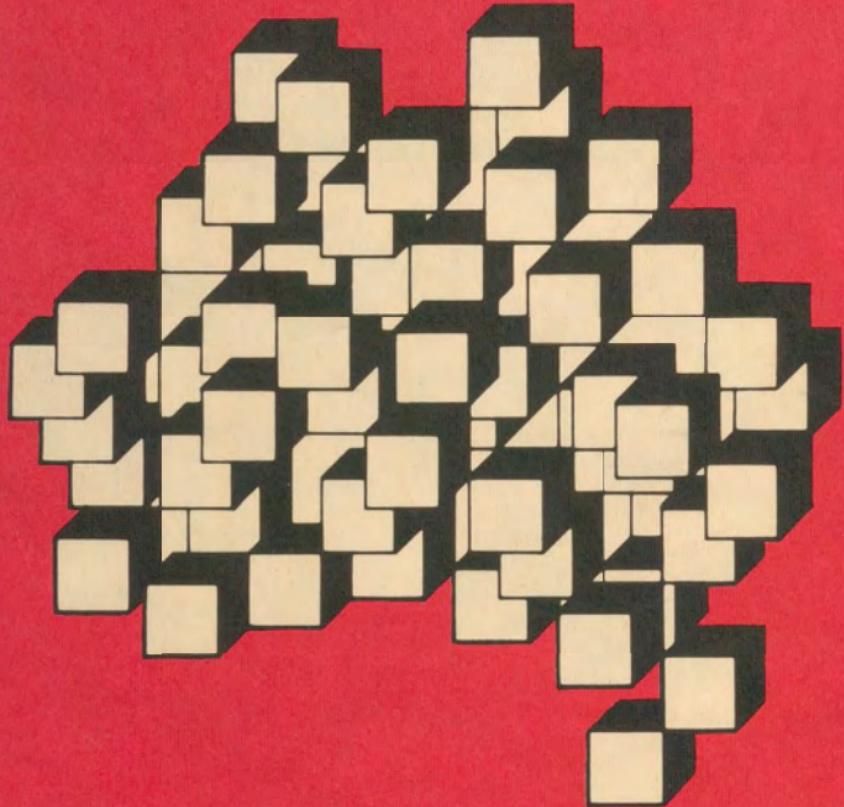


Essays in the
**POLITICAL ECONOMY OF
AUSTRALIAN CAPITALISM**

Volume five



Edited by
E.L.Wheelwright & Ken Buckley

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ESSAYS IN

THE POLITICAL ECONOMY OF AUSTRALIAN CAPITALISM

VOLUME 5

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Our rich ground, filled with treasures, is passing slowly into the hands of foreigners. The great deposits of copper, iron, nitrate that constitute incalculable fortunes are taken year after year by the capital and industry of foreigners, while we, eyes open with astonishment, slow-witted, dedicate ourselves to discussing the merits of unimportant personalities of people who are of no significance for the resurrection and grandeur of this country.

Translation of a passage from an article in the Chilean newspaper *El Coquimbo*, 17 August 1915, entitled 'A mountain of Coquimbo [Bethlehem Steel's iron ore operation] transformed into Yankee skyscrapers, into dreadnoughts, and European bullets'. Cited in Mira Wilkins, *The Maturing of Multinational Enterprise*, Harvard University Press, Cambridge, 1974, p. 11.

INTRODUCTION

E.L. WHEELWRIGHT

The introduction to our first volume, published in 1975, asserted that a 'History of the Political Economy of Australian Capitalism from the Earliest Times to the Present Day' should be written from a Marxist standpoint, but that before this could happen it would be necessary to provide both bricks and straw, which was seen as the function of this series of collected essays. Contributors with expertise in particular areas were invited to write from an eclectic Marxist standpoint; no 'line' was laid down, the main criterion for inclusion being whether an essay put forward a tenable point of view on a significant issue, not whether the editors agreed with it, or whether other contributors contradicted it. The collections in each volume were not necessarily intended to hang together, but about one-third were to be of a historical nature, the rest dealing with contemporary issues.

We have adhered to these guidelines; the volumes have been well received for the most part, and there has been no shortage of contributions, many of them unsolicited. It is clear that the essays are widely used in institutions of higher education throughout Australia in most of the social sciences; this cross-disciplinary appeal has encouraged us to furnish a concise cumulative index in this fifth volume.

Criticisms, of course, have been made; those of the carping kind, obviously due to academic jealousy, journalistic venality, or that meanest of *petit-bourgeois* vices, spite, may be safely ignored. Constructive criticisms warrant an answer; one such is that each collection *should* hang together, i.e. each volume should focus on a particular theme. The implication is that a collection of disparate essays on such a wide theme has little, or much less, value than a cognate group focussed on an aspect of that theme. This argument has some merit if only one volume of essays is concerned, but it loses a great deal of its validity when applied to a continuing series of volumes, especially when one of the stated objectives is to provide building blocks for scholars, in a neglected field of enquiry.

Relevant practical points, of which only those with similar editorial experience may be aware, are that the editors do not have the resources or the time to plan each issue around a particular topic; and when this was attempted on one occasion, sufficient contributions of adequate quality were not forthcoming, because of the paucity of Marxist scholars in the field in question. These exigencies have accelerated since our first

volume, which was published in the same year that the Fraser government came to power and subsequently began to contract the Australian university system to fit the Procrustean bed of the current crisis of capitalism.

Another criticism is of our introductions, which are, it has been said, superfluous, in so far as they tell the reader what each essay is about and relate one to the other, and the whole to the general objective of the series. This argument ignores the fact that most serious books—certainly this series—are intended to appeal to a wide variety of readers, with different levels of understanding and experience in the field. This is essential if the book is to be commercially viable, and in Australia, with its much smaller market relative to the English-speaking world, the argument is *a fortiori*. Consequently, the introduction to each volume is designed for the readers who are less familiar with the subject matter, and who in many cases need it to help them decide whether they wish to proceed further. The *cognoscenti* may skip the *hors-d'oeuvre*, but it is elitist to proscribe it.

* * * * *

Notwithstanding some of the foregoing, there are occasions when, presumably under the pressure of what Marx called the 'great chock of events', most contributions coalesce around a single theme. This volume is such an occasion, for nine of the eleven contributions are concerned with the relationship of Australian capitalism to world capitalism, in one form or another. Our first essay, by Crough and Wheelwright, examines the now abundant literature on the impact of a substantial penetration of a country's economy and society by transnational corporations, the dominant institution of world capitalism, and applies the result to Australia which has a high degree of such penetration, especially in the mineral industry.

The central conclusion that emerges is that a few hundred transnational corporations have internationalised the means of production, distribution, and exchange to such an extent that the centralisation of economic power in the world has outstripped that of political power. International capitalism is therefore virtually out of control by any national government, and there is no international government. Within this framework many smaller nation states, including Australia, have become client states of international capital, their economies and societies becoming not much more than appendages, or satellites of the great nodes of capital which dominate the world economy, thus fulfilling the prophecy Marx and Engels made in 1848. Only one word needs to be changed in the following quotation from the *Communist Manifesto* to indicate its relevance to the contemporary world; the word 'bourgeoisie' could be changed to 'transnational corporation'.

The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere,

settle everywhere, establish connections everywhere. The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country... All old-established national industries have been destroyed, or are daily being destroyed... In place of the old wants, satisfied by the production of the country, we find new wants, requiring for their satisfaction the production of distant lands and climes... Modern bourgeois society... that has conjured up such gigantic means of production and exchange is like the sorcerer who is no longer able to control the powers of the nether world whom he has called up by his spells.²

The argument is conducted under several headings. There is growth and development in client states, but it is of a kind which suits the giant transnationals; they make the key decisions in New York, London and Tokyo, planning their activities on a global basis, which do not necessarily coincide with the interests of the local economy. This centre-periphery dichotomy is a useful tool of analysis, and from it follows the fact that the economy of the client state can only be understood by studying the way it has been inserted into world capitalism. But the dichotomy must not be too rigid; it has been argued that societies like Australia, New Zealand and Canada are in fact semi-peripheral, acting partly as peripheral zones for the core countries of world capitalism, and partly as core countries for some peripheral areas. This point is taken up in detail in the next essay by Armstrong and Bradbury; what is emphasised here is that the situation is not static, countries do move between the categories, eg. it is arguable that Brazil has moved upwards in the world pecking order from periphery to semi-periphery, and that Australia is moving in the opposite direction to the periphery.

One of the characteristics of the underdeveloped economies of the periphery is their *disarticulation*, i.e. their economies are made up of entities which are not linked, or articulated with each other, but are linked and integrated with other entities elsewhere. The Australian mineral industry has moved more and more in this direction since the boom of the late 1960s, with increasingly high levels of foreign ownership and control, large inflow and outflows of capital and profits, strong export orientation, and heavy reliance on imported equipment and technology. Consequently its strongest links are external, which brings into question the local benefits derived from its expansion in this fashion.

As a consequence of the dependent development which flows from the high levels of foreign ownership and control with key decisions being made in foreign boardrooms, crucial areas of the national economy are now largely out of control by the government; these include monetary and fiscal policy, the exchange rate and the balance of payments. Because of the mobility of international capital, the crucial investment decision is out of national control; indeed the international capitalists who dominate the Pacific Basin have made plans for this region over the last decade which allocate Australia to the role of exporter of minerals, energy and food, and importer of manufactured goods. Freer trade is an essential pre-requisite for these plans; how economists come to be used as

midwives of this ideology is taken up by Bulbeck in the fourth essay. The resulting scale, pattern, and rate of exploitation of the mineral industry in Australia is thus decided in the context of the global considerations of no more than a couple of dozen giant mineral and energy corporations which now dominate the world industry, and are so rich they are busy taking over almost everything else. Consequently national development policies have been replaced by corporate development policies.

The acceleration of the exploitation of minerals and energy in Australia is due primarily to the revolt of the Third World, whose political instability and increasing economic nationalism has scared off international capital, and caused it to switch its investments to the 'safe' countries of Canada, South Africa, Australia and New Zealand. The increase in oil prices engineered by OPEC made their energy sources more profitable until the recent glut of oil caused by the world depression. The role of the state in economic development has always been crucial; in Australia a form of state capitalism has developed, especially since the 1930s, with the primary aim of supporting indigenous capital of various kinds. As foreign capital came to own and control more and more key industries, by the late 1960s state power began to operate more in its interests, moving to denationalise, deregulate and even dismantle certain industries, although not without contradictions within transnational capital as well as between it and national capital. Attacks on the working class were also initiated, taking the form of attempts to reduce real wages and the social wage; also attacks on trade union structures and practices; and ideological attacks blaming workers for the ills of capitalism. Some of these themes are pursued in later essays by Bulbeck and Head.

Local capital is affected in several ways. Much small and medium business is taken over or forced out of business. Larger capital tends to collaborate, integrating itself into transnational capital in various ways, through joint ventures as with BHP and Esso, or through supplying finance capital, as with AMP. In this way transnational elites develop to include persons at the highest level in government, state bureaucracies, the professions, higher education institutions, and even some trade unions. They propagate transnational value systems, as do the media and communications industry, which help to denationalise Australian culture. All these factors coalesce to bring about a form of national disintegration which is particularly noticeable in federal systems; investment resources are diverted to the mineral and energy rich states of West Australia and Queensland which contain a minority of the population; pressures are exerted to reduce protection which affect the states of Victoria and New South Wales, containing a majority of the population. The Australian constitution, inspired by men of property, conspires to support this negation of democracy through the Senate in which all States, but not the people, have equal representation. So arises the danger of a dual economy in which a significant part of the most populous states becomes irrelevant to either the production or the con-

sumption requirements of international capital, and the danger of a repressive client state which uses its powers against its own people, and in the interests of that capital.

The second essay, by Armstrong and Bradbury, takes up the question of semi-peripheral states, by making a comparative study of industrialisation in Australia, Canada and Argentina, focussing on the role played by international capitalism, regarded as the expression of the relationship between the domestic ruling classes and external forces. The first section is concerned with how these societies, sometimes called the White Dominions, differed from others; the second follows the trajectory of their development since 1870; and the third concentrates on the nature of their industrial diversification.

Well into the 20th century the dominant classes of all three were those of mercantile and finance capital, in alliance with large rural staples producers and foreign investors; in each society a working class emerged quite quickly especially in Australia; independent small- and medium-scale family farm owners were important in Australia and Canada, but much less so in Argentina where large landowners leased small parcels to a vulnerable tenantry. The missing element in each case was a strong class of indigenous industrial capitalists. This was less so in Australia, where protection fostered one from the beginning of federation; but in Canada protection encouraged powerful American industrialists to cross the border and set up branch plants financed by Canadian banks; in Argentina indigenous industrial capitalists tended to be mainly Italian immigrants who could not persuade the traditional Spanish-speaking landed oligarchs, or the unions, to support a state-planned protectionist policy. Consequently industrial growth in Canada was dominated by U.S. capital much earlier than Australia, and strong industrial growth in Argentina was delayed until the Great Depression.

Their evolution from 1870-1914 was strongly conditioned by the stage of international capitalism which had been reached. At that time they were the centre-piece of British imperial strategy, for they received industrial products, loan capital and migrants. The local response was the modernised production of a specialised range of staples for export mainly to Britain, but in a way which allowed some modifications by a ruling class with a degree of autonomy.

As far as regional inequalities within these countries are concerned, Armstrong and Bradbury make the important point that these are not created by an abstract notion of urban centres exploiting hinterlands but by the control of capital accumulation by different sectional interests of the capitalist class. The centres grow at the expense of the regions, whether they are Montreal and Toronto in Canada, Sydney and Melbourne in Australia, or Buenos Aires in Argentina, because urban capitalists are able to capture the wealth created in each region which is surplus to consumption requirements there, and channel it elsewhere. That is one reason why it is crucial for them to dominate political power at the state level, and also centralise influence over the federal state if and

when created. However, these regional imbalances are not immutable, the 'frontier moves' as resources are unlocked, and technology changes; capital flows and population can go into reverse as the recent experience of Queensland and Alberta indicates.

Industrialisation is seen as a measure of social change involving inter and intra class shifts of power; it illustrates the capacity of sections of the indigenous capitalist classes to appropriate part of the surplus from the wealth-producing export sector, and allocate it to manufacturing industry and related activities. This process seems to have been expedited by wars and depression in all three countries, the use of state power to protect nascent industry, and some kind of alliance with the working classes.

Its apogee was reached in Argentina in the mid-1950s when the landed oligarchy felt threatened by Peronism, and let loose their praetorian guard on the working class. Victory in what was a kind of intermittent underground civil war was not achieved until 1976, when the most repressive military regime of all spearheaded the coalition of landowners, traders, foreign capital, national and international financiers. A monetarist policy allied to freer trade and freer access to foreign capital has been an utter disaster for Argentina; the results have been higher inflation, a huge foreign debt, declining industrial production, growing balance of payments deficits and rising unemployment. The working class has suffered the most, but medium and small-scale capitalists have been decimated; the main beneficiaries have been foreign capital, a few local monopolies and national and international bankers. There is an important lesson here, for the working class in Argentina was at least as strong and well-organised as that in Australia.

The Canadian industrialisation process probably reached its apogee in the mid-1950s, the first post-war articulation of a crude and frustrated economic nationalism being expressed by the ill-fated Diefenbaker government in 1958. It took twenty years for a public interventionist strategy to develop, which is intended to 'Canadianise' key sectors, combining state power and big national conglomerates which can compete internationally. It is possible that Canada is beginning to climb out of the 'client state' status.

In Australia the industrialisation process reached its zenith in the mid-1960s when import substitution had run its course, the industrial base had been built up, and the growth of the domestic market slowed through less immigration and a declining birthrate. At this time, forms of economic nationalism began to develop, involving sectors of the local bourgeoisie to a greater or lesser extent, beginning with 'Black Jack' McEwen's dictum that Australia was 'selling part of the farm to pay off the mortgage'; the emergence of Gordon Barton's Liberal Reform Party with an anti-foreign investment plank in its platform; Prime Minister Gorton's Australian-owned uranium policy and his anti-foreign takeover activity; the McMahon government's attempt at screening foreign investment; and the culmination of it all in the election of the Whitlam govern-

ment and the attempts to use state power to 'Australianise' the minerals and energy sector, which came to be known as 'Connorism'. This attempt at Australian economic nationalism was aborted, the surgeon being a governor-general, and the anaesthetists the international intelligence agencies and their men in Canberra. The press helped prepare the body for the operation, and performed the last rites on the foetus. The patient is still undergoing treatment; Australia has embarked, in a much more muted fashion, on the economic road the Argentine ruling class embarked upon in 1976. The results are similar in kind, but not yet in degree.

Thompson's essay identifies and analyses the concentration and centralisation of economic power in the iron ore industry in the Pilbara, Western Australia. Fifteen per cent of the world's reserves are there; Australia is the world's largest exporter of iron ore, and the second-largest producer; 90% of Australian output is produced in the Pilbara, which is controlled by four mineral companies in seven mines. These companies are all transnational 'joint ventures' with minimum Australian participation. The markets for iron ore are growing faster in Third World countries than elsewhere; although at present they only account for 10%, the proportion is expected to reach 25% by the end of the century. However, these forecasts and Thompson's essay were written before the world depression of 1982 became so acute, and may well be too optimistic.

The West Australian government played a key role in the economic expansion of the state; foreign investment was actively sought; expenditure on transport and harbour facilities was much increased; skilled tradesmen were imported and 21-year renewable contracts signed with the companies, each of which was granted the sole right to prospect for iron ore within the area of its enormous lease. The State government developed a close alliance with the transnational mining companies, and some friction developed with the Commonwealth government over such matters as the extent of Australian equity for new ventures, the marketing of ore to Japan, and particularly the financing of the infrastructure. Originally the companies had financed the towns which were necessary to house the workers, together with other necessary facilities, but with declining profitability state finance was sought. As a result of pressure, transferred by the State government to Canberra, permission was given for West Australia to borrow overseas for the purpose. This was a fundamental change in Australia's foreign borrowing policy, as noted in the first essay; it is clear that it came as a result of transnational corporate pressure. By focussing on one particular group of companies in one State, Thompson throws into sharp relief the relation between capital and the state, showing how capital uses state power to repress trade unions, Aboriginals, or anyone who stands in the way of optimum profit extraction.

Bulbeck's essay explores the role of economics, and therefore economists, in legitimising government functions in relation to the economy.

She finds that economics serves capital in general but when it operates out of specific institutions such as the Industries Assistance Commission (I.A.C.) or the Treasury, it serves particular fractions of capital. Over the last decade there has been a dramatic shift in legitimation, with the switch from Keynesianism to Friedmanism. How is this to be explained? The first significant intervention of economists into policy formulation at the federal level resulted in the Premier's Plan of 1931, which put the interests of overseas creditors ahead of those of the Australian working class. The formulation was pre-Keynesian, as Keynes' major work, *The General Theory of Employment, Interest and Money* was published in 1936, but the strategy that Keynes espoused was adopted by the Chifley government in 1945, which put full employment before free trade. This suited manufacturing capital.

These policies were continued into the 1960s when tariffs were the main tool of protection, the import quotas of the 1950s having been removed as a result of American pressure, in 1960-61, releasing a flood of imports into the country, causing the worst post-war recession, which the Menzies government survived only by one seat. Tariffs became more of an issue; many more policy-making public servants had economics degrees; and economic instruction became increasingly conservative, with greater emphasis on free trade and market forces. By the early 1970s there had virtually been a return to a pre-Keynesian position, a *laissez-faire* counter-revolution, which went under the name of monetarism, led by Friedman. Monetarists free traders, and market forces fetishists dominated economic instruction in the universities and had captured such citadels as the Treasury, the Reserve Bank, and the I.A.C. which had replaced the old Tariff Board.

This shift came after the interest of foreign capital in Australia had begun to change; until the mid-1960s, apart from the old emphasis on the pastoral-financial sphere it had been concentrated in manufacturing industry producing for the domestic market, but the end of the decade saw the mineral boom in which foreign capital doubled its ownership and control of the industry; a movement of Australian companies to Asia to exploit cheap labour there; and the adoption of a Pacific Rim Strategy by international capital which encouraged it to manufacture in Asia, and sell the goods to Australia, where they would mine for export. Most economists were quick to see where the interests of their masters lay, and reconstructed economic theory accordingly, continuing the tradition which began in England in the 1830s after the bourgeoisie had consolidated their power, as Marx had noted:

It was thenceforth no longer a question whether this theorem or that was true, but whether it was useful to capital or harmful, expedient or inexpedient, politically dangerous or not. In place of disinterested inquirers, there were hired prize-fighters; in place of genuine scientific research, the bad conscience and the evil intent of apologetic.³

The theme of Jennett's essay is that the international scope of capitalism, and the power of national governments being exercised in its

interest, are causing Aborigines to organise on a national scale for the first time. It is significant that the beginning of this—the bark petition sent to the Federal government in 1963 by the people at Yirrkala asking that their land rights be recognised—were prompted by the incursion into their land by a transnational mining corporation, Nabalco Pty Ltd which is 70% owned by Alusuisse, the sixth-largest aluminium company in the world. The next impetus came three years later, when the members of the Gurindji tribe working in the pastoral industry went on strike against Vestey's, probably the largest privately owned transnational in the world.

