow of the whole operation; from the followed cuts in the size of the dole payment and in the state's grant to education. A package was evolved, which on Macdonald's own admission, at a Cabinet meeting on 23 August 1931, 'represented the negation of everything that the Labor Party stood for'; yet he was 'absolutely satisfied that it was necessary in the national interests to implement them if the country was to be secured'.¹¹⁸

Scullin, as we saw, took the same line in Australia after the removal of 'Red Ted' Theodore in 1930. Later, a deal was made so that Joe Lyons, Labor leader, went over to Menzies as new head of a Coalition government. This was one of the biggest betrayals of all time, engineered by Melbourne financiers with Menzies acting as their agent. In 1972, Whitlam and the 'It's Time' media brainwashers, 'headed off at the pass' the grassroots movement that had been built up during the Vietnam moratorium, and ended up in 1975 with a 'Hayden budget' that cut education and workers' welfare, and made the budget deficit as big an obsession as Ramsay Macdonald had done.

Throughout 1977 and 1978, in interviews with the press¹¹⁹ and business journals,¹²⁰ and in discussions with trade unions, W.G. Hayden as leader of a new move to the Right supported by capital and many A.L.P. members, made it clear he was out to do the same. The package was to be called 'rational economic management'. But this time 'basic Labor policy' was re-asserting itself more strongly, with grassroots calls for more socialism, no selling out to multinationals and no more shifting the burden of the crisis on to the working class.¹²¹ The largest union in the country, brushing aside Whitlam's 1972 claim that geography rather than ownership patterns caused inequality in Australia, in 1979 published a mass-circulation study of inequality under the title, *Australia Ripped Off*.

In its *Australia Ripped Off*, the Amalgamated Metalworkers and Shipwrights Union issued an analysis of the crisis and a set of proposals which run contrary to those of Hayden for dealing with it. Their analysis started with the basic feature of Australian society; its massive inequalities. It was pointed out that wealth was so unevenly distributed that the richest 2000 owned more than the poorest two and a quarter million; that income was as unevenly distributed as in the U.S.A. or U.K.; that its distribution had not changed significantly since the First World War; and that the economic policies of federal governments were firmly determined by the corporate sector. *Australia Ripped Off* provided graphic descriptions of the means by which fiscal and taxation policies were used by ruling circles to maintain these inequalities and, indeed, to increase them, as achieved by the Fraser government.

The programme advocated by the A.M.W.S.U. centred around four points. First, a graduated wealth tax should be introduced to reduce inequalities in wealth holding. Secondly, special taxation rates should be levied on multinational and domestic corporations receiving super-profits, especially those in the minerals and energy sector. Thirdly, government

policy should resist the destruction of Australian manufacturing industry, implied by the Pacific Basin strategy of international capital, to which this essay has already referred. Finally, there should be an expansion of public ownership of productive capital and employment opportunities in the public sector. The serious implementation of these propositions was seen as initiating a step towards the introduction of a real democratic socialism, instead of the usual hodgepodge of Fabianism and humanism. By 1979, it was clear that, whether for reasons of principle or opportunism, there were senior members of the Parliamentary Labour Party who were prepared to espouse them, in opposition to Hayden's capitulation to the forces of international capital.

Can Labor manage the crisis?

The Labor Party, starting with a band of inspired Socialists, degenerated into a vast machine for capturing political power, but did not know how to use that power when attained except for the profit of individuals . . . Such is the history of all Labor organisations in Australia, and that not because they are Australian, but because they are Labor.

V.G. Childe, *How Labour Governs*, 1923.

What can't a successful 'rational economic management' push achieve? It cannot significantly change the effects of the developing crisis on the Australian working class. If Hayden were to be elected Prime Minister in 1980 or 1983, as a result of volunteering his services as an alternative party of capital, then he will be faced with administering Fraser's programmes with a modified rhetoric and political practice—for the programmes originate in neither the Cabinet nor the party room. A dry run of this bipartisan transformation, in reverse, was experienced when Lynch's 1976 Budget speech quoted Hayden's 1975 Budget speech with approval, as it unfolded the same strategy. On the other hand, the A.L.P. cannot get elected without subscribing to the dictates of capital, unless a thorough-going radical programme of transforming the distribution of wealth and power in Australia is developed. Not only is such a practice alien to the history of the Australian Labor Party—and in all probability beyond its political and ideological capacities—there is no indication of its being seriously considered at any level of its operation. Despite the formal and constitutional party structure, policy continues to be formulated in windowless rooms by machine politicians and their advisers (technocrats), beyond the control of a rank and file whose membership experiences a rapid turnover and dwindling numbers. And this is not Hayden's fault alone; the situation is not new, as explained below.