The decade of the 1960s was a watershed for Aborigines; assimilation policies had brought more of them to the cities, they were thus more visible to the majority of Australians, had access to the media, and were more aware of their inequality. Internationally there had been a backlash against racism as a result of the atrocities against the Jews in the war, the obscenities of apartheid in South Africa, the emergence of independent black African nations, and 'Black Power' in the U.S.A. Hence there was a lack of legitimization for the extreme coercion of previous years, and the stage was set for public displays of protest. These protests gathered momentum, culminating in a National Land Rights movement.

The responses of the Whitlam government was to initiate a land rights commission, establish a National Aboriginal Consultative Committee (NACC), create a Department of Aboriginal Affairs, and increase considerably spending on Aboriginal welfare. As a result land rights were granted to Northern Territory Aborigines in 1976 by the Fraser government, and a series of Land Councils established, which derive royalties from land they own. Jennett documents their successes, their limitations, and how they have been manipulated by governments and mining companies, especially when minerals such as uranium are involved. These hard won Aboriginal rights are now under serious threat by mineral and pastoral interests. Since this essay was written the Northern Territory legislation has been amended to prevent Aborigines from making a land claim on pastoral leases they have purchased⁴, and The Australian Mining Council, which consists of most of the big mining companies, has also initiated an action in the High Court which will test whether the Land Rights Commissioner took sufficiently into account the detriment to mining involved in making over the land to Aborigines.⁵

It is worth noting that both transnational corporations that were involved originally in the genesis of land rights legislation in the 1960s, Alusuisse and Vestey's, have themselves been challenged elsewhere. A study made at the request of the Icelandic government in 1981 claims that Alusuisse made over \$20 million on transfer pricing of alumina from its refinery at Gove to its smelter in Iceland, thereby reducing its tax liabilities in both countries.⁶ Vestey's had 'successfully and legally avoided paying millions of pounds in income tax for more than sixty years', until the tax loophole was finally closed in the British budget of 1981. During World War I, Vestey's leased 36 000 square miles of pastoral land in the

Northern Territory and the East Kimberley district of West Australia, an area larger than Tasmania and one-third the size of New Zealand. The rents have been and still are very low, e.g. for their Wave Hill Station of 6158 square miles at which the Gurundji tribe went on strike, Vestey paid 55 cents per square mile per year, in 1981.⁷

* * * * *

Few authors are able to preface their footnotes with the remark that the abundant references available are due to a government raid on the companies concerned, and a libel case. Corrigan's essay is based on these sources and focusses on the inter-imperialist conflict for the control of the base-metal industry at Broken Hill during World War I. Until then the bulk of the lead and zinc produced was controlled by two international cartels dominated by a German transnational corporation. A combination of advanced technology and more efficient finance capital had enabled Germany to drive out of production most smelters in Britain or Australia. They were opposed by the Collins House Group (CHG) but not by BHP, for even in those days the locus of its control was not clear—it had more Germans with shareholdings in BHP than there were British. To-day the situation is still not clear, for, as a study prepared for the Campbell Committee shows, a significant number of the largest blocs of shares could be held on behalf of foreign interests.⁸

The outbreak of war showed the folly of not having an integrated metal industry, for, with the German and Belgian smelters closed off and no smelters of their own, the CHG had to turn to BHP whose outlets were controlled by German companies. The U.K., having let its zinc smelters run down, has to turn to the U.S.A. for zinc, only to find that the relevant companies there were in reality controlled by Germans. Here was a new meaning for interdependence—as Corrigan observes, every bullet fired by an Allied soldier entailed a profit for the Metallgesellschaft.

However, the press in the U.K. and Australia began to get on to these German linkages, and state power was used on behalf of both British and Australian capital to ensure that control of the base-metal industry was wrested from German hands. This involved government raids on the offices of CHG and BHP, the declaration of certain companies as enemy firms, a proposal for a government controlled metal exchange in Australia, and long-term U.K. contracts for Australian smelters at wartime prices.

Here is a clear example of Trotsky's dictum that 'war is the locomotive of history'; it had taken a world war to ensure national control and integration of a key industry. CHG expanded, taking over smelters in the U.K., and mines as far afield as Burma, but the Australian component progressively declined, and in 1962 the most profitable section became part of RTZ, one of the largest transnational corporations in the world, British, but with a close relationship to U.S. capital. The cartels were

never really broken up, they strengthened in the Great Depression of the 1930s, went underground in World War II and the 1950s, re-emerged in the 1960s, and are now consolidating again, as the latest studies show⁹, especially in the case of zinc.¹⁰ Corrigan's essay is an object-lesson in the necessity of public ownership and control of such key industries; private ownership in to-day's world inevitably becoming foreign ownership.

Rosewarne's essay is a detailed study of particular aspects of Australia's dependent development before World War II. He focusses on capital accumulation and the export of mining capital, finding the development of Australian stock exchanges in the 1880s to be a key factor in local capital formation, as distinct from the inflow of British capital. These developments were thwarted by the depression of the 1890s, and did not fully recover until after World War I when the mobilisation of Australian savings for industry began to supplant British funds. This began a period of relative autonomy for Australian capital, greatly aided by the state especially in relation to export, with subsidies, additional shipping being fostered, and government trade representatives. The stock exchanges facilitated the transmutation of surplus value accruing to Australian jam manufacturers, merchants, and pastoralists, into tin mining in Malaya, gold and oil prospecting in Papua and New Guinea, and furniture manufacturing in Hong Kong.

During the first post-war decade, the supply of capital for mining in Australia all but dried up, but investment in overseas mining in S.E. Asia and the Pacific accelerated, and Australian capital was increasingly important in the region. But the surge was short-lived; it soon came up against the big league of the internationally-financed mining companies and their cartels which, with a few exceptions, blocked further progress for Australian capital. The whole story is an object-lesson in the futility of Australia being a junior partner in international capitalism; client states do not have much clout.

The essay by Head analyses the role of the capitalist state and its relation to the ideology of contemporary Liberalism. He argues that the Fraser government has intentionally pursued a public policy of inequality on two grounds; economic and philosophical. Economic recovery demands a transfer of resources to capitalists as an essential precondition for generating more employment and increasing real wages. Philosophically, the rich have a natural right to enjoy the accumulation of capital and the income thereon; the poor have the right to be poor and to better themselves. This, in fact, is the antipodean version of Reaganomics masquerading as Liberalism; it goes under various names—supply side economics, the trickle down theory of development—but basically it is not much different from the Ricardian economics of the early 19th century which developed to justify capitalist exploitation and bamboozle the working class. Head's essay shows in considerable detail the hypocrisy of it all; how the government has shifted huge sums of money to assist industry, directly and indirectly, especially in export development grants which often favour transnationals; and how the corporate tax

base has been eroded. He points to the glaring contradiction between 'Liberal' mythology, the power of the state, and the ever increasing concentration of private economic power.

Nyland's contribution is concerned with the increased involvement of capital in determining not only which party is in government, but which faction within the party is dominant. In a case study of South Australia over the last decade he shows how the Adelaide Establishment was undermined by Playford's post-war industrialisation, which encouraged foreign investment to such an extent that by 1972, transnational corporations employed 33% of all workers in the State, concentrated in automobiles and white goods, both consumer durables which are vulnerable in recessions. Despite the gerrymander, they lost office to the ALP, which was tolerated as long as the class power of the bourgeoisie was not affected. The Dunstan government was not able to restructure the State economy, which was suffering from the recession and the shift of manufacturing capital out of Australia. The local capitalists were as conservative as they were in Premier Playford's day when he used to entertain foreign business men on the P & O ships in Port Adelaide in an effort to persuade them to invest in the State. In Dunstan's time they were reluctant to invest in the development of the State's natural gas, and foreign investment was killed off first by 'Connorism', then by the world recession and the ALP policy on uranium. The sacking of the Police Commissioner merely provided the occasion for the anti-Labor campaign to be orchestrated by the political, business and media wings of the local bourgeoisie, to which had been added the powerful voices of foreign capital.

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The other two essays are not related to the foregoing themes. Hopkins' essay is an empirical investigation into the limits of the autonomy of the legal system in one particular context, that of monopoly law. It follows from his earlier essay on the subject in Volume Two of this series, and is set in the context of the Marxist theory of law, and the changing nature of capitalism. This theme suggests that if the state is to maintain legitimacy in the eyes of its citizens, the relative autonomy of the legal system is necessary. What does this phrase really mean? Vague formulations are useless; its value lies in the way it emphasises that any attempt to curtail the interests of significant sections of capitalist enterprise is likely to face so many obstacles as to be futile.

The limitations on the state's ability to implement anti-business legislation differ from one society to another. Hopkins concludes that these limits can only be discerned by detailed study, and contends that in Australia the advertising provisions of the Trade Practices Act lie well within these limits, the anti-merger provisions lie outside them, and the competitive provisions lie just at the limits. Consequently the first category of provisions has been implemented successfully for the most

part, the second category has not, and in the case of the third category, some have been implemented, and some not.

McQueen's critical but sympathetic re-assessment of Justice Higgins and his New Province of Law and Order, shows how law grows out of social practice, how he wanted parliament to lay down some ground rules by which he could determine whether wages were fair or reasonable, so that the judiciary would not be brought 'within the range of political fire'. It did not do so and Higgins himself was caught in the political fire; he wanted to develop general legal principles of wage fixation, to centralise decision making along the lines of uniformity, prevention of disputes, and strengthening the Court's coercive powers. Higgins was 'too much in love with his Court' and was more determined to break the power of unions who went on strike than was Prime Minister Hughes, who had to make deals with wharfies and miners to get the ships moving and the coal dug in time of war. Although both wanted 'Peace by Order', neither got it, until the Great Depression brought 'Peace by Starvation'. Similar forces are at work to-day and McQueen's conclusion is relevant for our time: 'In place of prospects for a liberal, competitive and rationally-based system there was the brutalising reality of monopoly, capitalism with its Janus children of war and revolution'.

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AUSTRALIA: CLIENT STATE OF INTERNATIONAL CAPITAL: A CASE STUDY OF THE MINERAL INDUSTRY

G.J. CROUGH & E.L. WHEELWRIGHT

THIS ESSAY SETS out to discuss some of the effects of transnational corporations on the Australian economy and society, with particular reference to the mineral industry. There is now an extensive literature on transnational corporations and the world economy. What is emerging from this is the central thesis that international capital is out of control by virtually any national government. The transnational corporation (TNC) has internationalised the means of production, and hence centralised economic power on a world scale, when the world is not yet ready for a parallel internationalisation of political power. Transnationals are internationalising the world economy in their own way, for their own purposes. As a consequence, the power of the nation state to control its own economic destiny has been gravely weakened and no international political institutions have yet been created which can step into the breach. In short, the contradictions of capitalism are now being expressed in the international economy, and there is no world government to soften them internationally, unlike the situation when capitalism was more subject to national control. This is undoubtedly one of the reasons why the current crisis of world capitalism, which is now in its eighth year, has not been resolved, and is indeed deepening.

It is important to begin by stressing that what has happened affects many countries, not just Australia; but the more a country is penetrated by transnationals, the more deeply is its economy and society affected. Australia is, on OECD and UN calculations, the second most penetrated of OECD countries, Canada being first.¹ Most national economies are now globally interdependent and highly concentrated, locked into world capitalism by transnational conglomerates which straddle industries and nations.

We can speak of quite a number of world industries in which less than a dozen giant corporations control about two-thirds of the global market. This is true in aluminium, with the 'Big Six'; in automobiles with

the 'Big Eight'; in oil, even after OPEC, the 'Seven Sisters' control about half; in tobacco there are the 'Seven Smoking Sisters'; in computer and data processing there is 'Snow White and the Seven Dwarfs'—IBM controlling almost two-thirds; in advertising a dozen companies dominate the billings—all but one American; and in accounting the 'Big Eight' do the books of most transnationals. Practically all of these giant global conglomerates operate in Australia.

These things have been happening over the last twenty-five years or so, and consequently there has developed a very considerable literature on the subject. The most significant contributions have tended to come from those areas most affected, such as Latin America and Canada, but more recently there has been much material from the USA, which has been affected by the outflow of capital.

Development and dependence

The first general point is that whilst undoubtedly in many countries deeply penetrated by transnationals there has been growth and development, it is primarily of a kind which suits the requirements of the corporations. Once transnational corporations dominate the most important sectors of an industry, most other options are foreclosed. The key economic decisions are made in the board-rooms in centres of transnational capital, such as New York, Tokyo and London. The corporations plan and develop their activities on a global basis, and these decisions do not necessarily coincide with the interests of the local economy and society.

From this perspective, it is argued that the development of a national, or regional, unit can only be understood in connection with its historical, and present-day, insertion into the world capitalist economy. This global economy is seen to be characterised by unequal but combined development of its different components, some of which constitute the 'centre' and others the 'periphery'. As has been noted by Valenzuela:

The centre is viewed as capable of dynamic development, responsive to internal needs, and as the main beneficiary of the global links. On the other hand, the periphery is seen as having a reflex type of development; one which is both constrained by its incorporation into the global system and which results from its adaptation to the requirements of the expansion of the centre.²

However, this theoretical model has had to be modified to some extent to take account of the development of societies like Australia, Canada and New Zealand. This has given rise to the concept of 'semi-peripheral' countries, which experience dependent development. As Wallerstein has noted:

The core-periphery distinction, widely observed in recent writings, differentiates those zones in which are concentrated high-profit, high-technology, high-wage diversified production (the core countries) from those in which are concentrated low-profit, low-technology, low-wage, less diversified production (the peripheral countries). But there has always been

a series of countries which fall in between in a very concrete way, and play a different role. The productive activities of these semi-peripheral countries are more evenly divided. In part they act as a peripheral zone for core countries and in part they act as a core country for some peripheral areas.³

A number of recent writers have used the term *dependent development* to characterise this situation. This is seen as a special case of dependency, characterised by the association or alliance of local and international capital.⁴ As such, the main point of emphasis is the way that the internal and external structural components of a country, or region, are connected. The external dimensions are determinative in varying degrees, while internal features, such as the role of the state and local capital, usually reinforce the pattern of external linkages.

However, to characterise Australia or New Zealand as semi-peripheral does not mean that their role in the world economy is static and unchanging. The experience of countries like Argentina and Chile this century clearly shows that a country's relative position may decline, while the experience of Brazil indicates how a country can move from a position of 'classical dependence' to 'dependent development'. There is no reason why Australia's relative position should remain as it is; in fact, there are clear signs that it is rapidly deteriorating.

The manufacturing industry is a good case in point. It could be argued that Australia was able to improve its relative position in the world economy partly by protecting and stimulating its domestic industries, through devices such as import quotas, tariffs, control of the financial system, and control over the import of people. This resulted in a diversified manufacturing industry, which although it was dispersed, fragmented, and to some extent inefficient, did provide the basis for a more broadly-based self-reliant economy. However, certain sections of the manufacturing industry are in deep crisis, and have been since at least the mid-1960s; it appears that Australia, like a number of other countries, is systematically being deindustrialised. This crisis has already resulted in hundreds of thousands of unemployed workers, and extensive rationalisation and restructuring.

One of the characteristic features of peripheral societies, according to Samir Amin, is *disarticulation*. In contrast to an advanced developed economy, where there is a very dense flow of internal exchanges, and the flow of external exchanges is relatively less important, Amin notes that an underdeveloped economy tends to be made up of entities that are not integrated with each other to a significant degree. The dominant flows in the latter economy are *external*:

The underdeveloped economy is made up of sectors, of firms that are juxtaposed and not highly integrated among themselves, but are each of them strongly integrated into entities the centres of gravity of which lie in the centres of the capitalist world. What we have here is not a nation, in the economic sense of the word, with an integrated internal market.⁵

As noted above, the development of the manufacturing industry did provide the basis for a more integrated economy, with a significant and

growing domestic market. But with the restructuring process now taking place in Australia, and the increasingly important role being played by the mineral industry, in terms of investment, exports and the balance of payments, Australia may be moving quickly towards the disarticulated economic structure indentified by Amin.

The mineral industry in Australia, particularly since the late 1960s, has developed a number of characteristics which mean that its major orientation is not with the rest of the Australian economy, but with the world economy. Four of these features can be identified:

1. A very high level of foreign ownership and control

Official statistics published by the Australian Bureau of Statistics show that in the period of 1963 to 1976-77, foreign control rose from 36.8% to 59% for the industry as a whole. Key sectors of the industry show what must be some of the highest levels of foreign control in the world, including brown coal, crude petroleum and natural gas 84%, tin 82%, silver, lead and zinc 75%, and mineral sands 62%. For the State of Queensland, foreign control was measured to be 84%.⁶ What these figures show is that foreign, or transnational, corporations dominate the industry, and have a determining influence on both the current and future direction of the industry.

2. Large inflows and outflows of capital from the industry

Despite the increasing reliance on local funds for the financing of mineral projects, a considerable proportion of the funds have come from overseas, particularly from the transnational banks. Estimates of the extent of overseas borrowing by mineral companies vary: Bambrick estimated that about 70% of total funding came from loans, of which some 40% came from overseas⁷; the Department of Trade and Resources estimated that about 50% of the funds came from loans, of which 55-70% was raised overseas⁸; and the Australian Treasury pointed to the fact that debt finance was an increasing proportion of total finance for mineral projects, and that considerable sums had been borrowed overseas by companies, backed by loan guarantees from their parent companies.⁹

The official ABS statistics give some idea of the flows of capital into and out of the industry: in the period 1972-73/1979-80, total direct investment in the mineral industry amounted to \$270 million, and portfolio investment and institutional loans \$645 million; total outflows of income payable overseas for the same period amounted to \$2023 million, which is more than *twice* the total inflow.¹⁰ This is a major drainage of surplus out of the Australian economy. And these of course are only the officially recorded outflows and inflows, and do not include the extent of surplus transferred through the use of transfer pricing, over-inflated royalty payments for management services and technology.

3. The export-orientation of the industry

The mineral industry is overwhelmingly export-oriented, and is therefore particularly susceptible to fluctuations in the state of the world market. In 1979-80 the industry accounted for over 40% of total

Australian exports. These exports represent about 70% of the total value of mineral production. The major exports at the present time are black coal, bauxite, alumina and mineral sands, although it is likely that in the mid-1980s exports of more processed mineral products, such as aluminium, will become important. Japan is by far Australia's largest export market, and takes over 50% of mineral exports, including 76% of the value of iron ore, and 72% of black coal.¹¹ This heavy dependence on the Japanese market, and the fact that the mineral industry accounts for a large proportion of total Australian exports, means that the state of the Australian economy can be severely disrupted by downturns in the overseas markets for our mineral products.

4. Heavy reliance on imported equipment

Although reliable information is not available, it appears that there is a very substantial import-leakage in relation to capital expenditure in the mineral industry. A Report prepared by the Department of Trade and Resources estimated that imports of capital equipment represented about 20% of total capital expenditure in mining in the 1970s, but the likely figure for the 1980s was about 30%. For some of the large individual projects, much higher leakages were possible, including 75-80% for the North-West Shelf venture, 50% for the original Alumax smelter in the Hunter Valley, and 50% of Utah's projected expenditure.¹² The Institute of Applied Economic and Social Research suggested a figure of 20% for the early 1980s, rising to around 25% by 1985.¹³ The Australian Industries Development Association also estimated a figure of 20%, but noted that supply constraints in Australia could push the ratio higher.¹⁴ Hence although there is no doubt that there will be significant benefits for Australian contractors from the construction phase of many of the large mineral developments¹⁵, a very significant and possibly increasing proportion of the benefits by way of supplying capital equipment may go overseas. This, of course, limits the possibilities of the development of both upstream and downstream industries related to the mineral projects, industries which could provide substantial employment and a boost of parts to the manufacturing industry.

These features of the mineral industry serve to indicate that investments that take place in the industry, both by governments and corporations, may not benefit the rest of the economy much at all. Many of the strongest links of the industry do not lie within the Australian economy, but with the world economy.

Loss of national control of economic policy

The second general point is that it becomes more difficult for governments to control national economic systems because the key variables have become less susceptible to national forces, and more susceptible to international ones. Thus, the key investment decisions of the private sector pass out of national control when they are made by transnational headquarters in other countries, and this applies both to the decision to bring in investment capital, and take it out. This point becomes more

important when the nature of foreign penetration of the Australian economy is considered.

It is generally recognised in many countries that foreign penetration tends to be highest in the most profitable, most capital intensive, and generally most important and dynamic industries. For example, in the Australian manufacturing industry, the key sectors are the most highly foreign controlled, including motor vehicles (100%), oil refining (91%), basic chemicals (78%), and transport equipment (55%); in mining we have already seen the extraordinarily high levels in various sectors and some States.

In addition the control of investment by transnationals is accentuated by the fact that foreign-controlled firms tend to be larger than domestically-owned corporations. Private and official estimates of the foreign control of large companies, which are the real decision-makers in modern capitalist economies, indicate that about 40% of all large companies and their assets in Australia are foreign controlled; that for the very largest the proportion rises to about 50%; and in certain key sectors to 100%. The dominant corporation, then, in the Australian economy, is the transnational conglomerate. This point is reinforced when it is recognised that many of the largest Australian companies are themselves spreading overseas to become transnationals, although the extent of this spread has been much more limited than that of the corporations from many of the other comparable-sized capitalist countries.

There is a variety of ways in which the loss of national control of economic policy can be seen, including the problems posed for monetary and fiscal policy, and exchange rate and balance of payments policy.¹⁶ Only one will be discussed here: the loss of national control over the *investment decision*. It is the investment decisions of the corporate sector which ultimately decide the future direction of the economy and society, since these decisions affect the location of production, the types of products produced, the sort of technology used, and the types and amount of labour necessary for the production process. In Australia, this issue has risen to one of paramount importance, in the light of the projections for the massive increases in capital expenditure in the mineral industry, and the associated changes in the pattern of investment in the manufacturing industry.

The very mobility of capital internationally emasculates public control over the investment decision. With an economy dominated by TNCs, the investment decisions in the economy become subject to the *global* accumulation and investment decisions of the corporations. These decisions are particularly important in industries not tied to natural resources, such as manufacturing, and even certain service industries. The closure of the Pagewood (Sydney) plant by General Motors-Holden in 1980 clearly illustrated how the lives of thousands of people, and the future of whole industries, can be decided by TNCs with no national allegiances.

Australian manufacturing industry is presently undergoing restructuring and rationalisation, and the prime movers in this process are the large TNCs. As noted earlier, the major economic decisions in this country are taken by large corporations, and it is these corporations which are reshaping the Australian economy to integrate it more fully into the international division of labour. This division of labour is increasingly being developed around the *Pacific Basin concept*. It is a strategy which involves the reorganisation, and integration, of the Asian-Pacific region into four tiers. The first involves the U.S.A. and Japan, which act as the providers of capital and technology; the second, Australia, Canada and New Zealand as suppliers of foodstuffs, raw materials and energy; third, the cheap-labour countries of Asia and Latin America which will follow export-oriented industrialisation strategies; and fourthly, the socialist countries of the Asian region, particularly China. It is clear that with the evolution of such a strategy, which is already being implemented, Australia will be deindustrialised, since its role in the emerging new international economic order is *not* as a producer of a wide range of industrial products.

The evolution of this strategy is well under way, and has been the topic of a considerable amount of high-level discussion, both at a governmental and corporate level.¹⁷ There have been numerous proposals for a Pacific Community institution, based on the model of the European Economic Community.¹⁸ The Australian response to these developments should be, according to Kahn & Pepper, in their corporate-sponsored *Will She Be Right?*, to adopt policies of 'economic dynamism':

To the degree that pressure builds up to force Australia away from business-as-usual, they will have to choose one path or another and seek to move toward it. An economically dynamic Australia is one alternative to an early emphasis on a welfare and leisure-oriented post-industrial society, or to a 'reformed' protectionism . . . For Australia, with its enormous natural wealth, this would mean an even greater emphasis on exporting agricultural and mineral resources and correspondingly less emphasis on the kinds of manufacturing Australia has traditionally had.¹⁹

Such a scenario does not mean that the Australian manufacturing industry will disappear. Certain sections catering to the domestic market will survive, while other sections will undoubtedly benefit from the construction period of the mineral projects. What it does mean is that the industry will be far *less diversified* and more specialised, dominated by a relatively small number of large corporations. In the new international division of labour, this is the inevitable result of the restructuring and rationalisation process.

One of the essential prerequisites for such a strategy is a regime of *free trade*, and it is not at all coincidental that the TNCs are the most ardent advocates of reduced protection and trade 'liberalisation'. For the most profitable integration of their production on a global basis, TNCs require reductions in trade barriers, such as tariffs and quotas, and they and their handmaidens, the economics profession, have constructed

elegant theories to 'prove' that free trade will increase community welfare and lead to an efficient allocation of resources.

An additional point to note about the Pacific Basin concept is in relation to foreign policy and defence matters. Clearly if the Pacific Basin does become the major centre of world economic activity, the region will have to be 'defended' against any possible threats. The Fraser Government has already participated in extensive discussions about the future defence structure of the region, and with the presence of major U.S. bases in Australia, our role will be crucial.²⁰ As Richard Barnet has pointed out, a new international economic order, based on the trans-national integration of production and distribution, requires a *new international military order*, in which powers friendly to the U.S., such as Australia, play an important regional role in 'stabilising' their regions.²¹

In the more specific context of this essay, the other major industry where loss of national control over the investment decision is crucial is the mineral industry. Obviously mining is not subject as much to 'foot-loose' investment decisions, since its location is tied to the existence of natural resources. But the *scale* and *pattern* of investment are fundamental, and are decided in the context of global considerations. It is not coincidental, for example, that Australia, and indeed many under-developed countries which are major mineral producers, remains as a large producer of minerals but accounts for only a very small proportion of the world production of *processed* minerals. The corporations which control bauxite, or iron ore production, decide where they will locate their processing facilities. Norman Girvan has raised this point in his *Corporate Imperialism: Conflict and Expropriation*:

Because the raw materials capacity in the periphery is geared to processing capacity in the centre, the periphery's output is not free to be processed locally. In other words, the possibilities of utilizing the resource as a basis of backward and forward linkages within the *national* economy are restricted by its already existing use as a basis of backward and forward linkages within the *corporate* economy.²²

The desirability of increasing the degree of local processing of mineral products has been recognised by Australian governments for many years, and it has been one of the demands of many Third World Governments in their negotiations with the transnational mineral corporations. There is no doubt that in Australia the processing facilities have lagged behind mining capacity, resulting in increasing quantities of ores and concentrates shipped; this has affected the balance of payments, employment levels, and the degree of technology transfer. This situation may now be altered to some extent with the development of aluminium smelters and other higher-level processing activities, but these developments are not taking place as a result of planned, coherently implemented Australian initiatives; rather, they are occurring because of the changes in the competitive advantage of different units *within* the transnational mineral corporations.

Similarly, the actual *rate of exploitation* and the *pattern* of exploita-

tion, including, for example, whether to use open cut or underground mining, or to exploit less profitable grades of ore, are decisions which affect the Australian economy, both now and in the future. One of the most important effects of TNCs in the mineral industry has been that the *rate* of exploitation of Australia's natural resources has increased considerably, particularly in coal, bauxite and iron ore. Australia, for many of its minerals, is producing and exporting far greater quantities than the level of our reserves would justify, which will, of course, mean that future generations may have a much smaller mineral base on which to create national wealth.

The conclusion on this general point is that governments have increasing difficulty in controlling national economic systems, and to talk of *national* development policies in a world of international capitalism is really to propagate myths. What exists are *corporate* development policies, pursued by global corporations. These trans-national assessments are *not* capricious; they are designed to maximise profit on a world scale and not to favourably affect particular national economies.

Why is the Australian mineral industry becoming more important?

Given that there is already a significant increase in the investments in the mineral industry and an increase in the role and importance of the industry, the question must be asked: why are the world's major mineral corporations increasingly looking to Australia as an attractive place to invest?

A significant reason for the increase in investment in the industry relates to the *political instability of the Third World*. By this is meant the economic nationalism through which the resource-rich countries of the Third World want to control their own resources. This nationalism seeks to set the price of raw materials through organisations such as OPEC, the International Bauxite Association, and the organisation of copper producers, CIPEC, and often expresses itself through nationalisations, expropriations, and the prevention of foreign ownership and control of natural resources.

Of course, this upsurge of economic nationalism in the Third World has not been uniformly successful in increasing the returns to the under-developed countries, and in some cases has been a complete failure, for a complex variety of reasons. The destabilisation of the governments of Chile under Allende, and Jamaica under Manley, by the mineral corporations, the International Monetary Fund, private banks, and the U.S. Government attest to the difficulties of a national government attempting to take control of its own resources.

Despite this, in many countries investments by the TNCs have been decreasing. On the other hand, there have been considerable increases in investments in 'safe countries', principally Canada, Australia and South Africa which are regarded as politically stable. Even as early as 1970 the

National Commission on Minerals Policy, established by the U.S. Congress, concluded:

The list of historically politically stable nations where companies can expect to obtain suitable concessions for both explorations and mining as in the last 75 years is not long: principally Canada, Australia, South Africa and Rhodesia.²³

According to Michael Tanzer, of the U.S. investment in mining in 1959, 56% was in the Third World; by 1978 this had fallen to 32%. Over the two decades, 85% of the increase of U.S. foreign mining investment took place in the developed countries.²⁴ According to statistics published in the U.S. Department of Commerce *Survey of Current Business*, in 1980, Australia, Canada and South Africa would account for 75% of total capital expenditure by U.S. companies in mining and smelting, while the underdeveloped countries' share was expected to be about 24%. In 1970 the corresponding figure for these three countries was only 23%.²⁵

There is no doubt that this shift gathered momentum after 1973-74, following the first of the OPEC price rises, which began to affect all energy resources. Many investors held off because it was thought that OPEC would collapse, but by 1978-79, when further significant price increases occurred, and Iran defected from the ranks of politically stable countries, foreign investors began to accelerate their activities in the 'safe countries'.

A good example of this in relation to Australia is the bauxite industry. The International Bauxite Association was formed in 1974, and Australia was one of the founding members. Australia at first played an active role in the IBA, under the Whitlam Government, which reflected a desire by that Government to assist the developing countries to achieve fair and reasonable returns from their raw material exports, and to support international cooperation in international trade matters. In subsequent years a number of the member governments of the IBA, particularly Jamaica, became increasingly militant towards the TNCs, while Australia, even under the Whitlam Government, and even more so under subsequent Fraser Governments, began to undermine the activities of the organisation. As the Department of Trade and Resources submission to the Senate Standing Committee on National Resources makes clear:

Australia has consistently taken the position in the IBA that there are formidable administrative and technical problems associated with the adoption by the IBA of minimum pricing policies, for either bauxite or alumina, and has not been prepared to agree to the various IBA proposals for an overall minimum pricing policy for bauxite and alumina. (The IBA Articles of Association provide that all decisions binding on all member countries must be unanimous.) Australia has considered that international arrangements affecting the marketing of commodities should be negotiated and implemented with the direct involvement of both producers and consumers, so that due recognition is given to the interests of both parties.²⁶

In the event, Australia has become the world's largest producer of both bauxite and alumina, although in 1978 Australian reserves only represented about 18% of world reserves. This will remain the case as long as Australian Governments continue to follow policies which undermine the actions of the other large producers, and erode the effectiveness of the IBA as a producer organisation.

Another factor involved in the expansion of the mineral industry in Australia is *energy pricing*. This has manifested itself most obviously in the expansion of aluminium smelting capacity planned for Australia. Because of previous corporate investment decisions, Australia is the world's largest bauxite and alumina producer but only a very small aluminium producer (about 2% of world production). Now, following OPEC and the rapid increases in the costs of oil-fired power stations, Australia, with its abundant coal reserves is a logical place to expand smelting capacity, and Australian production will rise to about 9% of present world capacity, if all the planned smelters are built. Again, as long as Australian Governments, both State and Federal, continue to offer cheap power based on coal-fired power stations, other energy-intensive industries will also be attracted. The question of whether this is a rational policy in a period of energy shortages, and rising prices of energy, is now being raised with increasing frequency—especially after the power black-outs in Victoria and New South Wales in the winter of 1981.

A third factor is *pollution* and other *environmental considerations*. In many of the developed countries there has been a movement towards more stringent controls over pollution, and the costs of compliance for many companies have increased significantly. It is estimated, for example, that the compliance costs in the copper industry in the U.S. run to about US10c a pound.²⁷ As a result, many corporations have moved their more-polluting parts of the production process to countries where environmental, and health and safety, standards are less stringent. The Federal structure of the Australian political system poses particular problems in this regard, in terms of the development of national policies. The Department of Home Affairs and the Environment has raised this issue:

The Australian Constitution does not specifically charge the Commonwealth government with responsibility for environment and conservation matters, which thus generally fall to the States and local government. It is the individual State governments which have the responsibility for such matters as emission controls and standards, land use planning, rehabilitation of mined areas, water resource management and so on.²⁸

Similarly the Department of Health has noted this point. In regard to noise legislation, for example, there are wide divergences between the States. In New South Wales the legislation does not apply to the mining industry, and in Western Australia there is no legislation at all.²⁹

This division of responsibilities, between the State and Federal Governments in Australia, and particularly the lack of concern shown by

many of the State Governments for environmental, and health and safety matters, means that companies wishing to invest in activities which are highly polluting, or involve hazardous processes which may seriously affect workers, may not have adequate controls placed over their activities. This is compounded when the Federal Government systematically sets out to dismantle, or emasculate the major piece of national legislation, the *Environmental Protection (Impact of Proposals) Act*, in the hope of passing as much of the responsibility in this area back to the States.³⁰

Finally, a general question in relation to the industry in Australia is the overall *world demand for mineral and energy*. If the world recession continues, the demand and the price of many items will be so low that new investments will be deferred. Even if world growth continues at its present slack rate, however, *some* new mines have to be opened somewhere, to keep up supply. It is more than likely that these 'replacement mines' will be established in the safe countries, including Australia. Of course, if the recession becomes even worse, then investments in the safe countries may not take place either, and there could be more cutbacks in the production of certain minerals.

One of the effects of depressed demand for minerals will be a further concentration of the mineral industry, both on a world scale, and in Australia. The low prices will force higher-cost producers either out of business or into the hands of the larger conglomerates, which are more diversified and have larger reserves, which can help them cope with downturns in demand in certain areas of their business. The mineral industry in Australia is already dominated by a relatively small group of companies, and would be expected to become more so. As Barnet notes:

The mineral industry lent itself naturally to concentration because of the huge capital requirements; it also lent itself to conglomeration because a variety of minerals are found in the earth together and each can support its own division of a mining empire. Thus the impurities detached from nuggets of gold and lodes of silver became the foundation of industrial minerals fortunes. Today the mining, processing, and distribution of each major metal is dominated by a handful of companies that represent the incorporated legacies of the mining entrepreneurs.³¹

It has also been pointed out, in relation to the copper industry, that low prices can be used by the TNCs to weaken nationalist governments' attempt to increase their share of the mineral revenues. The point could be generalised to most of the major minerals:

The nationalist producers, as they are seen as a constant threat by the consumers, will most probably become suppliers of the last resort . . . the nationalist's share will be treated as a spill-over market, subject to great fluctuations in volume and price. *Onto the nationalist independents will be shifted the burden of risk and instability for the international industry as a whole.*³²

Finally, the attempts by the U.S. Government to reduce its dependence on foreign supplies of strategic minerals, by stockpiling, will increase the

role of the safe suppliers, the loyal allies, particularly in the production of minerals such as cobalt, chromium, manganese and vanadium. Although ostensibly aimed at promoting mining in the U.S., through taxation incentives and the opening up of national parks and wilderness areas to mining; the present U.S. defence scenario will accentuate the shift towards the more stable supplying countries, even if this means bolstering patently undemocratic regimes such as in Brazil, Chile, and South Africa.³³

The role of the state

The role of the state is crucial to the pattern of development that is now taking place in Australia. The state has always played an important role in Australian economic development, and was crucial in moving Australia from a situation of dependence to one of dependent development, through various forms of *state capitalism*. It has to be realised that smaller capitalist economic systems such as Australia have only been able to survive by the creation of forms of state capitalism, which have protected both their capitalists and workers from the inroads of world competition by those bigger and more efficient. This is the basic reason for the various forms of agrarian socialism practised in Australia, through the numerous producer-dominated marketing boards, from apples and pears to wheat and wool; for the protection of manufacturing industry in its various phases; the control of the import of people as well as of goods; the licensing of banks; and the prevention of foreign ownership and control in the media and in air transport. Often one of the vehicles state capitalism used for this protection was a state-owned instrumentality such as the Commonwealth Bank, the Australian Broadcasting Commission, TAA, and QANTAS.

At the present time there is a diverse set of pressures operating to dismantle sections of state capitalism, to open up fresh areas for profitable opportunity. It gives rise to a kind of corporate cannibalism, in which private corporations slice off the more succulent parts of public enterprises, leaving the less attractive parts for the natives. It can be seen in relation to Telecom where pressures are working to hive off some of its significant functions to private enterprise, which means transnational electronics companies and purveyors of satellites. Pressures can be seen operating in relation to the Wheat Board, and the continuing challenges to its legality emanating from some of the big multinational grain traders, who would love to take over profitable trade from the Wheat Board, as happened in Canada a few years ago.

The beginnings of pressure to force the Australian Broadcasting Commission to accept commercial advertising can also be seen, as can linkages of TNT, the Australian transport transnational, with the New South Wales railways, and its interest in the lucrative coal and wheat freight business. These pressures do not come only from foreign companies, as is clear in the case of the moves to sell off TAA to private enterprise; but often the only possible buyers are foreign investors. This

is clear from the Latin American experience, especially in Chile, where a number of state owned corporations were put on the 'free market', but in most cases the only buyers were foreign, mainly American, companies. This process is called *denationalisation*, a process where both privately and publicly owned corporations are sold off to foreigners. It is clear that public ownership is not a safeguard if a government comes to power which is determined to sell off publicly owned assets. As one writer on Brazil has succinctly pointed out:

The effect of denationalisation is not to eliminate local participation in the market but *to transform that participation*. Local capital has gradually become relegated to relatively small firms that survive by their commercial acumen rather than by industrial or technological innovation. Local capital no longer threatens, even vaguely, the most important source of the multinationals' profits (their monopoly on technological innovation), and the role of local capital becomes ever more complementary to the role of foreign capital.³⁴

In the present period in Australia the state will play an increasingly important role in facilitating these factors aiming at denationalisation and the further integration of the economy into the international division of labour.

At a very general level, the role of the state in fostering TNC involvement in Australia relates to the generation of the preconditions for profitable investment in this country. One of the major problems besetting all of the capitalist economies in the 1970s and early 1980s is *inflation*, and its reduction has been the major objective of government economic policy in most of these countries. Inflation is obviously undesirable for sections of capital, particularly those involved in export activities, and the implications for the rate of increase of wages, and interest rates means that its importance as an objective of policy is heightened.

Following a broad set of monetarist principles, governments in most of the capitalist countries have set about reducing the rate of growth of government spending (if not actually cutting it, as in the U.K.), or pressing for a slower rate of growth of wages (again, if not actual reductions), and restricting the growth of credit, particularly through higher interest rates.

The Australian Government has—in real terms—substantially cut back its expenditure in *certain* areas, particularly areas related to the social wage, such as education, health and social security, although as will be noted, it has increased spending dramatically in some areas. At the same time, it has strongly argued before the Commonwealth Arbitration Commission in the wage indexation hearings, for smaller wage increases; to the extent that the Commission has not passed on full Consumer Price Index (CPI) increases, this effort has been quite successful.

In terms of international economic policy, the Federal Government has borrowed considerable sums of money overseas, mainly from the

transnational banks to prop up the balance of payments and (hopefully) stabilise the exchange rate. Since 1977, according to Australian Treasury, the Government has borrowed almost \$5000 million. This helps to stabilise international trade transactions, and particularly the returns to the export industries.

Overall, the general objective of the Federal Government's economic policies has been to reduce the rate of inflation, through 'responsible economic management' and 'fiscal responsibility'. The result has been a substantial *redistribution* of resources in the Australian community: the Government's taxation and petrol pricing policies have shunted the burden of the government's fiscal problems onto individual taxpayers and motorists, and away from business and TNCs; and the cuts in expenditure in certain areas have hit the poorest and weakest sections of the population hardest.

But the expenditure reductions are not universal, and there have been some important areas which have been substantially increased. One is defence. In the 1980-81 Budget, *defence* spending was increased over 17%, a big increase in real terms, to over \$3500 million. This was one of the major areas of expenditure to record an increase in real terms, and the Federal Government predicts that by 1984-85 defence spending will consume 3% of gross domestic product (GDP). This increase in defence spending is consistent with the Government's general foreign policy, which perceives the main threat to Australia (and the world) to be Soviet expansionism. As a result, Australia's ties with the U.S. are to be considerably strengthened. Australian foreign policy has been for many years almost completely subservient to the wishes and needs of U.S. foreign policy, and it seems difficult to envisage a higher degree of subservience.

Perhaps the major change in state expenditure, however, relates to massive increases in *infrastructure* spending by the State Governments, which directly relates to the mineral industry developments of the coming decade. At Loan Council meetings in 1976 and 1977, the State Premiers, and particularly those of Western Australia and Queensland, strongly argued that their ability to fund large infrastructure projects in relation to mineral development was constrained by the provisions of the regular loan programmes. At the 1978 Loan Council meeting a series of guidelines were agreed to which would enable the States to borrow very large sums of money for infrastructural purposes.