In this essay we have cited three Australian socialists whose written work and political experiences have provided invaluable insights into the Australian social democratic traditions. Combined, their analyses provide precursors for the crisis of 1979. Childe, after working at the highest level in the Australian Labor Party, in 1923 left both the party and the country. He bequeathed a scathing critique of Australian social democratic politics. Irvine was briefly able to intervene in the politics of the 1930s depression,

by influencing the inaptly named 'Red Ted' Theodore towards a policy of serious fiscal stimulation. Irvine represented an early 'Left-Keynesian' posture. His pupil first abandoned the lesson and was then politically destroyed. Unlike his 1970s counterpart, he turned to business and not the counterculture. Fitzpatrick's works continually emphasise the dangers of uncontrolled integration into the world capitalist market in capital and goods. For his pains he was academically unemployable, despite having produced works that forty years later remain standard texts in university courses. In 1979 another generation of socialist intellectuals are learning the same lessons, experiencing the same results and undertaking the same programmes; fleeing, being disillusioned and cynical, or facing the unemployment queue. This is a long tradition for such practices.

Marx, from whose broad perspective we write, died in 1883. Since that time, two major developments have occurred in the capitalist mode of production: the rise of the giant corporation which now operates on an international scale; and the expansion of the state apparatus whose essential function is to preserve the capitalist mode of production. Their interlock has produced a system of state planning, the parameters of which are determined by the laws of capitalist development. This planning mechanism requires skilled personnel to operate it, and in contemporary Australian conditions these include economists, lawyers, political scientists and sociologists, apart from professional politicians and trade union officials. It should be no surprise that such technocrats dominate social democratic parties. It should also be no surprise that many start their courses as self-defined socialists. It is they who are surprised, when they discover that the social forces that determine activity in capitalist society are not the rules of the free market, constitutional law or electoral boundaries, but the needs of corporate capital. But when they, self-servingly, demand allegiance as progressive egalitarians or socialists, rather than as agents for and conduits of corporate interests—even if they genuinely believe their own claims—suspicion is well founded.

The 1970s produced a very similar configuration of political forces to those of the 1930s. It is vital that trade unionists, socialist intellectuals and progressive people carefully note the limitations of Reformism and the dangers posed by present day advocates of 'rational economic management'.

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- p. 348, presents a way of analysing the state in Australia made nearly 40 years ago; on the basis of post-1940 experience one would only need to add a fifth function, the management of the external relations of a capitalist system. Its crisp clarity and relevance to our own local conditions stands in stark contrast to the tendentious and long-winded, irrelevant *Arena* pamphlet, 'Marxian theories of the State' by Boris Frankel. After surveying the Frankfurt school and every continental poseur in the field, Frankel offers at the end a few paragraphs on Australia far, far, less insightful than the Brian Fitzpatrick quote above. What lesson this has for researchers on the state in Australia is clear: you don't need a sabbatical leave in Germany to assist you in studying the state here. Australian works by V.G. Childe, R.F. Irvine and Brian Fitzpatrick will help you more.
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jeune *Arena* pamphlet, *Marxian Theories of the State*. Having promised to provide an account of 'a major breakthrough' 'in our understanding of the capitalist world', Mr Frankel gives us in 64 pages *no* new information on the Australian state; a suggested research programme for someone else to undertake (p. 62) (which has in fact been already undertaken, partly by us); and finally a six-sentence summary of the latest canons of 'Euro-communism'. We are inclined to agree that 'what often appear to be esoteric semantics, concerning epistemological, organisation and methodological questions' (p. 2) are exactly that. In the event of these 'new insights' 'bearing fruit', we will be happy to be proven wrong.

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