This decision is one of the most significant changes in the history of Australian Federalism, since the States are now allowed to borrow *overseas* on their own behalf. Previously, borrowings by the States were co-ordinated by the Loan Council. The Loan Council was formally established in 1928, and it had as its basic tenets the principles that all of the States should have equal access to finance for their development, and that this development should result in the equalisation of the average level of income and wealth between the States. Such principles were reinforced by the basis of Federal Government grants to each of the

States, which recognised that Western Australia, Queensland and South Australia and Tasmania were disadvantaged relative to New South Wales and Victoria, and so should be compensated with higher per capita grants.

For a period of fifty years, Australia was unique among other Federations because it co-ordinated the loan programmes and loan raisings of both the Federal Government, the States, and even larger loan raisings of local government and semi-government authorities. This co-ordination was intended to eliminate competition between the States in the international capital markets and reduce the borrowing costs.³⁵ The decision in November 1978 thus represents a distinct break in the history of the evolution of the Federation.

To a very significant extent, the borrowing programmes announced will directly benefit the large corporations, especially the mineral TNCs. The programmes generally involve projects such as coal loaders and power stations (particularly to provide power to a number of new aluminium smelters), which are too large for private capital to undertake. The original programme approved was valued at \$1.8 billion, covering twelve projects, and since then the total forward programme for special infrastructure borrowing has been increased to \$4.9 billion.³⁶ The important point to note about these infrastructure programmes is that they will probably necessitate *cuts* in State Government expenditure in other areas, such as those related to the more traditional community services. A leaked document prepared by the Federal Treasury pointed out that the provisions for additional infrastructural borrowing have been partly matched by *reductions* in Loan Council borrowings and associated capital grants, (from \$904 million in 1976-7 to \$871.5 million in 1980-81).³⁷ This will reduce the degree of freedom in the capital budgeting of the States. Hence, the infrastructural programme is not an addition to funds available to the States; rather it is a *reallocation* of the uses of the same funds, away from some areas to others (as noted above, away from programmes involving expenditures in the cities to export oriented mineral projects).

One of the most important areas of borrowing relates to the expansion of the electricity generating capacity, particularly of the eastern states, and primarily in relation to supplying the needs of new aluminium smelters. Early in 1980 it was announced that the N.S.W. Electricity Commission and the State Electricity Commission of Victoria were seeking at least \$100 million overseas, following borrowings of over \$100 million in 1979.³⁸ These funds are earmarked for the Loy Yang power station in Victoria and the Eraring power station in New South Wales. Such projects clearly show the role of the state in developing major mineral projects, and in addition indicate how well the TNCs are doing at the expense of the rest of the community. This point is reinforced when the extent of subsidisation in terms of cheap electricity generated from these power stations is taken into account.³⁹

In terms of Federal Government *policy towards foreign investment*, it

was not really until the election of the Whitlam Labor Government in 1972 that any sort of critical attitude has taken towards foreign companies. Although the previous Gorton and McMahon Governments had legislated to block a number of specific takeovers and legislated to screen foreign takeovers in 1972, it was only following the enactment of the Foreign Takeovers Act and the establishment of the Foreign Investment Review Board (FIRB) in 1973 that a more serious concern was expressed.

The Federal Governments headed by Fraser since 1975, despite having maintained the machinery established by the Labor Government and retained specific ownership guidelines, have significantly changed the policy back towards an 'open door' approach. The Government ceased the publication of foreign ownership and control statistics in 1978, and closed the relevant section of the Australian Bureau of Statistics.

It is with respect to the FIRB that the most important changes have come. To begin with, one of the main functions of the Board now appears to be the *attraction* of foreign investment to Australia, and Board members and Federal Government ministers have undertaken various overseas trips extolling the virtues of Australia as a profitable and secure place for investment. The chairman, Sir Bede Callaghan, was reported as follows:

Foreign investors wishing to acquire control of Australian companies are given every assistance by the Foreign Investment Review Board, the Board's chairman, Sir Bede Callaghan, has told members of the Sydney business community. 'It is the practice of the board not to recommend that the Government reject a proposal until all avenues for amending it to make it compatible with the Government's foreign investment policy have been explored with the parties', Sir Bede said.⁴⁰

This was admitted as early as 1976 by Sir William Pettingell, another Board member:

Barriers to foreign investment erected by the Labor Government and verbally endorsed by the Fraser Government no longer exist, for all practical purposes, according to one of this Government's top advisers... He said the Foreign Investment Review Board wished to become a catalyst at the Australian end of new investment decisions by foreign companies.⁴¹

Although the Board has modified a number of proposals and occasionally even rejected a few, the overwhelming evidence is that it adopts a benevolent attitude to foreign investment. According to FIRB statistics, in the period April 1976 to June 1981 there were 6362 proposals for foreign investment approved in Australia, and only eighty-two were rejected. 3222 proposals were approved unconditionally. In the mineral industry in 1980-81 there were 198 acquisitions valued at over \$900 million. Since 1976 the Board approved 330 acquisitions which involved a loss of Australian ownership valued at \$656 million, and 54 acquisitions which involved a loss of Australian control valued at \$200 million.⁴²

One important point to note however is that takeovers at parent companies in other countries are *not* subject to FIRB approval, or

screening. For example, British Petroleum's takeover of Selection Trust in the U.K., which meant that the latter company's Australian interests were also taken over by BP, was not subject to the guidelines, even though the consequences could be quite serious indeed. The FIRB apparently regards this as of no consequence—it simply records a change of absentee owner. In such circumstances, the ownership of our mineral resources could easily pass from British or American to the Japanese, without any transaction on Australian soil. The result would be that the major importer of coal and iron ore would own the mines; they would be what are called 'captive mines', and the price at which the resources were exported would depend on the interests of the owners. The loss of economic sovereignty could surely go no further.

A further point to note about foreign investment policy and the FIRB is the so-called 'Australianisation' policy introduced in June 1978. This policy at the time related most particularly to Conzinc Riotinto of Australia, although it has subsequently been extended to a number of other companies, including Consolidated Gold Fields Australia Ltd and Ashton Mining NL. The guidelines provide that a *foreign* company can become 'naturalised' if it has at least 25% Australian equity (CRA at the time was 27.38% Australian owned), amends its articles of association to provide for a majority Australian board, and makes a public commitment to increase Australian equity to 51%, although no specified time period is required for this dilution of foreign ownership. The guidelines were strongly criticised when they were announced, particularly by the chairman of CSR, Gordon Jackson, in that they would encourage the further takeover of Australian minerals by foreign corporations.⁴³ In addition, very serious questions must be raised about the effectiveness of 51% Australian equity, not just for so-called 'naturalised' companies, but for mineral projects in general. Equity without control will not necessarily ensure that Australian interests are protected, and as writers from many other countries have noted, one of the most important elements of control in large-scale mineral projects is *technology*. This point will be discussed more fully in the next section of the essay.

A final point to note about the FIRB is that in the last year it has shown a somewhat greater inclination to modify foreign investment proposals, primarily because of the greater availability of Australian capital for investment in resource projects. In fact, the Federal Government has actually played a more active role in facilitating the involvement of local capital:

It is believed there are several factors which influenced the Government's view of equity availability. One is a list kept by the Treasury of local companies interested in obtaining resources equity. For the past 12 months the Government has been offering an unofficial and informal introduction service for local companies wishing to become involved in the resources boom and foreign companies looking for local partners.⁴⁴

The question that must then be asked is: does the increasing involve-

ment of Australian capital in the resources developments make a significant difference?

The role of local capital

As was noted earlier, one of the most important consequences of trans-national integration has been denationalisation. In particular, it was noted that foreign capital tends to concentrate in the most profitable, capital intensive, large-scale industries, which tend to be the leading sectors of the economy. There appear then to be three issues that need to be discussed in relation to the role of local capital and denationalisation: to what extent has there been the development of a comprador class, the integration of certain sections of local capital into the transnational framework, and the increasing marginalisation of the bulk of locally-owned companies.

For their operations in countries other than those of their parent companies, TNCs need the close cooperation of certain groups of people among the elites in the host countries of their subsidiaries. Ernst Utrecht has pointed out that people who perform this role voluntarily can be termed *compradors*, or *corporate compradors*.⁴⁵ Since TNCs originate outside the society they are investing in, they are initially outside the shared social and political network of the society. For each subsidiary of a TNC, at least to begin with, the strongest and most important links are with the parent company, but to conduct business successfully in a new country they often require assistance from local groups. This assistance is not always provided by local capitalists, and does in many cases include sections of the state apparatus. This point will be further considered subsequently, but what increasingly develops is a *trans-nationalised elite*, whose interests and values are inseparable from the TNCs. This has become particularly evident in the States of Queensland and Western Australia, where export-oriented mineral developments, since the mid-1960s, which have been based primarily on foreign capital, have become the major dynamic industries of those States, and have critically influenced the nature of state-corporate sector relations, and the relations between local and foreign capital.

The second point to note about local capital is that in Australia some of the larger companies are playing an increasingly important role in *collaboration* with the TNCs. This is becoming more and more obvious with many of the mineral developments. That is, certain sections of local capital are being *integrated* into the network of transnationalisation. One of the most important reasons for this is the Federal Government's foreign ownership guidelines, which specify at least 50% Australian equity for new mineral projects, which have enabled certain large local companies to become involved in some of the mineral projects. Of particular note here is the role of some of the largest *financial institutions*, especially the banks and the large life insurance offices. With the increasing tendency towards debt finance in mineral projects, opportunities have opened up for both the Australian financial institutions and the

transnational banks to increase their lending in this area. In addition to lending has been actual direct equity participation by the financial institutions in mineral projects; for example, the AMP's investment in the Tomago smelter.

An important example of how limited Australian equity participation may be is provided by the Esso-BHP joint venture in Bass Strait. In this oil production project, Esso is the operating company, and BHP provides half of the finance. However, the *technology* of underwater oil production is retained by Esso, so that almost no technology transfer occurs. It is important to note that one of the main advantages TNCs have over local capital is their control of technology, and this is precisely why they tend to be concentrated in the most dynamic, capital-intensive industries. BHP learns nothing much about oil technology from its involvement in the joint venture, but is, of course, compensated to some extent by enormous revenues and profits. And this has broader implications, as Grant from the CSIRO has stated:

... Australia is not getting good value from the foreign technologies which it buys-in for the development of its mineral and petroleum resources. It appears content to accept the foreign investment 'package-deal' which confines the technology to the particular project for which it was imported and often prevents its development for secondary processing or for the exploitation of wider export markets than originally envisaged. The fact and argument advanced suggest that this situation exists in wide areas of secondary industry as a result of foreign ownership and control.⁴⁶

One result of the increased opportunities to participate in large-scale mineral projects for Australian companies has been an upsurge in the number of corporate mergers. A number of Australian corporate groupings have realised that they need to attain a sufficiently large scale of operations to become involved in these projects, and the quickest way of doing this is through takeovers and mergers.⁴⁷ This is probably a general effect of increased TNC involvement in any economy like Australia's: it forces local firms either to grow and survive, or be taken over or driven out of business. Two examples recently were the merger, after a flurry of stockmarket activity, of Elder Smith Goldsbrough Mort Ltd and Henry Jones (IXL) Ltd, and the takeover by Pioneer Concrete Services Ltd of Queensland Mines Ltd and Kathleen Investments Australia Ltd.⁴⁸

A further consequence has been the development of some very large diversified *conglomerates* in Australia. The local companies which are surviving competition with the TNCs, and are involved in joint venture projects, have been able to do so both by growing rapidly through takeovers, and diversification away from their traditional areas of business. Examples obviously include CSR, BHP, Western Mining Corporation and, of course, some of the large financial institutions. The general result is an economy which is dominated by very large diversified corporations, many of them TNCs, which acting together and in close relation with the state are restructuring the Australian economy to integrate it further

into the world economy. For the smaller corporations the future is increased *marginalisation*: the big corporations dominate the important dynamic sectors, and the rest are left scrambling for the crumbs. Evans, significantly, though writing in relation to Brazil, has summarised the Australian predicament:

... an alliance which includes the multinationals, the state and the local industrial bourgeoisie is a necessary precondition for dependent capitalist development. The dominant class in the semi-periphery is seen as composed of three inter-dependent partners who have a common interest in capital accumulation and in the subordination of the mass population, but whose interests are also contradictory.⁴⁹

It is now time to begin to assess why, with the increased transnational penetration of Australia, the Australian state and certain sections of local capital come to see their interests as being with the TNCs and international capitalism.

The development of transnational elites

In the early stages of dependency, which for Australia was the mid-1960s, some members of the local business class realised that their functions were being taken over, and began to try to use the power of the state to prevent further encroachments. Hence 'Black Jack' McEwen's famous phrase of 'selling off parts of the property to meet the mortgage payments', and the Australian Industries Development Corporation, otherwise known as the McEwen Bank. There was the original split-off from the Liberals, Gordon Barton's Liberal Reform Party (eventually to become the Australian Democrats) which originally had opposition to foreign investment as one of its main planks, and John Gorton's opposition to the takeover of the MLC insurance company, as well as his action on uranium and the film industry. The climax was the Whitlam Labor Government which attracted some support from nationalistic businessmen and sections of the middle class.

These attempts failed, and like their overseas counterparts, most members of the Australian business class came to join hands with the powerful foreign investors, and use the power of the state against their common enemy, the working class and the trade union movement. And so there comes into existence a *client state*, whose main function is to shape the future development of the economy in such a way that profits of foreign corporations have first priority, and the needs of the Australian people the last priority. This client state is characterised by the existence of what is referred to in the dependency literature as a transnational elite:

The global system is operated by a stratum of society that appropriates most of the surplus produced by it. Their position in the productive structure ranges from that of owners of the means of production and the top managerial and financial positions, through the higher professional, technical and bureaucratic ones, both in private and public institutions.⁵⁰

This stratum of society is made up of people in different countries, but

who have similar values, beliefs, ideas as well as remarkably similar patterns of behaviour with respect to career patterns, family structures, consumption patterns, and general cultural orientations. The transnational elite shares a common *transnational culture*, which the globalisation of communications, the rapid development of satellite technology, and the increasing concentration of the communication industry helps to permeate and consolidate.⁵¹ The rapid changes taking place in the Australian media and communications industry can only serve to further denationalise Australian culture.

In a country like Australia, where the role of the state and the State Governments has been of overwhelming importance, the development of transnational, rather than national values, within the public sector and amongst politicians, is indispensable; this partly explains the increasing role of *State* Governments in promoting integration. To some extent, the Federal Government and public service have been removed from the local pressures operating in the States, and historically have been able to play a greater role in national integration. But as Australia enters the 1980s this is no longer the case: the Federal Government, and certain influential public servants, see Australia's future differently; and the TNCs can exploit this and as well develop close links with comprador elements in the States.

Of course this process is not without its contradictions, and it does not mean that national values are completely suppressed. What it does mean is that the labour movement and the Australian people in general should not be fooled by the evocation of slogans of 'national interest', or a 'common purpose'. The logical outcome of transnational integration is *not* national unity and even development: it is disintegration, dependence and polarisation.

National disintegration

One of the most important consequences observed in many countries of transnational integration is national disintegration, and in Australia's case this is likely to be accentuated by the Federal political structure. This point has been emphasised by a Canadian political scientist, Garth Stevenson:

Under the impact of mineral resource development, a gradual shift of wealth, population and economic and political power is taking place in the direction of Queensland and Western Australia, the states which control most of Australia's mineral resources and which are also the states most dependent on mining. Since local attachments and hostility to the Federal Government have always been stronger in these remote states than in the two large states, and since these traditional sentiments are now reinforced by economic self-interest, the outlying hinterland states can be expected to exert their growing influence in favour of decentralisation... Mineral resources have also made Australia more heterogeneous, sharpening the distinction between the industrialised 'inner' states and the 'outer' states with mineral-based economies.⁵²

These effects have been noted in other federally-structured countries, notably Canada (with the attempts by the province of Quebec to gain its independence and the more recent problems with oil-rich Alberta.⁵³ The effects are more prevalent where the states or provinces have a considerable degree of autonomy in economic matters, especially with mining leases, and there is a reliance on foreign capital and markets to exploit these resources. These states come to have more in common with foreign capital and markets than the federation as a whole. In short, economic forces begin to exert pressures tending to pull the nation apart, causing some sections to espouse freer trade, and others protection. The foreign-financed development of the resources in Queensland and Western Australia since the mid-1960s has been a prime cause of the strains which beset the Australian federal system.

For example, in recent months there has been a considerable amount of debate about a resources tax and the contribution of the various mineral-rich States to the Federal Government. The whole issue of the Federal Government's grants to the States is being heatedly discussed, with the Federal Government suggesting that because the mineral-based States are doing very well in terms of State charges for railways and royalties on mineral developments they should receive a smaller proportion of Federally-allocated funds.⁵⁴ As the *Australian Financial Review* observed:

The two States which will inevitably do best out of the boom, Queensland and Western Australia, have teamed up to fence off their increasingly rich pastures from the possible trespasses of the Grants Commission. They have done so with an arrogance which is breathtaking to the inhabitants of the rest of Australia: they have asserted in effect that their mineral resources do not belong to the Commonwealth but to the individual States which, by accidents of history, geology and map-drawing, happen to be able to claim them.⁵⁵

The Federal Government, however, has been an important actor in this process of national disintegration. An example of this relates to the loss of *national* sovereignty over the waters and seabeds surrounding the continent. As a result of a deal between the States and the Federal Government, the States now have control over coastal waters and the seabed beneath. The Deputy Leader of the Labor Party, Lionel Bowen, called this 'dismembering Federation', but apparently only the Victorian Labor Party opposed the enabling legislation. The then Victorian Shadow Attorney General, John Cain, told the House of Assembly:

It will diminish the national stature of this country ... the only causes which will benefit from this measure ... are those of petty, parochial State rights and the interests of large international companies which seek to develop the vast wealth which abounds along the shores of this country.⁵⁶

The legislation ensures that Federal control and co-ordination will be impossible; it is particularly important in relation to the UN negotiations on the Law of the Sea.

The national disintegration effects noted do not just relate to the

formal political institutions in a country, such as the relations between the States and the Federal Government. The effects are more generally seen in the polarisation and uneven development of many under-developed countries, which results in the *marginalisation* of a large proportion of the population. It is now coming to be more widely perceived in Australia that the so-called 'resources boom' could have the same effects of polarising the Australian community, and that its effects, both benefits and costs, will not be spread evenly across the community.

The Australian Institute of Urban Studies has raised the question of *financing* of the resource developments. The Institute has expressed the fear that some of the money for the developments will come from what otherwise would have been available to refurbish our cities. Its reports point out that cities are economic units, and as such their physical lay-out and management procedures have a significant effect on the efficiency of the general economy. They also point out that an overwhelming proportion of the population lives in cities. The reports point to the very large public borrowings necessary to finance the infrastructure crucial to mineral projects, including power stations, coal loaders and railway lines. The demand for this money, coupled with much increased expenditure on defence, could 'crowd out' the money markets, reducing what would be available for the city economies. This effect could be coupled with a restructuring of the financial system recommended by the Committee of Inquiry into the Australian Financial System (Campbell Committee), so that not only the cities would be squeezed for funds.⁵⁷

The Campbell Committee recommended the removal of the regulations designed to ensure adequate and lower-cost funding of public works and housing; if this happens, much of the money that flows into the cities presently for housing and public works would instead flow into private mineral resource projects, where of course the rate of return for the financial institutions is much higher. The process of restructuring the economy towards the mineral sector involves changing the flows of money which are the life-blood of the economic system. This requires *deregulation* of the financial system.⁵⁸ And the financial institutions are quite open about their desire to invest in the mineral-rich states, as a recent series in the *Australian Financial Review* found:

We will put our money wherever we see it giving us the best return, and the companies which are looking best are moving into the growth areas. We're very conscious of population movements and employment opportunities, because where these are occurring you will be having a much higher level of business activity. Ian Ferris of the National Mutual agrees. 'There is a general trend to Queensland and Western Australia. There is a shift out of labour-intensive industries.'⁵⁹

A further element in the resource developments is their impact on employment and activity in the manufacturing industry. Undoubtedly some sections of the manufacturing industry will benefit from contracts to supply the mineral projects, but others have pointed out that some sections of the manufacturing industry may not be so well off. It has been

noted that if the exchange rate is revalued, or if protection is reduced to bring imports and exports more into line, there could in fact be disastrous consequences for manufacturing. Fears about the industry have predictably been expressed by organisations such as the Victorian Chamber of Manufacturers and the Australian Confederation of Apparel Manufacturers.⁶⁰ If these predictions are correct, then any employment generated in the mineral industry itself, and in associated industries, may be more than offset by *declines* in employment in other industries, including the housing and construction industry. This has been the experience of a number of other countries which have followed export-oriented policies.

On the question of employment, most estimates of the employment-generating effects of the mineral projects planned for the 1980s point out that, per dollar of investment, only small numbers of jobs will be created. Even if the mineral industry were to double in size, it would still only employ a few hundred thousand people. Added to this is the fact that a large proportion of the jobs will be for *skilled* workers, of which there already seems to be a shortage, so the additional demands of the industry may not be met from domestic sources, rather by increased *migration*. Undoubtedly wages of skilled tradespeople will rise as the demands increase. This creates two problems. The first has been raised by the Federal Government and the companies: how to prevent the higher wages of workers associated with the mineral projects from flowing through to the workers in the rest of the economy through the Arbitration system. As an *Australian Financial Review* report warned:

Centralised arbitration also means that many of the gains to labour won in some industries are immediately transmitted through the economy—the trembling jelly. The projected resources boom will be capital-intensive, so the demand from that sector of the economy will be for skilled labour to man the machines. There is some debate about whether a skilled labour shortage will exist, although most comments from employer groups suggest there is already a shortage. In any event, there is no doubt that skilled labour will command very high wages in the mining project areas, even more if there is a shortage. Under centralised arbitration, these wage impulses will set the jelly trembling and result in a real wage explosion.⁶¹

The 'problem' for the government and the companies is, of course, to find a way of preventing this happening: to isolate workers in the mineral projects from their counterparts in other industries.

A second problem in relation to the higher wages of workers in the mineral industry is that they may cause problems for people living in the local area. It is already clear that house and land prices are being forced up in the Hunter Valley, which is driving many low-income, and unemployed people, into further poverty:

Mr Bristow (manager of Maitland Commonwealth Employment Service office) fears that the new industries in the Hunter will widen the gap between the affluent employed elite and the masses of unemployed struggling to live below the poverty line.⁶²

It appears then that there is a very real danger of a *dual economy* developing in Australia: one part the resource-rich sector, catering for export, into which large-scale investments will be pumped, but which involves only a relatively small part of the population; the other part, the city economies, servicing mainly the home market, and in which most people live. This latter part could be deprived of the resources which enable them to live and function effectively. This is the meaning of the term *marginalisation: a large part of the population becomes irrelevant to the production process and consumption*. Income distribution and wage distribution figures published by the Australian Bureau of Statistics already show a high degree of inequality.⁶³ Figures from the U.S. show that the richest 40% of households now account for 60% of all retail sales, and the trend is continuing so that higher-income households, with usually two income-earners, can more than take up the loss of demand from the larger numbers of unemployed and under-employed.⁶⁴ A study of the 'export miracle' of Chile showed that the richest 25% of Chilean society had increased its living standards by more than 15% in real terms in the last decade, while the bottom 50% of the population's living standards had dropped by 25-30%.⁶⁵ The following quotation, which describes the situation in most of the underdeveloped countries, could equally as well describe Australia at the end of the 1980s. As the author noted, one major consequence of transnational integration of a society is uneven and polarised development in which a major problem is:

... the creation of a mass of unemployed or underemployed people that, having very precarious and unstable sources of income, are forced to survive in conditions of extreme poverty, whereas at the same time they are stimulated to aspire to the level of living enjoyed by the people in the dependent nucleus of the global system. This state of affairs is the direct consequence of the destruction, displacement and/or stagnation of the traditional socio-economic institutions that offered them jobs, income and goods and services—however poor and primitive—by the more efficient ones brought in by the global system; the incapacity of the new capital-intensive activities to absorb the demographic increase of the workforce and the un- and under-employment generated by transnationalisation ... (an additional effect) is the accentuation of the authoritarian and repressive character of the state as the hegemonic social groups become increasingly threatened.⁶⁶

Conclusion

Although there are a number of important dimensions to be investigated, sufficient has been outlined in this essay to substantiate the proposition that Australia has now become a client state of international capitalism, that its economic development is more than ever being conditioned by the requirements of international capitalism, particularly but not exclusively the U.S. There is, and will be, economic development, but it is not being structured or designed for the benefit of the Australian people as a whole, who, in increasing numbers, are being deprived of the fruits of the development process. As the state becomes increasingly

subservient to foreign capital, not only is any economic independence the Australian people had being lost, but also any political and cultural independence they may have had, as their socio-economic system is assimilated into the bowels of world capitalism.

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2

INDUSTRIALISATION AND CLASS STRUCTURE IN AUSTRALIA, CANADA AND ARGENTINA: 1870 TO 1980

WARWICK ARMSTRONG & JOHN BRADBURY

AN ARTICLE WHICH claims to do so much in its title within so limited a space must begin with either an explanation or a disclaimer—or both. In the first place, it is not intended to provide a detailed, blow-by-blow account of the complex histories of industrialisation in Australia, Argentina and Canada. To do that in such a short space would be a task at which more capable pens than ours would blench.

Instead, a first approximation is attempted to a comparative study of three societies of nineteenth century European settlement which began the complex process of industrial development toward the end of that century. It is hoped that the conceptual framework chosen for the study will, in part, compensate for the breadth of generalisation which space and the present stage of our research enforce.¹

To begin with the simple question—‘why and how did industrial development take place in Australia, Canada and Argentina?’ Out of this, arises the deeper issue of capital accumulation in three capitalist societies: what is the nature of surplus appropriation, and investment allocation which promotes the transition from the production of raw materials for export to a more diversified range of secondary activities? Why, moreover, if such a transition has taken place, did it occur so early in these three societies when it failed to do so in most other outgrowths of European imperialism?

To begin to answer these questions, some *a priori* assumptions have to be made: the first, and most important, is that the three societies were, indeed, different from most other colonial or neo-colonial dependencies of nineteenth century European capitalism. While exhibiting differences from each other, they, nevertheless, historically manifested sufficient similarities of a social and economic nature for a useful comparative analysis to be made of their evolution from specialised raw materials export economies to partial industrial diversification.

This essay will take such matters into account; issues related to trade, investment and migration are clearly important to an understanding of the nature of such active participants in the world capitalist economy as Australia, Canada and Argentina. But greater emphasis will be placed on internal social, economic and political elements in the three societies. Social structures and relationships, and the shifting balances among the major classes, will be treated as the dynamic component explaining the capacity of the three societies to make at least the partial transition towards industrial capitalism.

By taking class as the prime mover in the process of change, it is intended to do more than discuss the major division between the forces of capital and labour; much of the social movement in the three countries has also resulted from the changing relations that have occurred within classes. Neither the owners of capital nor the working classes of the three societies have been consistently homogeneous in their interests, and significant intra-class divisions have taken place on questions of economic policy. Other forms of segmentation have also taken place, particularly in the workforce, where ethnic, religious and sex differences, as well as migration, have all had debilitating divisive effects on bargaining power.

Similarly, we study geographical imbalances in terms of the differences among regional structures and social action; regional inequalities are, to a large extent, the expression of such structures and activity. However, unequal relationships, once established among different regions, are not immutable, and the tensions among different regional ruling groups have led over time to constant struggles for economic and political influence. The emergence of resource-rich regions in Queensland, Western Australia and the Canadian West and the challenge that they present to the traditional centres of power are evidence of such struggles.

Finally, the role played by each society in the international capitalist system is treated as an expression of the relationships between the domestic ruling classes and external forces. The interaction between the two conditions each society's development process. The response of local ruling groups to the larger movements in the world capitalist system—in particular, to the cycles of expansion and crisis in capital accumulation—is a central element in moulding the internal evolution of each society.

The above themes run, as a central thread, through the following sections. The first situates Australia, Canada and Argentina as dominion capitalist societies in the late nineteenth and early twentieth centuries.² It also indicates how they differed from both the classical industrial capitalist societies of Europe and the other extensions of European imperial expansion in Asia, Africa, Latin America and the Pacific. The second follows the trajectory of the three societies from 1870 to the present. The focus here is on the interaction of external and internal elements, given the place of all three societies in the international system as exporters of staples, importers of capital and manufactured commodities, and hosts for millions of European migrants. Part three is an

empirical study of industrial diversification in each society in which the similarities and divergences among the three societies are discussed. But this is not a comparative socio-economic history; its more modest goal is to try to answer the specific question, 'Why, where, and how does industrial capital accumulation take place in dominion capitalist societies?'.
I

Australia, Argentina, Canada: Dominion capitalist societies

Although space is too limited to allow entry into any substantial debate on theories of development and underdevelopment, some mention should be made of the discussion on centre-periphery relationships in the world capitalist system. Despite the differences among the various schools of orthodox and radical development studies, most have tended to see the world system as an entity divided into an industrialised centre and an underdeveloped periphery.

As a first approximation to an understanding of the problems of international dependence, inequality and exploitation, the centre-periphery generalisation has a useful purpose. But it is hoped to move beyond this bipolarised model to examine specific historical experiences. It is also believed, with André Gorz, that the most important social and economic divisions defining development and underdevelopment run through nations rather than between them. In other words, such divisions are to be seen primarily in terms of social relations among classes and then commercial and financial relations among nations. (This is not to underestimate the enormous impact either of imperial domination in the past, or more recently its expression in the internationalisation of production capital through transnational corporations which has taken place, especially in the past thirty years. It is, rather, to insist on questions of social structure and class relationships as the starting point of analysis of inequality.)³

Three historical exceptions

The above observations form the basis for the discussion of the three societies chosen. Neither Australia nor Canada has ever fitted readily into the polarised categories of centre and periphery in the system of international capitalism. Historically, Argentina also remained an exception to the apparent rule—at least from the last quarter of the nineteenth century to the immediate post-World War II years. The title 'Dominion Capitalist Societies' has been given to these countries, not for the purpose of forming an intermediate sub-set within the general centre/periphery framework, but to indicate that the international economy can be divided into two blocs, only at the risk of over-generalisation. If this is true for these three societies, moreover, then the value of the centre/

periphery model as the analytical basis for a global study of the nature of capitalist development and underdevelopment may also be limited.

In earlier studies, mainly in the sphere of international economics, societies such as Australia, Canada and Argentina have been defined, to a large extent, by reference to their economic structures and their commercial relationships, or by their ethnic composition. Together with New Zealand and Uruguay they were, and continue to be, staples exporters of temperate products—wool, meat, dairy products, cereals and lumber. They were, undeniably, also 'regions of recent (nineteenth century) settlement' by European migrants, or 'white settler societies' which almost eliminated and/or subjugated the original inhabitants, so creating outposts of transplanted European society.

But it is intended to emphasise the last aspect here, less because of the ethnic issues, than because European settlement in conquered lands created social structures closer to those of European societies than other colonial or neo-colonial dependencies. It appears that this aspect is the most relevant in defining the nature of dominion capitalism. The achievement of internally diversified economies and of levels of social welfare, health, education and general living standards which matched or surpassed those of European societies by the early twentieth century flowed from the particular forms of social organisation within these three societies.⁴

Class formation and development

Unlike most other dependencies of Europe, a local ruling class emerged capable of retaining a significant part of the surplus produced within the society. Segments of this class used their gains to import capital and consumption goods from overseas, and perhaps wasted part on speculation and conspicuous consumption. Nevertheless, the surplus was also re-invested in both the reproduction of the traditional staples sector, and diversified secondary activity. F.H. Cardoso & E. Faletto have argued the difference between the enclave nature of most Latin American economies, and the economies of Argentina and Uruguay, where strong local ruling classes were able to retain considerable control over the processes of surplus appropriation and capital accumulation.⁵

The same is at least as true for Australia and Canada where the different sections of the capitalist class were able to capture a significant part of the staple-based surplus to invest in commercial, transport (especially railway) and then industrial, activity. And the state also participated in the process of capital accumulation as a partner or promoter of corporate growth in the private sector. In fact, the greater capacity of the Australian and Canadian ruling classes and states to capture the domestic surplus and accumulate capital for productive investment at an earlier historical stage may be one of the major points distinguishing their evolution, up to the present, from that of Argentina.

A working class also arose alongside the capitalist classes in the three societies. With its growth and organisation, it was able to exercise

significant though varying influence over the social and economic policies of the local state. The ruling class, however dominant it might be, was nevertheless obliged, from time to time, to make concessions to workers in the form of improved wages, working conditions, education and social welfare. This could only have been achieved first, by national capitalists retaining a portion of the domestic surplus, and then, by an organised working class, through struggle, managing to wring concessions from both foreign and national capital.

The consequence of these social structures and class struggles was the formation of three societies whose dependence on the dominant capitalist societies of the international system was significantly modified—at least up to fairly recently. Vulnerable as they may have been to cycles in world capitalism, and to the trade and investment decisions of the great capitalist economies, they were yet able to defend their interests more effectively than the hapless dependencies of Asia, Africa and Latin America.

Yet an important *caveat* should be entered here. While the three societies diverged in their historical experiences from other nineteenth century dependencies of European imperial expansion, it is not assumed, with Amin⁶, Emmanuel and Frank that societies such as Canada and Australia became replicas of the industrial capitalist centre.

First, the dominant social classes in the three societies, well into the twentieth century, were those of mercantile and finance capital in alliance with large rural staples producers and with foreign investors. Secondly, each society had a rapidly growing working class servicing the staples export sector in the cities and the country, providing labour for infrastructure and consumer goods, especially in the construction sector, and, by the end of the century, moving into an emergent manufacturing sector.

The third group was that of the small- and medium-scale producer of cereals, dairy products, fruit and a range of other products. These family farmers were dominant in the Canadian export staples sector, became increasingly important in Australia toward the end of the century—especially in South Australia, New South Wales, and later in the Queensland sugar sector—but, as independent producers, were of minimal influence in the Argentine economy where cereal was grown mainly on land leased by the *estancieros* to a vulnerable and dependent tenantry.

The presence of these social groups—to which could be added the small-scale urban traders and businessmen—certainly provides evidence of divergence from other outgrowths of European nineteenth and early twentieth century imperialism, in terms of class structure. But it does not mean that the three then merged into the industrial capitalist core. In this review of the dominant class forces, the most obviously missing element is that of indigenous industrial capitalists. It is not implied that there were no indigenous manufacturers, or even that, by the turn of the century, such a group was not establishing itself as a growing economic, social and political force in society—and especially in Australia where

domestic manufacturers were making an increasing contribution to gross domestic product.⁷

The point is that, as a sectional interest within the ruling classes of the three dominion societies, the influence of national industrialists was less than determinant. They probably carried most weight in Australia, where the new Federal Government adopted a protectionist policy virtually from the start. In Canada, the protectionism of the 1879 National Policy provided the opportunity for some local industry but, even more, encouraged the more powerful and dynamic American industrialists to cross the frontier and employ the capital supplied by the wealthy Canadian banking sector in branch plant development. And in Argentina, the manufacturers, in the main foreign-born, lacked the social and political influence to force the state into adopting a strategy of industrial development. Not only were the manufacturers opposed by the traditional exporting interests of Argentine society—landowners, traders, bankers and foreign investors—but neither could they persuade the working class and their union or political representatives to support a state-planned protectionist strategy.

Until the great depression of the 1930s, all three economies were, first and foremost, producers and exporters of raw materials and foodstuffs to the advanced industrial capitalist societies of Europe and the United States. In return for this specialisation, they received manufactured imports, labour and capital. Most of the last, in the early years, was in the form of portfolio loan capital, but, by the 1920s in Australia and Argentina, an increasing proportion was in the form of direct investment in manufacturing and public utilities. (This process had begun much earlier with the American penetration of the Canadian economy in the 1880s.)

The class structure reflected this specialisation with well-developed commercial and financial institutions in place to act as the mediators of the staples export economy. The dynamic economic expansion (which was particularly rapid in the period 1870-1914) was derived from the capacity to produce a limited number of staples for foreign markets; it did not spring from the growth and diversification of domestic manufacturing.

Capital accumulation was occurring in the industrial sectors, but it was of lesser consequence than the central feature of dominion capitalist development: the primary production and export sector. If an industrial capitalist society is to be defined in terms of a dominant mode of production centred around a hegemonic class of industrial entrepreneurs, then at least until the 1930s (perhaps later), Australia, Canada and Argentina were not industrial capitalist nations.

Whether they are even now, in the sense that the United States, Germany or Japan are, remains a highly doubtful proposition, especially given the degree of foreign ownership of Canada's manufacturing sector, on the one hand, and the harsh blows suffered by the vulnerable import substitution sectors of both Australia and Argentina under the open

market policies of recent years. It is not desired to minimise the significance of massive industrial bastions such as B.H.P. and Collins House—or indeed that of magnates such as Essington Lewis or W.L. Baillieu—in the Australian economy. Nonetheless, seen in perspective, it is still the rural and mining sectors which are the motors of the dominion societies' growth and development. This was clearly the case up to the 1920s, but even in the period following, when Australia and Argentina both undertook massive industrial restructuring, it seems hard to avoid the conclusion that secondary diversification was supplementary to the existing staples export sectors.

Dominion societies and the international system—1870-1914

The wider historical significance of the three societies now needs to be considered, for it is clear that their evolution was strongly conditioned by external circumstances. Historically, they are important because of their role at a certain stage in the internationalisation of capitalism. In the last quarter of the nineteenth century, Britain stood at the centre of an expanding world system of commodity, capital and labour flows. On the one hand, as the dominant financial, trading and industrial power of the period, Britain needed overseas markets for its manufactured goods and for its surplus capital. Equally, it required outlets for a 'surplus' and potentially explosive population which industrial capitalism could not absorb at home. And finally, it needed access to sources of raw materials for its factories, and cheap food for its urban workers to keep production costs low.

Herein lies the special international significance of Australia, Canada and Argentina. At this specific historical period in the evolution of capitalism—from 1870 to 1914—the dominion societies became centrepieces of the British imperial strategy. They were major recipients of industrial products, loan capital and migrants; this was the process of bringing together the factors of production—land, labour, capital—under the stimulus of capitalist organisation to create a dynamic of growth and development. The modernised production of a specialised range of staples for export was the local response to these massive inputs of capital and labour from outside.

The external impact on the three societies was, therefore, far-reaching. Staples economies such as Australia, Canada and Argentina were profoundly influenced by the trade-investment-migration engine of growth (to expand on Nurkse's original concept). But the proposition is re-stated that such influence was equally importantly modified by the growth of a relatively autonomous ruling class capable of significantly modifying external forces. We are thus dealing with an interaction between internal and external elements which created a specific 'chemistry' of social, economic and political change in the evolution of each society. It was by no means an identical chemistry for the three; despite divergences, though, we can identify sufficient similarities to be

able to distinguish them from most other colonies or neo-colonies of the period.

The growth of regional divergence

But Australia, Canada and Argentina can not be treated as internally homogeneous units. In addition to class differences, there were, and are, significant regional divergences. In each case, economic growth was heavily concentrated around one urban metropolis (Buenos Aires) or two (Montreal/Toronto; Sydney/Melbourne). The rest of the economy formed subaltern outlying areas to these centres of economic, social, political and demographic weight. But the relationship was more than a spatial metropolis-hinterland one; the spatial divergences are an expression of domestic social structures in which emerging ruling groups in the regions come into conflict with the interests of capitalist classes of the metropolitan areas. Regional inequality is not created by an abstract notion of urban centres exploiting their hinterlands. The relationship, as at the international level, centres on the process of surplus appropriation for the accumulation of capital; here, interregional tensions are concerned with the control of that process by different sectional interests of the capitalist class.

In Australia, the financial, commercial and industrial capitalists of Sydney and Melbourne were in an advantageous position to enjoy the fruits of such activity, not only in New South Wales and Victoria, but also in South Australia, Queensland and Western Australia.⁸ An equivalent pattern of regional unevenness took place in Canada. The Montreal and Toronto financial and commercial establishments controlled the distribution of prairie wheat in particular, and channelled capital from both the west and the Maritimes into the increasingly diversified economy of central Canada. Both examples, however, pale in comparison with the capacity of the financial, commercial ruling class of Buenos Aires, in collaboration with foreign capital and the city's absentee oligarchy, to suck dry not only the livestock economies of the pampas, but also the wine-, sugar-, and wheat-producing interior of the country.

Timing plays an important part in the growth of the regional differences in all three societies. The early dominance established by metropolitan capital undoubtedly conditioned the character of development of regions settled later. In each case, urban capitalists were able to capture the regional surplus and channel it into investment opportunities away from its sources. At the same time, they limited possibilities for the emergence of effective regional competitors for a long time—in the case of Argentina, up to the present.

In the course of this geographic concentration of capital, metropolitan capital was strengthened by its foreign links and in the case of both Canada and Argentina, through its influence over the federal state in the nineteenth century. Australian capital had to wait until the twentieth century to enjoy the same measure of centralised influence over a

national state. The combined economic and political weight of these metropolitan alliances of capital interests has been sufficient to ensure continued dominion over the later regional developers until recent times, although at the cost of tension and discontent—even to the extent of secession threats—among the constituent parts of each society.

We should make two exceptions here to the general argument. In the first place, historical timing is by no means the only element at play; the decline of Tucumán and the other interior areas of Argentina after centuries of dominance over the littoral is evidence of this, as is the gradual weakening of the eastern Canadian Maritimes economy in the face of the challenge of the new power of the Montreal-southern-Ontario corridor in the late nineteenth century. (A possible Australian equivalent might be the displacement of Tasmania by the growth of its 'daughter' settlement at Port Phillip.)

Secondly, the regional imbalances, once created, are not immutable. The 'colonial' relationships created within the dominion societies of the nineteenth century, and which appear to have resulted in the blocking or delaying of the social and economic evolution of the later developers, followed the successful exploitation of wealth-producing export staples. These provided the early basis for the extraction of surplus and capital accumulation by an emergent class of merchants and financiers in particular. Such urban groups were then able to extend their mediating functions to new areas of staples production as the frontier moved west and north in all three societies.

But it should be noted that in both Australia and Canada there has always been resistance by state and provincial capital, rural producers and workers to metropolitan dominance. Recently, the boom enjoyed by the hinterland economies through the exploitation of their mineral riches has begun to reverse capital and demographic flows and may also result in changes in political influence. Queensland and Western Australia, Alberta and British Columbia are now 'have' regions whose resources and attractions for foreign and domestic capital give them greater weight in negotiations with the federal state. But the centralised political structure of Argentina, together with the enormous economic and demographic influence of Buenos Aires, has much more effectively limited the emergence of competitive provincial capital (or workers) with the partial exceptions of those in Cordoba and Rosario.

Variations on a theme: divergences among the three societies

A final issue needs clarification. Up to now emphasis has been placed on the common elements in the origins and evolution of the three dominion capitalist societies. They were distinct from other colonial and neo-colonial extensions of European imperial expansion, their divergence deriving from their internal social structures. But this section should not end without noting the significant differences among the three societies. To fail to do this would also undermine the basis of the argument presented here: that one must go beyond generalities to under-

stand the specific dynamics of each society that bring about social, economic and political change.

Most of the differences concern relationships with external influences, the nature of the national growth strategies, and, in particular, the timing, scope and pace of the process of industrial diversification; and each springs from distinct social structures. The character of class structures and the balance of social forces in each case was historically specific; and so, therefore, were both the internal evolution, and the role of each within the international capitalist economy.

The earlier industrialisation of Canada, albeit by foreign capital in large part, is one example of these differences. Australia diversified more slowly, but the industrial sector was probably based more firmly on indigenous capital and entrepreneurship, while Argentina's industrial capitalists were both later on the scene and less effective in influencing state development policies. The traditional landed oligarchy in Argentina continued to wield much greater power through the state—despite the Radical tenure of government after 1916—and acted as the ultimate arbiter of social, economic and political change in a way that its Australian squatter equivalent had long ceased to do. Again, the greater social diversity and flexibility of Australia and Canada have provided greater resilience to meet economic crises, while in Argentina the traditional alliance of the conservative ruling groups with the armed forces to restore 'social stability' is one which has, so far, been avoided in the other two.

We should be aware of these differences so as to understand why the three societies later followed divergent paths of development in the post-World War II decades, when it was no longer possible to speak of them as dominion capitalist societies. Both the internal and external historical conditions had by then changed so that the differences outweighed the similarities. The dominion capitalist societies were the product of a specific era in the history of capitalism: consequently the next task is to examine in brief, the path of their evolution since the last quarter of the nineteenth century in relation to the changing international capitalist system.

II

The trajectory of development 1870-1980

The major concern so far has emphasised the internal structures of each society; this will now be situated within the centres of the international capitalist system which acted as the 'engine of growth' (to use Ragnar Nurkse's phrase) for dominion capitalist expansion. The incorporation of Australia, Canada and Argentina has, however, demanded constant adjustment to a system whose cyclical nature has brought abrupt and at times difficult breaks in the trajectory of development.

Cyclical change

Periods of rapid capital accumulation have been marked, in general, by an international expansion in trade and investment and the growth of the staples export sectors. In the case of societies such as Australia, Canada and Argentina, these periods of export boom created ripple effects through other sectors in terms of both production and consumption. On the other hand, the down-swing of the cycle led to crisis in the export sector, and consequently in other areas of the economy; the pattern taken was: economic crisis—social disruption—political action. Such periods were usually followed by restructuring of the economy. This involved, especially in the twentieth century, deliberate intervention by the state in the economy, and attempts to diversify by promoting the domestic manufacturing sector.

Two observations should be made about the major cyclical movements and their impacts on the three societies. First, the effects were not simultaneous in every case; while Canada and Argentina were suffering the effects of the 'long depression' from the 1870s to the mid-1890s, Australia was enjoying a boom period, with high export levels (at least in the early years) and rising investment, leading to increasingly unproductive speculation which preceded the financial crash and depression of the 1890s. By the twentieth century, the world economy was more tightly knit, and the three societies entered the 1930 international downswing together. Later, Argentina began to enter into structural crisis in the 1950s, at a time when the other two were in the first stages of the 'long boom' of post-war capitalist accumulation which lasted until the 1970s.

Secondly, the internal regional effects of cyclical swings have been quite uneven. Boom periods in the past have tended to promote growth at a faster pace in the major metropolitan areas. However, in the down-swing which has affected international capitalism in the past decade, the new mineral resources regions of both Australia and Canada are enjoying an economic boom while the traditional metropolitan core regions are suffering from the world-wide crisis in the system.

Imperial changes

There have been other changes in the capitalist system. As far as the dominion societies are concerned, the shift in hegemony from one imperial centre to others over the past century has been one of the most significant. The dynamic of British capitalism up to 1914 helped to produce the dramatic expansion and transformation of the three economies. Links with Britain were still significant in 1930 when the three accounted for just on 40% of all British long-term overseas investment⁹, but the British role in the international system had already changed. With a stagnant economy, British market demand was no longer capable of stimulating staples export growth at the pre-war levels; moreover, the new centre, the United States, as a competitor in the same range of export staples, was less interested in the traditional foodstuffs

and raw materials of the dominion societies than the complementary British economy had been.

The depression of the 1930s, the second world war, and the further decline of Britain confirmed the earlier trends. British economic links with Argentina became tenuous under Peronist policies of economic nationalism, and were also weakened with Australia and Canada. In the past three decades Britain has been challenged or replaced as a principal trader and investor not only by the United States but also by the more dynamic economies of Europe and Japan. All these changes have had their effects upon the three societies; for instance, depression, war and post-war international changes brought policies of internal diversification in Australia and Argentina (Canada's secondary diversity having been associated with a longer-term penetration of American capital.) However, international economic changes during the 1970s resulted in greater emphasis again being laid on the production of specialised staples for foreign markets.

Foreign investment

The nature of international investment has also changed with the maturing of capitalism, and the emergence of new imperial centres. To the internationalisation of commercial and finance capital—the export of commodities and portfolio investment—has been added that of production capital.¹⁰ The largely portfolio emphasis of British capital investment was supplemented by the more dynamic direct industrial investment of the United States. After World War I, Australia and Argentina began to feel something of the impact of foreign productive investment that had already been experienced by Canada for some decades, as American firms began to move in behind national tariff walls.

These trends have speeded up since World War II, with the massive expansion of transnational corporate capital. The overseas branches of the auto, petrochemical, electronics and other giant corporations can be said to have 'industrialised' the three societies and probably at a faster pace than the more gradual growth of domestic capital accumulation would have allowed. But the concentration and centralisation of capital involved in such a process has undoubtedly restricted the area in which industrial diversification by local enterprise could take place. International capital, together with local oligopoly firms, have come to dominate the heights of the manufacturing sectors in all three economies, leaving smaller manufacturers to fill in gaps or act as sub-contractors to the giants.

These processes of monopolisation, integral to the more recent phases of capitalism's evolution, have been thoroughly consistent with attempts by the dominant capitalist nations to plan and regulate the international economy and in particular with the Bretton Woods scheme of creating a world system open to the free flows of capital and labour. For a substantial period of time after the war, however, it appeared as if the

strategy would be only partially successful in the face of the import substitution industrialisation policies in countries such as Argentina and Australia. But the continued penetration of most economies in the international system, by corporate capital, has demonstrated the dynamic character of the TNCs in combination with the IBRD, the IMF, the GATT and national financial consortia.

It also illustrates the vulnerable and technology-dependent nature of manufacturing sectors where small- and medium-scale industrial capitalists have operated behind high national protective tariffs and other physical controls as the prime conditions for their continued existence. The consequences of this have been seen in both Australia and Argentina where a reversal of protective strategies and the acceptance of monetarist policies have led to an undermining of small-scale manufacturing.

This section has concentrated on the external elements in the evolution of Australia, Canada and Argentina. It is necessary now to see how the three adjusted to the evolving international capitalist system; and in particular to examine the interaction between the domestic social structures and external changes taking place as capital became more concentrated and centralised.

The evolution of class societies

(a) Capital

Rarely were the three dominion societies initiators of change on the world scene; they tended, rather, to be the recipients of decisions and actions taken by others. But this does not mean that they could not modify those actions, and carve out for themselves a place, however subaltern, in the international capitalist order in a way that other dependent societies could not. Their relative freedom of manoeuvre arose, as has been argued, from the relative autonomy of the ruling classes and their partial control of surplus appropriation and capital accumulation; this gave them a bargaining influence with external forces, and led to the same formal political independence for Australia and Canada which Argentina had achieved earlier.

But the ruling groups did not form a homogeneous class, and it is the emergence of sectional interests within capital that helps to explain the changes that took place within the dominion societies and in their relations with external forces. At one level, the struggle between those interests tied to foreign investment and a free trading international economy, and others trying to promote greater internal economic diversity provided one of the dynamic elements in the evolution of the dominion societies. Initially, the sectional groups pressing for the specialised production of a few staples—the large urban traders and financiers, together with the raw materials and foodstuffs producers—were in the ascendant.

Even at the peak of the staples export economy's achievements, however, changes were taking place within the three societies. New social

forces were emerging to take advantage of the wealth-producing staples. Local entrepreneurs began to capture part of the surplus as part of a continuous multiplier process of expansion from the export sector into the production of both capital and consumer goods for the domestic economy. At the same time, the staples commodities required some processing, however minimal—flour mills, meat packing plants, dairy factories—as well as the construction of storage, processing and transport facilities. Urban centres required a construction sector and the factories to produce timber, metal and cement. Increasingly, capital and capitalists moved into these areas, so creating an ever more significant sectional interest whose goals were often far from identical with those of the traditional ruling groups.

(b) The working class

The complexity of these intra-class relationships was deepened by the even more profound opposition between classes. However subordinate labour might be, it nevertheless plays an important conditioning role in the evolution of capitalist society. This has been equally true of the dominion societies throughout the past century. Apart from certain exceptions—including the hunters and trappers and the *habitants* of Quebec, the *gauchos* of the pampas, and *kanaka* and aboriginal labour—the social relations at the workplace have centred on wage worker and owner of capital. It is argued that the sectoral structures differed from those of the advanced industrial capitalist economies, with smaller proportions in the manufacturing sector, and lower percentages in large-scale concentrations of industrial enterprise. Yet the working class fought to organise itself syndically and also in the wider arenas of state and federal politics. In this way, and despite segmentation on lines of sex, ethnicity and skills, labour was able over the years to wring concessions from capital either directly or through political action.

But, as with capital, the working class did not always adopt homogeneous attitudes to issues such as industrial development. Workers in the staples export sector usually tended to see their interests allied to, and dependent upon, the success of that sector. Nor did workers see themselves as natural allies of the emergent industrial capitalist interest. Labour may have been drawn to the side of protectionism in nineteenth century Victoria and much of Canada, but this was not equally true of most New South Wales workers. And the Argentine workers and their union and Socialist and Radical party representatives were hostile to a protective policy which would raise the prices of foodstuffs and other consumer necessities. It is noted, in passing, that the perception of class interests is not an absolute and is likely to differ from society to society, or within societies, according to specific material circumstances.

With increasing levels of industrialisation and urbanisation, and the concentration of capital creating new patterns of industrial development in the twentieth century, the urban working class began to assume a character more in keeping with advanced industrial capitalism. This had been true of Canada since the late nineteenth century, as United States

investment began to establish branch plants in and around the Toronto-Hamilton manufacturing axis, and, to a lesser extent, around Montreal. By the 1940s, similar patterns were also beginning to emerge in Australia and Argentina. United States capital had started to flow into the Australian auto industry in the 1920s, and, together with increasingly capital-intensive indigenous enterprise in metals, rubber and electrical goods, was creating not only an industrial capitalist complex, but also a clearly-defined industrial capitalist workforce.

In the same way, Argentina's manufacturing structures began in the 1920s to feel the impact of a new source (the United States), and new pattern (direct manufacturing), of investment. The process of capital-deepening continued into the 1930s with the addition of textiles and rubber industries to those of food, printing, petroleum refining, gas and electricity. The urban industrial workforce increased both in size and organisation with these structural changes in capitalist enterprise, to become one of the partners of the Feronist populist alliance of the 1940s and 1950s.

The parting of the ways in the evolution of the three societies, if we take the working class as one indicator, appears to occur in the 1940s. Whereas the working classes of Australia and Canada seem to have participated to some extent in the economic expansion of capitalism's post war 'long boom', the Argentine workers entered into what has been nearly three decades of tenacious struggle against a crisis-ridden economy controlled by the traditional alliance of indigenous monopoly corporations, foreign capital and military regimes. Their struggle may, in effect, have been a prefiguring of some of the difficulties faced by the urban working classes of the other two societies when confronted by the combined effects of capitalism in its monopoly phase, the increasingly monetarist thrust of state policy (in Australia at least), and the long downswing in capitalism's cycle.

(c) Other social groups

In Canada and Australia, an intermediate group of small- and medium-scale rural producers found a notable place in the staples export economy. In both cases they became the major elements in cereal production, and to a lesser degree, were also significant in dairying and fruit farming. A similar class barely emerged in Argentina, where the best pampas lands had been agglomerated into a relatively few great *latifundios* by the 1880s. The consequences of this difference have been significant; with small commodity producers or family farmers there tended to be a wider spread and a more equal distribution of income, and the local multiplier effects of their activity tended to be stronger as such producers demanded domestic consumer and capital goods, so stimulating secondary activity. In Argentina the political consequences of such a class, though difficult to estimate, might have been to create another social buffer between the traditional conservative-military ruling alliance and an often militant working class.

Other groups came into existence with the growing complexity of the three societies: independent manufacturers and businessmen in the cities whose diversifying role was of importance, especially in the early decades of industrialisation; professional groups; and those involved with government's role in the social and economic management of the societies. This last group provides the starting point for a brief commentary on the state's role in the evolution of the three societies.

The state

In all three, the state has played a thoroughly interventionist role both socially and economically over the past hundred years. The policies and practices of the state in these as in other capitalist societies have been strongly influenced by the capitalist class, and especially by particular sectional interests of that class. In the dominion societies, the nineteenth century saw the dominance of the staples export groups and the adoption of policies favouring the free movement of labour, commodities and capital. After the turn of the century, and especially after the 1930s, state intervention was concerned increasingly to extend economic protection and encourage greater diversity in the national economy. Import substitution industrialisation was a feature of Australia's strategy which continued throughout the 1950s and 1960s, while in Argentina, similar Peronist policies, though shorter-lived, were applied with even greater intensity. In this, the argument can be accepted that the state came to reflect the growing influence of the manufacturing sectional interest.

Yet to leave the argument at this would scarcely answer a number of questions which suggest a much greater diversity of influences operating on the state; while the state does respond positively to most pressures from hegemonic sections of the ruling class, it must also take wider societal issues into account. For that reason—the need to consider the requirements of the system as a whole, and over the long term—the state has tended to compromise and make concessions when necessary, to avoid possibilities of social discontent and upheaval. More positively, such concessions are also forced in response to the capacity and preparedness of the working class to fight for improved social and economic conditions.

In Australia, Argentina and Canada, labour achieved victories on issues such as wages, working conditions, social security, education and political representation—all without managing to alter the basic character of the system. But because of the balance of class forces in Argentina (and the particular position of the armed forces at the side of the old ruling groups) the working class has had a much harder row to hoe. The current authoritarianism is the latest, and probably most extreme, example of military-ruling class intervention whose policies are designed to promote the sectional interests, in particular, of the finance capital-foreign investor alliance.

III

Industrialisation in the three societies

Industrialisation is an important measure of the social changes taking place within a society; in particular, it is an indicator of inter- and intra-class shifts in the balance of power. In the three dominion societies it illustrates the capacity of certain indigenous classes to appropriate part of the surplus from the wealth-producing export sector and to allocate the accumulated capital to a range of activities in different sectors, including that of manufacturing. This process is evidence of a degree of control over internal development not enjoyed by most other imperial dependencies in the late nineteenth and early twentieth centuries; but, further, industrial expansion also indicates the ability of the society to adapt readily to a capitalist framework of social relationships necessary for diversified growth.

Australia, Canada and Argentina were exceptions: they had few of the barriers created by pre-capitalist systems of production to overcome; they had access to, and partial control over a wealth-producing sector; they had a working class deriving from craft production and/or European industrial cities, which adapted with relative ease to the needs of an emergent manufacturing sector; and finally, they had a political structure capable of promoting the strategy of national economic diversification. There were also, as has been noted, significant differences among the three, which led to growing divergences after the 'golden age' of staples export expansion had turned the reality of dominion capitalism into an historical concept.

As capitalism evolved and matured, it created new material conditions which removed much of the foundation upon which the dominion capitalist societies had been built. The process of industrialisation was one of the responses to this evolution of the world system, but even more, it responded to the internal social changes taking place in Australia, Argentina and Canada. These general points can now be illustrated by reference to the industrialisation which occurred in each society.

Australia

At the risk of over-generalisation, the process has been divided into three major phases in the period from 1870 to 1980. It is appreciated that those more knowledgeable will find exceptions to these categories and make objections to them which will, in all probability, be justified. The capital accumulation process is a much more fluid phenomenon than any tripartite division will allow for. And yet there is a need for some historical categories to highlight the crucial links among the economic, social and political forces at play in this evolution.

The initial phase of industrialisation might be designated a continuous outgrowth¹¹, a multiplier effect, generated by the expanding staples-export sector. In this, the surplus arising from the staples was appro-

priated in part by overseas capitalists, and internally both by the landowners for consumption and reinvestment in staples production, and by investors in other sectors who allocated it to trading and financing activities, construction, transport and manufacturing.

This continuous path has been viewed by staples theorists in terms of inter-sectoral linkages—forward, backward and final demand—in which export returns are diffused throughout the rest of the domestic economy. The theory has made a useful contribution to the understanding of economies such as those of the dominion societies—despite the ambivalence shown by Australian writers to it—although we prefer to treat such linkages as the technical expression of the changing social structures and relationships which emerge in the society.

The wool staple, dominant for a large part of the nineteenth century, provided some limited possibilities for further diversification in other sectors. But the multiplier effects were felt principally in urban marketing and financial activity rather than in manufacturing. For many decades, processing was carried out overseas, while the 'squattocracy' tended to import much of their capital equipment and consumer purchases.¹² One of the early exceptions was the demand for fencing wire which, after a troubled start, gave rise to a successful local industry. Woolen textile production, which might have been considered a natural early starter, also had less than propitious beginnings because of conflicts over domestic processing versus raw material exporting. But in general, as far as linkage effects are concerned, the pastoral sector might be considered a variant of a plantation economy with its close relationships to international markets and supply sources; the early years can be characterised more by leakage to the world economy than linkages to other sectors of the colonial economies.

The second half of the century, however, saw considerable diversification in the economy. In the first place, the fast-growing cities of Sydney and Melbourne, both entrepôts for the staples sector, provided a consumer market for small-scale production of clothing, processed goods and construction materials. Craft and small-scale industry, in part protected by Victorian government tariffs, emerged after the 1850s to serve the needs created by an urban consumer demand. Most of this type of manufacturing growth was centered in the two dominant colonies, New South Wales and Victoria; by 1891 Victoria had 96013 manufacturing sector workers and New South Wales 74559¹³, and both were far ahead of any of the other colonies.

The other contribution to the growth of manufacturing output—which rose from 3.9% of total G.D.P. in 1861 to 10.4% in 1891—sprang from the diversification of primary production.¹⁴ Both in terms of backward and forward linkages, the new class of small- and medium-scale producers created the multiplier effects for secondary expansion. Wheat farming, dairying and fruit farming, particularly in New South Wales, but also in South Australia and Victoria, created demands for a range of agricultural machinery suitable for Australian conditions which allowed

local entrepreneurs to innovate and compete successfully with British and U.S. imports. Refrigeration equipment, grain mills, dairy factories and other food processing also expanded, as did the fertiliser industry to provide phosphates especially for the wheat industry (the chemical industry having started earlier as an outgrowth of mining's need for explosives).

On the final demand side, the smaller rural producers, lacking direct overseas links and capital, were less inclined to spend on imported goods, and particularly luxuries, which had characterised the consumer behaviour of the pastoralists.¹⁵ The majority of local enterprises which emerged to service their needs tended to be small, labour- rather than capital-intensive initially, and quite widely dispersed among the local urban marketing and service centres; this was also a pattern which applied to consumer industries such as breweries, leather works and clothing factories, until the increasing centralisation of capital combined with improved transport closed many of the small plants and/or transferred their activities to the capital cities.

Obviously, this continuous process of industrial diversification was not restricted to any one historical period. However, it appears to be the most characteristic form of early industrialisation, especially in societies where capital accumulation occurs on the basis of staples export production. Much of the early manufacturing, lacking access to substantial capital sources, and with little support from the state—except for protective tariffs in some cases—was necessarily small-scale and labour-intensive. In fact, it might be better to speak of artisanal activity rather than industrial capitalism, in which social relationships were still largely those of master craftsman and skilled journeymen. Trade union organisation with its craft emphasis also reflected this petty commodity structure of production, until the formation of larger industrial unions of unskilled workers at the end of the nineteenth century.

The second major phase in the evolution of Australian industrialisation emerges clearly in the third decade of the present century, and is characterised by the emergence of a new class based upon the large-scale accumulation of capital for industrial production. The qualitative differences from the prior phase of continuous manufacturing based on linkages from the export sector are marked, and the role of the state as both promoter and market becomes highly significant, as does the influence of industrialists in political affairs. The whole effect is that of discontinuity, a break with previous trends in the pattern of economic development, which results from a deliberate strategy to meet the needs of capital in a changing environment.

The pressures on capital to undertake such a massive restructuring are explained by R.W. Connell & T.H. Irving in terms of the crises which shook the colonial staples economy and the social structure based upon it.¹⁶ The hegemony of the ruling interests was re-established through a combination of state and large-scale corporate strategies to provide new openings for capital accumulation: the welfare state, the construction

sector, new areas of consumer expansion, and, above all, a massive expansion in the corporate industrial sector. This is not to argue that large corporations had not existed previously; the Colonial Sugar Refinery, established in the 1850s, is clear evidence to the contrary. What it does suggest is that there was a qualitative change in the Australian economy, with interlocking clusters of industrial giants creating a new type of structure; more important, there now occurred a shift in the balance of power among the sectional interests making up the ruling class.

The most obvious manifestation of this change is to be seen in the ensemble of large-scale corporate enterprises which rose to prominence in the 1920s and 1930s. But other elements are also of significance in the discontinuous process of industrial expansion. The state began to play a more interventionist role with supportive tariff policies and contracts for the manufacturing sector; subsidising the external costs of private industry; in providing technical training for industrial labour; in creating a public system of arbitration and conciliation; and in pricing policies to help the new manufacturing industries.¹⁷ The character of the urban working class, too, began to change with the new industrial structure, as craft work gave way to a labour process based increasingly on specialisation and a growing division of labour on production assembly lines. As Connell & Irving observe, the gap between labour and capital became more evident and, with the polarisation, the confrontations at the work place increasingly embittered.

The dramatic rise of great combines such as BHP and Collins House provides the most obvious evidence of industrial capital's emergence. With their roots in the rich ores of Broken Hill, and with access to financing drawn from landed, merchant and financial capital as well as British sources, they began a diversification which took them into capital-intensive metal manufacturing. Their domestic strength also gave them a base for overseas investment on a significant scale—a further indication of their monopolistic position in the Australian manufacturing sector. They are, finally, examples of the ability of important sectional interests within the ruling class to deal with a structural crisis by moving into new areas of capital accumulation, and by manoeuvring the state (at Federal and State levels) into a position of active support.¹⁸

Yet this is just part of the total changing scene. The other aspect of the transition is marked by the growth of a host of smaller firms employing a growing industrial wage labour force.¹⁹ The monopoly sector—not only the metal giants but also oligopolies in glass, chemicals and paper, as well as a range of foreign corporations—provided the opportunity for a wide range of specialist sub-contractors or further processors. It was this class of medium-sized entrepreneur which also benefitted from State policies of deliberate industrial promotion, regardless of party (Labor in New South Wales being one of the more developmentalist, along with the conservative governments of South Australia). The same sectional interest also broke away from the anti-tariff Bruce-Page coalition in the

1920s; lacking investment capital, and threatened by cheaper imports, this group of dissidents in 1929 helped to overthrow the Nationalist government and put Labor in.²⁰

The third phase brings us to the present and the latest crisis for Australian capital, or, more precisely, for some sectors of that capital. Manufacturing, which accounted for 16% of gross national product in the 1920s, had risen by the 1960s to 30%, having grown consistently throughout the years of the 'long boom' from the late 1940s to 1970s.²¹ Structurally, Australian industrial capital continued to be divided into a large-scale monopoly sector in which a few corporations dominated the host of smaller firms in determining production, prices and investment.²² Part of the concentration of capital reflected the growing control of important sectors of the Australian economy by U.S., British and Japanese capital and the increasing industrial dependence on externally-controlled technology, management and financing.²³

In short, the process of concentration and centralisation of capital has proceeded apace in Australia in the post-war decades; the degree of market concentration by the late 1960s was, in fact, much higher than in the United States or Britain.²⁴ During the period of the long post-war boom up to the early 1970s such concentration was not necessarily limiting to the small-scale manufacturing firms; the prosperity of an expanding economy continued to spawn the growth of tariff-protected import substitution enterprises. But with the system's down-swing in the mid-1970s, it was this structurally vulnerable section of industrial capital, already suffering a profit squeeze²⁵, which was particularly damaged by a state monetarist policy. It seems as if Australia is now turning away from the post-war strategy of import substitution industrialisation towards one in which the central elements are local monopoly enterprise, linked in many instances to overseas capital, together with a staples sector based on the export of the country's rich mineral resources. The free-market policies adopted by the Federal Government have speeded the process of small firm dissolution; large indigenous monopoly firms, together with foreign investors, have tended to move 'offshore' to seek cheap labour (and lower costs)²⁶; and minerals exports have become the basis for regionally concentrated growth in an economy which is settling into its specialised role in a new international division of labour as a producer and exporter of raw materials. The foundation is also being laid for a new phase in the confrontation of capital and labour as the monetarist strategy has forced down real wages and induced cuts in welfare, and growing unemployment.

Argentina

The evolution of Argentine society, and its transition from staples export production to partial industrialisation, can be approached by using the same framework as for Australia. We can thus be briefer, and assume the similarities which other writers have pointed out: the incorporation of Argentina into the nineteenth century international

economy dominated by industrial capitalist Britain; its trade-investment-migration links with Europe; its character as a 'white settler' society; and its social structure which allowed both a relatively autonomous indigenous ruling class to 'claw back' part of the surplus value for domestic capital accumulation, and a growing wage-labour class to extract certain economic, social and political concessions from capital and the state. The effects of this, especially in the period when we can compare them as dominion capitalist societies, could be measured in terms of per capita income which, by 1930 for example, was ahead of that of many European countries. While it lagged behind Australia and Canada, the growth rate per head over the previous seventy years was probably higher, and the gap had narrowed, despite a more rapid rise in population.²⁷ The prosperity and underlying strength of the staples economy was, in the late 1920s, still sufficiently impressive to attract British investment on a scale almost equivalent to that in Australia and Canada.²⁸ At the same time, a more dynamic form of foreign penetration in the form of U.S. direct productive investment in utilities and manufacturing was beginning to shift the sectoral balance of the economy.

Having noted the similarities, the contrasting features of Argentina's evolution from specialisation to greater industrial diversification can now be concentrated on. As with Australia, we can designate the transition as one of continuous expansion on the basis of the wealth-producing export sector. Two principal avenues for manufacturing emerged from the staples: the first is associated with the processing of primary exports. Diaz Alejandro has estimated that one-quarter of rural prdouction was probably processed by domestic industry in the period before 1930.²⁹ Meat packing, flour milling and wool washing were among the industries which started at a fairly significant scale, and must have required important investment from those sectional interests already possessing capital—landowners, traders and financiers—as well as foreign investors.

But if the forward linkages channelled capital from other sectors and overseas into manufacturing as in Australia, the same cannot be said for backward linkage effects. The concentration of land ownership into relatively few hands was an established fact by the 1880s, and the *pampas* were carved up into a few enormous *estancias* or estates. By the end of the century, these were producing the pastoral staples on which the prosperity of Argentina, and more specifically, of the *estanciero*-merchant-financier ruling coalition, was founded. The propensity of the landowners (as with the Australian squatters) to import manufactured goods limited the possibilities for stimulating activity in the agricultural machinery and metallurgical industries. But while the emergence of a new class of Australian rural producers—family farmers in wheat, dairying and fruit farming—had provided the support for such activity, in Argentina this did not happen to anywhere near the same extent. Apart from a few colonies in the north, and some dairying and agriculture in the pampas, a medium-level stratum of family farm producers

failed to emerge in Argentina. The wheat producers remained a vulnerable tenantry, lacking security of tenure or compensation for improvements, and dominated by the Buenos Aires merchants and processors. The long retention of economic, social and political control by the traditional landowning interest is an element in Argentina which is not paralleled in the Australian case.³⁰

The third area of secondary expansion is associated with final consumer demand linkage effects. From the perspective of this essay, it consists of the rise of a class of small- and medium-scale entrepreneurs, principally in the urban centres, to provide for the daily consumer needs of a growing urban market. The basis of such a class had long existed, not only in Buenos Aires, but also in the interior cities, where craft production had developed in the colonial period. Such simple commodity production continued in the rapidly growing metropolis, but by the end of the century an important change had already begun to take place. Small-scale manufacturing to supply clothing, furniture, and processed foodstuffs came to be associated with migrants, both as owners and as workers.³¹

The social implications of this are important. For various reasons, the immigrants remained an almost alien element in Argentina society. At the same time, immigrant workers were at odds with immigrant owners over wages and conditions of work, so no alliance was possible there. The reticence, even timidity, of these small- and medium-size capitalists combined with the lack of interest shown by landowners and urban capitalists in manufacturing investment outside the staples processing sector, means that industrial diversification remained marginal to the main thrust of economic growth before 1930. There was no equivalent of BHP, nor by the 1920s could a dissident manufacturing group have helped to bring down a ruling government as in Australia. In fact, even after the accession of the Radical Party in 1916, the manufacturers had no real political representation. Where Australian social democrats were strongly protectionist, both the Argentine Socialist Party—in defence of keeping prices low for workers—and the Radicals were committed to free trade, along with the merchants, landowners and foreign capital.

But despite the lack of clear industrialisation policy by the state, there was a tariff structure which provided a level of protection from 1906 to 1930 at about the same level as that of Australia.³² And there was a consistent increase in the labour-intensive, small-scale manufacturing sector which expanded even more rapidly than the growing foreign investment in modern, capital-intensive plants throughout the 1920s.³³

The transition to a pattern of development founded on the strategy of deliberate discontinuities came as a response to the crisis of the international economy in the 1930s, and the difficulties faced by the traditional export sector. During the 1930s some capital-deepening took place, especially in textiles and rubber products, but by the 1940s the social situation appeared to demand new policies from a state under great pressure. The import substitution industrialisation during the

regime of Peron was a response to crisis in the traditional economy and ruling class, and in answer to the demands of a discontented urban working population whose numbers had been swollen by the migration of rural workers to the city.

Peronist industrial growth was a form of corporatist-populist development based on alliance between the urban industrial working class and national manufacturers. Labour, though a large and growing social force, was still weak in organisation, and it was Peron's policy of creating powerful industrial unions which helped to create a strength that persists even under contemporary totalitarian military regimes. The import-substitution policy, then, was significantly different from the strategy of the Australian capitalist class.

No such transition to an industrial sectional interest took place in Argentina; and the medium-scale manufacturers remained relatively weak and dependent on nationalistic, if ad hoc, state policies of tariff-protection, exchange control subsidies, and an industrial bank to assist in investment. Without a planned development strategy, however, the import substitution sector failed to establish itself as a technologically and financially independent base for industrial capitalism in Argentina. On the other hand, under paternalistic state direction, the working class benefitted in terms of real consumption, employment opportunities, and social security from the populism of a rudimentary welfare system. As a class, it also gained in terms of political influence through its powerful union structure.

Yet in contrast with Australia, the power of the traditional export interest was little more than dented.³⁴ The import-substitution strategy had depended heavily upon continued expansion of staples exports. When overseas reserves fell in the early 1950s, the structural weaknesses of the policy were revealed and the populist alliance began to fall apart; it was only a matter of time before the ruling class, with the aid of the armed forces and the blessing of foreign investors, resumed its formal grip on power.

The past twenty-five years have seen the traditional groups extend their hold on state power, but with continued social confrontations leading to sporadic uprisings by the working class fighting to win back social, economic and political positions lost after the fall of Peron in 1955. Each temporary relaxation in the face of popular opposition has then been followed by more repressive military regimes. The last of these—a coalition of landowners, traders and, above all, financiers, tied to foreign capital and supported by the I.M.F. and international banking interests—returned with a vengeance in 1976 to a strategy based on specialised export-led production in an open market economy.

Under the Minister of Finance, Martinez de Hoz (a financier and land-owner), the first military government pressed to remove import and export taxes, welcomed foreign investment with full guarantees, eliminated or cut back on price controls, and sold off government enterprise to foreign investors and local monopoly corporations. But this has

not meant a return to the competitive capitalism of the pre-1930 period; the concentration and centralisation of capital of the post-war years has helped to create a powerful domestic monopoly sector, which now operates in conjunction with untrammelled foreign investment to dominate the national economy. The situation is very well summarised in the persona of a conglomerate such as S.A. Garovaglio and Zorraquin whose interests spread over pastoral and agricultural *estancias*, banking, export trading companies and investment firms, and manufacturing enterprises linked to the rural sector and to the armed forces firm *Fabricaciones Militares*. In all this, the interlocking of production, commercial and finance capital is completed by the close links forged with the military state.

The other side of the coin shows a heavy fall in real wages, rising unemployment, and the slashing of social welfare benefits for labour. The 'rationalisation' of free market, monetarist policies has reduced employment in the public sector as well as leading to bankruptcy in private business. For, while labour has borne the brunt of the strategy—as well as political repression—the medium- and small-scale entrepreneur has also suffered. The loss of protection, together with reduced consumer demand and credit restrictions, have wrought havoc among this vulnerable section of capital.³⁵

Argentina's present plight—inflation, a foreign debt of \$30 billion, declining industrial production, and a growing balance of payments deficit—is one from which only foreign capital, a few local monopolies, and national and international bankers have been able to draw benefit. It is also an end result of the society's failure to develop an adequate social structure capable of achieving a transition to an indigenous system of industrial capitalism. The class basis for such a process was weaker than that of Australia in the early part of this century, while the opposition to a policy of planned industrial capitalist expansion—comprising the traditional sectional interests of capital *plus* the representatives of the wage workers—was overwhelming. When the strategy of deliberate change did come, it was from a state whose major objectives were nationalistic and corporatist, and whose management did not ensure the emergence of a powerful manufacturing sectional interest along the lines of the industrialists of Germany, the United States or Japan—or even Australia.

Canada

Adoption of a parallel methodology for Canada allows the outline of a similar trajectory of industrial development and change to be drawn. In fact, the continuous secondary expansion arising from the multiplier effects of staples sector growth is to be found earlier here than in Australia or Argentina. Staples such as furs, fish, lumber and wheat created a growing foundation for linked commercial, financial and industrial activity in rapidly growing centres such as Montreal and

Toronto (and to a lesser degree, Halifax). And in so doing urban consumer and labour markets were built up to provide the basis for a range of manufacturing industries providing food, beverages, clothing and construction activities.

But it was the independent commodity production of wheat in Southern Ontario which most stimulated secondary expansion through forward linkages into processing and backward linkages into facilities—trucks and railways—agricultural equipment, and a range of metallurgical activities. The response to the stimulus varied; small-scale craftsmen employing local capital, expanded into larger-scale fabricating activity, and local businessmen financed a growing transport network among the dispersed settlements. But larger financial resources were also called upon to move the staples products and here the massive resources of an already complex system of banks and merchant houses were called upon for transport, port and warehouse investment by the mid-nineteenth century. Later, the federal government began to participate in this expansion as well.

McCallum contrasts the rapid and diversified developments of southern Ontario with its family wheat farm sector, with the situation in Quebec with its generally poverty-stricken agriculture, and its lumber staple production.³⁶ In the former a wide and relatively even spread of income gave rise to a diversified pattern of business and industrial activity, while in the latter, secondary multiplier effects were both muted and concentrated in the financial-commercial centre of Montreal. By 1870, the greater, more balanced economic strength of Ontario was well established and it then began to undermine the earlier-founded industrial economies of the Maritimes.

After the 1880s, the same economic power of southern Ontario was employed to establish a hegemonic influence over the new wheat-producing economies on the Prairies. The dominance of eastern commercial, financial and transport interests limited the possibilities for social and economic diversification in the western provinces. Surplus from Prairie wheat was appropriated in the east and the accumulation of capital was of greatest benefit to the various sectional capitalist interests around Toronto and Montreal.

The discontinuous phase of industrial capitalist development confirmed and strengthened this pattern of growth. The crucial date here is 1879, the year of the National Policy whose strategy included a system of protection tariffs, an east-west railway link and a state immigration policy. Much of the National Policy in the late nineteenth century can be viewed as the tool of the dominant class representing the commercial designs of Toronto and Montreal merchant groups over the rest of Canada. Indeed, the end of the nineteenth century can be readily viewed as a period of rule by class interests in promoting specific interests related primarily to merchant activities and secondly to industrialisation. But there were also indigenous industrial classes established in the late nineteenth and early twentieth century within regional and staples

economies which centred on import substitution and simple producer goods.

Concentration of this initial industrial bourgeoisie in Toronto and Montreal strengthened the hold of indigenous industrialists on those centres. Initially they were a petty bourgeoisie in the phase in competitive capitalism, owning and operating the small plants which were to survive the impact of foreign branch plants and the period of corporate concentration in the late nineteenth and early twentieth century. Some evolved into the industrial bourgeoisie and the industrial family capitalists of the twentieth century. As these central Canadian industrialists gained control over a portion of the national industrial sector, they established economic, ideological and political linkages with Canadian financial and commercial interests. By World War I the industrial bourgeoisie was a modern corporate elite quite different from the smaller industrial bourgeoisie active around the time of the National Policy in 1879. The new industrialists became part of a corporate managerial structure, embracing the ideology of monopoly capitalism and not the ideology of individualism and philosophy of the nineteenth century entrepreneurs.³⁷

The National Policy clearly involved elements of an import-substitution strategy; debate continues however, over the motives behind the 1879 intervention by the federal government. It has been argued that a major reason for the creation of the tariff under the National Policy was to promote domestic industry, an obviously well-intentioned act which could not have anticipated the hazards of branch plant operations for long term industrialisation in Canada.³⁸ It is also suggested that tariffs were created to allow foreign firms to establish branch plants behind the walls and so build up an industrial base both to service the Canadian market and gain access to empire markets.

In fact, American industries tended to be substituted for indigenous Canadian industrial capitalism in certain sectors.³⁹ By the late 1920s both United States and British firms had penetrated a number of industrial sectors including electrical apparatus, chemicals, abrasives, auto-making and transport equipment. Up to World War II United States investments grew substantially and eventually exceeded those of British firms; between 1930 and 1937 British firms added fifty-one, and United States firms a further 220, new branches.⁴⁰ This pattern prevails today with southern Ontario and parts of Quebec clearly dominated by American capital. The peak in the latest phase took place between 1968 and 1970 during which further penetration of secondary manufacturing took place.

Most scholars now agree that the present external dominance of specific sectors of Canadian industry is directly related to the actions of the 1879 National Policy. However, it would be false to leave this picture without presenting the viewpoint of the Canadian industry which did develop to a stage of indigenous industrial monopoly. The steel industry has been largely Canadian; similarly the agricultural machinery industry,

with its best known representative Massey Harris, was an indigenous sector which grew into a national industry in which American firms had already obtained leadership, had access to finance, and were in a monopoly or near monopoly stage in the United States. The Canadian branch plant phenomenon, then, can be considered as a filling in of the industrial interstices especially in non-staples sectors where neither Canadian industrialists nor bankers foresaw expansion or activity.

To sum up, Canada has evolved an underdeveloped industrial structure with regional specialisations devoted to different staples which have peaked at different times. There has been specialisation of primary and secondary industries associated with processing of extracted resources including wood products, pulp and paper, non-ferrous metal mining and transport equipment.⁴¹ To date, Canada, as with the other two societies, has depended upon resource products rather than specialisation of secondary manufacturing. Some areas of specialisation involving high levels of technology exist, but for the most part industry is dependent on external research and development and imported technology, especially that associated with large-scale branch plant operations in primary and secondary manufacturing. Canada has followed the shifts in sectoral development characteristic of other industrialised nations, but the development has remained specific to each sector.⁴² The primary sector has played a dominant role probably for a longer period than in most industrialised nations. At the same time, goods-producing industries have only employed one-third of the Canadian labour force, one of the lowest figures of any industrialised nation. Similarly, comparisons of manufacturing status and output compare unfavourably with the classical industrialised societies; Canadian manufacturing output per head, for instance, has been only two-thirds that of the United States in recent years. Overall there has been little change in what Canadian firms produced over the last twenty-five years and this despite high levels of export volume and substantial industrial growth. Today, as in 1879 at the time of the National Policy, Canada like the other societies has an industrial structure in which resource and processed-staples exports are exchanged for manufactured imports.⁴³

Conclusion: the present crisis

The crisis in international capitalism now nearing the end of its first decade, has thrown into relief the inherent weaknesses of the economic and particularly the industrial structures of the three societies. The vulnerable non-monopoly sectors of manufacturing have been especially hard hit by inflation, and by the increasingly withering pressures of open market competition encouraged by monetarist state policies.

But to talk of deindustrialisation of the three societies is too sweeping; it is closer to the point to think in terms of a restructuring in which the monopoly industrial sectors linked to finance capital, and alongside transnational firms, are benefitting from the process of concentration

and centralisation. Increasingly, their success is posited upon the 'cleansing' programme that the system is passing through, in which the small- and medium-scale firms promoted by the import substitution policies of earlier years are now being 'shaken out'. If there is deindustrialisation, it is a selective process which is proving beneficial to monopolies and conglomerates.

However, one may take a more selective view than this, and distinguish between the responses of Australia and Argentina on one side, and Canada on the other, to the current crisis in the system. The Australian situation has been set out by Crough, Brezniak & Collins and a number of writers in this volume.^{44, 45} It is not the place here to elaborate the point that the present monetarist strategies at federal and state levels involve a direct attack on the working class and its organisations, the welfare state, and small business; conversely they are supportive of monopoly capital accumulation whether national or foreign, and are being used to promote the concept of export-led growth through the massive exploitation of the country's mineral resources.

Australia is returning to specialised staples growth, but now within the context of an international division of labour controlled by international monopoly corporations. In fact, the emphasis might be better placed by arguing that, as the capitalist system 'cleanses' itself, it necessarily weeds out the weak and concentrates power—financial and political—more surely at the top. In international terms, this confirms Australia's role as a specialist quarry for the industrial giants; internally it 'shakes out' the vulnerable and intensifies the influence of national and foreign monopolies.

Argentina, even more severely, has been forced into a straightjacket of monetarism which has benefitted almost no group outside the national financiers and large-scale conglomerates, and foreign investors. Political repression by the military kept the lid on discontent up to 1981, but the recent change of leadership has coincided with a series of strikes by workers, especially in the manufacturing sector and provincial cities. But the spread of disaffection also extends into a decimated business community and even the traditional farming sector where exports have been adversely affected by high interest rates and an overvalued peso—both part of the monetarist strategy. The pressures on the new military president, General Viola, have resulted in some change in the direction of economic policy away from the rigid open market thrust of his predecessor in the first tentative contacts with political parties including the Peronists and union leaders, and in tensions within the regime.

The Canadian trajectory has been rather different. After a century of accepting the dominance of foreign capital, there is now a shift to a form of economic nationalism. The federal state is using the Foreign Investment Review Act (FIRA) (along the same lines as the Australian Labor Party's attempt to exercise some control over foreign penetration) and its national energy programme to 'Canadianise' the fuel sector. Petrocan and the Canadian Development Corporation are two further arms of the

policy, with major interests in petroleum, petrochemicals, pharmaceuticals and electronics.

This public interventionist strategy is paralleled at the provincial level by bodies such as the Alberta Energy Corporation, the British Columbia Resources Investment Corporation, and large-scale hydro-power corporations; then there are investment fund holders such as Quebec's Caisse de Dépôt et Placement, which is part of the province's attempt to build up the state as 'an engine of development', as well as encouraging a still-weak industrial bourgeoisie.

The other trend in the past decade is that of the rapid concentration and centralisation of national enterprise into a formidable finance-productive monopoly sector. Mergers and takeovers resulted in the formation of holding companies and conglomerates during the 1970s; in turn this creation of monopolies allowed certain cash-rich groups to spill over national boundaries and make raids on U.S. firms. All this leads us to argue that Canada may now be moving in a somewhat different direction from the other two countries.

What is being seen in Canada is the emergence of a powerful monopoly finance-production sector in combination with a state apparatus clearly prepared to promote this national interest, especially in the field of energy resources. It has taken a century or more for such a link to emerge, but having done so it appears that the traditional penetration of some sectors of the Canadian economy by foreign capital, management and technology may now be under challenge.

The combination of state and monopoly capital has, therefore, created a powerful group of national conglomerates (generally linked to some part of the staples sector), where finance and production interests have carved out important specialised niches in each economy. Here they are in a position to meet external competition, or collaborate with it on a basis of equality. In Canada, the process has developed beyond this threshold to a point where such conglomerates can compete internationally in the war of takeovers and mergers that characterises the new wave of capital concentration and centralisation.

But the argument cannot be pushed too far. Canada, like Australia and Argentina, is still suffering from the corrosion of its non-monopoly manufacturing sector through foreign takeovers—which is in no way alleviated by high inflation levels and a monetarist policy of high interest rates. In a more general sense, the inheritance of a truncated industrial structure still weighs heavily upon all three societies.

This partial industrialisation has, however, continued to focus around sectors associated with staples production. Consequently, the cross-sectoral linkages which might have stimulated the development of indigenous technology or management have been limited. Nor does state intervention appear to have been successful in creating a strong, articulated and diversified indigenous manufacturing sector capable of generating its own conditions of growth—if indeed that has been the intention of public policy in recent years. As capitalism passes through

another of its periodic crises, Australia, Canada and Argentina must now deal with the specific problems which have been created by the contradictory and partial nature of their evolution over the past century.

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3

THE PYRAMID OF POWER: TRANSNATIONAL CORPORATIONS IN THE PILBARA

H.M. THOMPSON

Introduction

THIS ESSAY ATTEMPTS to identify and analyse the concentration and centralisation of transnational corporate power in the iron ore industry of Western Australia. At the present time Australia is the world's largest exporter of iron ore and the second largest producer. Only the U.S.S.R. produces more. In Australia more than 100 million tonnes per annum is produced, most of which is exported with a value exceeding \$1 billion. About 8% of total Australian merchandise exports now consists of iron ore.

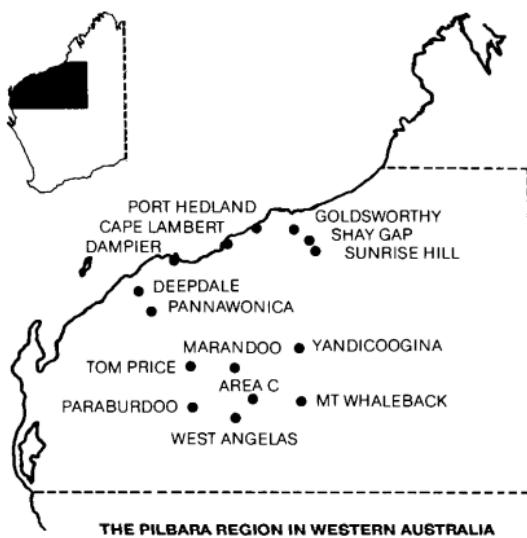
The Pilbara region in Western Australia accounts for 90% of Australian iron ore production. The latest figures available indicate that iron ore resources (with over 50% iron content) in the Pilbara total about 35 billion tonnes. This amounts to 15% of the total world iron ore reserves. Overall there is enough iron ore in the region to supply the entire western industrialised world for two hundred years.

This massive accumulation of resource wealth is presently controlled and mined by four joint-venture companies operating seven mines in the Pilbara region. These transnational corporate ventures in each instance have only minimal Australian participation. The companies and their mine sites are:

Hammersley Iron Pty Ltd	Mt Tom Price and Paraburadoo
Mt Newman Mining Co. Pty Ltd	Mt Whaleback
Goldsworthy Mining Ltd	Mt Goldsworthy, Shay Gap and Sunrise Hill
Cliffs Robe River Iron Associates	Pannawonica

At the time this essay was written negotiations were taking place between the Premier of Western Australia, Charles Court, a variety of company representatives, and Japanese steel mill representatives, regarding the possibility of opening up another mine before the end of the year. The site which has received most consideration to date is known

as 'Area C' which is leased to Goldsworthy Mining Limited. This is due to the fact that the iron ore at Goldsworthy, Shay Gap and Sunrise Hill will shortly be depleted—within the next three or four years. Other development proposals being discussed include BHP's deposit at Deepdale, Conzinc Riotinto-Hanwright at Marandoo, Robe River Ltd's at West Angelas, and CSR's newly discovered deposit at Yandicoogina. The pace of further development will primarily depend on the growth in demand for steel in Japan. However, it is also well known that during the next decade steel demand will rise much faster in the south-east Asian region than the average growth world-wide.



Transnational corporate power

Scores of international companies are solidly entrenched here; they are growing faster than the economy as a whole and they could continue to do so, in all likelihood, even if they got no further capital from abroad, as long as they went on getting technical help from home. Guidelines and such-like pinpricks might hamper them a little, but it would require a veritable Fidelist revolution to extirpate them, and no one dreams of that. We might be in the cheap seats, but we're padlocked in. We can grow inside the system being fashioned by international companies but not outside it, and certainly not against it. Does this mean that we must simply accept the rules of the game as dictated by the big companies? Well, I'm afraid it does in the end come to something like that.¹

Since the beginning of the Industrial Revolution there has been a tendency for the representative firm to increase in size from the workshop to the factory to the national corporation to the multidivisional corporation and now to the transnational corporation. With each step,

business enterprise acquired a more complex administrative structure to coordinate its activities and a larger information capacity to plan for its survival and growth.² Recent technological advances in transportation, such as super-tankers and containerisation, have significantly reduced the cost of transport; and breakthroughs in communication and managerial planning have enabled transnational corporations to reorganise their industrial production on an international scale with much less regard for the proximity of markets.

The Club of Rome has estimated that by 1988, transnational corporations will control 40% of the capitalist world's output. This control has provided, and will continue to provide, the economic, political and social power necessary to completely reorganise the world's economy. As Catley & McFarlane argue, the Pacific Rim strategy involves reorganising the international economy of the Western Pacific on four tiers: the United States and Japan acting to provide capital, technology and planning; Canada, Australia and New Zealand delivering food-stuffs, minerals and energy; the former colonial areas (Singapore, Indonesia, Taiwan, etc.) providing cheap labour with new infusions of industrial capital; and the socialist countries which are being cajoled with deals based on technology, consumerism and easy money.³

This is the context within which we must attempt to understand the role and power of transnational corporations and to recognise that they are the institutional form of capitalist development. At the same time we must remain aware that a complete analysis would include an understanding of the role of the state, class relations and ideology in both a national and international context.

The Steel Connection

The much-reported world steel crisis is in fact a crisis only for some traditional steel producers. Many American and European steel-works should not even be counted as useful capacity compared to the modern electric arc furnaces being built in many of the rapidly developing countries of the Third World. The real steel crisis lies in the fact that European and American industries have been very slow to react to technical change in steel production, the emergence of new producers in the Pacific Basin, Latin America and Middle East, and the levelling out of steel demand in the 1970s.⁴

In 1947 United States steel production accounted for 60% of the world's total output. By 1975, this share had been slashed to 16%. On the other hand, by the mid-1960s, Japanese steel producers began to develop as a major competitive force until, by 1976, they dominated the United States import market with 56% of all steel imports. The Japanese had increased their output of steel eighteen-fold from the mid-1950s to mid-1970s.⁵ In 1980 Japan became the largest steel producing nation in the world with Nippon Steel, the largest single producer, surpassing the United States and United States Steel Corporation respectively.

Interestingly enough in 1977, considered to be one of the worst years

for the United States steel industry in its history, a year in which more than 20 000 steelworkers were laid off, the chairmen of six major steel firms in the U.S. received salary increases which averaged 13%. With a net loss of \$448 million for the year, the chairman of Bethlehem Steel nonetheless saw fit to accept a rise in basic salary of 17% to \$296 000. So much for the U.S. steel crisis.⁶

In fact, Japanese producers reported record profits in 1979, and are calm in the face of declining world demand in 1980-81. Japanese industry has scrapped most of its older steel-making capacity and has concentrated on getting better yields of finished steel (i.e. plates, coils, etc.) from each tonne of crude steel. Major improvements have been made in the proportion of steel output made possible by continuous casting which is the biggest single change in steel-making over the past ten years.

During the past decade, steel output has grown by 9.5% per year in the new industrialising countries outside the OECD area. Ninety per cent of new capacity during the past two years has been in ten countries: Brazil, India, Mexico, South Africa, South Korea, Argentina, Taiwan, Venezuela, Iran and Egypt. Over the next five years, major increases in capacity will also take place in China, Nigeria, Saudi Arabia and Algeria.⁷ Capital and technology are flowing to those areas where profits can be maximised and leaving those industries in the advanced capitalist countries where they are tending to decline. Says one Japanese diplomat: 'Members of (my) government want to be involved in what they see as the long-term trend toward developing countries increasingly doing the dirty work of producing semi-finished products from iron ore, which countries like Japan would then import for re-rolling'.⁸

A report by the United States' Central Intelligence Agency indicates that the steel capacity of the 'less-developed countries' is expected to reach 115 million tonnes by 1985 as compared to 64 million at the end of 1978. Most of the Pacific Basin expansion will take place in South Korea, Taiwan and Indonesia.⁹ Mr Bill Tarrand, general marketing manager of BHP, points out that 'Third World countries will have increased their share of world steel capacity from 1% in 1964 to an estimated 25% in the year 2000 A.D. They now make up 10% of the world's capacity'.¹⁰ To give a specific example of growth—in 1972 the South Korean government created Pohang Iron and Steel which was operating at 2.6 million tonnes capacity. After the third stage of development is completed in 1981, it will be operating at 8.1 million tonnes.¹¹

It is also expected that China's steel output will increase from 23.7 million tonnes in 1977 to 60 million tonnes in 1990.¹² The calculations with regard to China are very tenuous at present, given the serious collapse of their industrialisation strategy in late 1980. If the Chinese are capable of re-structuring their economy during the next three years, and put their new steel mills into full-capacity production, then the Chinese demand for iron ore in 1990 could be equal to the entire output of Hamersley Iron, their major supplier at present.

According to AMAX Iron Ore company president, Elwyn Smith, 'the

Pacific Basin is the world's boom area'. Shipping costs for iron ore to this area from West Australia are much lower than for competing suppliers so that nations such as Taiwan and Korea take as much as 70% of their ore from Australia. Further, Smith says that 'mini-mills are the wave of the future in the Third World'. These mills are direct reduction units which take iron ore and make it into a molten ingot iron called 'sponge iron'. This is then transferred to an electric furnace and made into steel. Indonesia, Qatar, Thailand and Saudi Arabia are examples of nations which are presently building or seriously investigating these mills.¹³

In 1979, world steel output set a record for the second consecutive year. On the world scene, the output of 745.3 million tonnes exceeded 1978 by 4.2%. The regions of Latin America, Asia, Africa and the Middle East had output growth over the year of 14%. Brazil, South Korea and Taiwan set the pace.¹⁴

The above discussion of steel output is meant to point out that those transnational corporations in control of the world's iron ore reserves have a very bright future in the 1980s which will most likely continue to the turn of the century. Steel and iron ore production, sales and profits will be increasing rapidly from about the middle of 1983 onwards. While there is a slow-down and a tightening up of iron ore and steel production at present, it is not expected to continue beyond 1983.

Role of the state

As indicated in the preceding section, the Pilbara can be understood adequately only by recognising it as an integral element of the world capitalist system. Therefore, we must be careful not to envision transnational capital accumulation as if it were an external factor acting upon the Pilbara or Australia, but see it as a process taking place within the national economy as part of the total world system. In this way the development of the political sphere can be understood in terms of the development of the capital relation, i.e. of class exploitation in capitalist production. While the State may appear as separate from the economic interests of transnational corporations, this appearance hides the reality that the State is in fact an interdependent, specific form of class domination in the Pilbara in conjunction with transnational corporate interests.

The Pilbara was opened up for development of the iron ore industry by a Commonwealth Government decision in 1960 to lift the iron ore export embargo which had existed since 1938. The embargo had been placed originally on the presumption that insufficient iron ore reserves existed in Australia, and what did exist should remain for Australian use. At the same time it is evident that there existed concern in Australia over the rising political and economic expansion of Japan, clearly the most likely recipient of iron ore exports at that time.

With the lifting of the embargo, the State Government immediately

launched a campaign to attract overseas investment. Western Australia had been largely by-passed by post-war manufacturing development and was characterised economically by a large pastoral and agricultural sector. Economic transformation loomed on the horizon as the immense quantities of iron ore reserves became evident.

Numerous trips were made overseas by the then Minister for Industrial Development, Charles Court and the State Premier David Brand. State expenditures in the north-west doubled between 1958-1963, being spent on transport surveys, roads, port facilities and harbour dredging. An immigration programme was implemented to provide skilled tradesmen for the region. As announced later by Premier Charles Court, 'at all stages the State Government stood ready to assist developers in the marketing of their product, in their search for capital, and in their search for suitable partners'.¹⁵

In Australia, the States each have a great degree of power over mining development, since constitutionally the power to grant mining leases and collect royalties is a State prerogative. The Commonwealth Government has power over exports, taxation and the regulation of foreign investment which may assist or hinder State action.

Agreements were drawn up with all four joint ventures in 1963-64 and ratified for a period of twenty-one years with a right of renewal. At that time the State did not have sufficient funds for the necessary infrastructure. The companies took this responsibility, based on the granting of long-term leases for large tracts of land and sufficiently reduced royalty payments to provide the incentive. During the period 1960-80, the companies themselves at a major expense (albeit subsidised by reduced royalties and tax write-offs) provided much of the infrastructure in the form of railways, ports and power supplies.

However, the State was also committed to assist the companies to meet contract deadlines. To this end a sub-committee of the Cabinet was set up to form a non-statutory Northwest Planning and Coordinating Authority. The Authority assisted the companies in cutting through 'red-tape' to get infrastructure developments approved. Each company was then legally granted sole right of occupancy to search and prospect for iron ore. Each company was also granted an extensive mineral lease and Crown land for the construction of a town, harbour, railways, roads, etc. The State also obligated itself to 'use reasonable endeavours to assist the company to obtain adequate and suitable labour for the construction and carrying out of the works and operations referred to in the Agreement including suitable immigrants for that purpose'.¹⁶

The Liberal/Country Party coalition at the Commonwealth level continued to support the State policy of development and the expansion of transnational corporate power in the Pilbara until very recently, when friction has developed between the two levels. In 1978, the Deputy Leader of the Liberal/Country Party in Canberra announced a get-tough policy in response to Japanese pressures on individual companies to reduce the price of iron ore and coal. The Premier of Western Australia,

Sir Charles Court saw this as needless interference in company and State interests by the Canberra coalition.

No sooner had the dust settled on this issue when the Treasurer, John Howard announced, at the end of 1980, that any new Pilbara development would have to meet the 50% Australian equity guidelines. Since the Premier Charles Court has been blatantly supporting the 'Area C' Goldsworthy Mining project, which is the project least able to meet these conditions, conflict has been reopened between the State and Federal authorities on this issue.

These two confrontations make it clear that the State Government has a close alliance with mining capital, whereas the Commonwealth Government sees its wider responsibility as including the rural and manufacturing fractions of capital and defending against the ideological critique of the 'Australia as a quarry for foreign interests' syndrome. The contradiction here in relation to the mining industry lies in the Liberal Party's other ideological front—'New Federalism'. 'New Federalism' implies a devolution of Federal responsibility to the States, including responsibility over mineral policies. This has 'made it easier for foreign mining companies to by-pass any federal restrictions and make contact directly with State Governments for their infrastructure needs, mining plans, etc.'¹⁷

However, this has very little to do simply with party politics as the Tonkin-Labor Government of Western Australia also issued devastating criticism against the Whitlam Government during the early 1970s, saying that the Federal Government was the biggest threat to the development of the Northwest.¹⁸ To be successful electorally, the Labor Party must gain seats in Western Australia, and has attempted to improve the relationship between the party and mining capital, particularly through Paul Keating, Shadow Minister for Minerals and Energy. At a symposium in September 1976, Keating stated accurately that 'changes of government would ... witness changes in emphasis in resource policy rather than substantive changes in direction'.¹⁹

In 1976, the attitude of the State Government towards the Pilbara became more consistent with the collapse of the 'long boom' which prevailed in the 1960s, and the onset of economic recession for international capital. This shift can be indicated by the statements of Premier Court:

More and more, we are finding that projects which could make the grade on their industrial investment are very marginal with infrastructure thrown on top. I think it is time Government began to recognise that this is a community responsibility—just as much in the remote areas as in the city. Normally, State Governments carry this kind of infrastructure cost in the settled areas. But they cannot meet the huge increase required for the remote areas—unless they are authorised to undertake a much higher level of borrowing than is permitted under Loan Council control.²⁰

The State was clearly under pressure by the companies to assume a

greater role in infrastructure provision. This can be traced to three factors: (a) increasing costs due to the rapid rise of oil prices in the early 1970s; (b) a downturn in the world steel industry reflected in Japanese pressure for lower iron ore prices; and (c) what the companies perceived as excessive industrial disputation over 'social amenities' in the towns they controlled, such as housing, medical facilities, roads, etc. Since the towns are largely owned and totally controlled by the companies, the quality of life is obviously an industrial issue.

After two years of pressure by the States, particularly Western Australia and Queensland, amendments were made to the Australian Loan Council's guidelines in November 1978, which gives States overseas borrowing rights for development projects. Further approval was given to the States in 1979 by the Commonwealth Government for overseas borrowings to finance infrastructure. This pointed to a significant change in capital-state relations although more recently further conflict has developed around this very issue. During the 1981 meeting between State Premiers and Commonwealth Government on Loans Council issues, intensive pressure was exerted by the Treasurer, John Howard, to get the States to reduce their borrowings for infrastructure expenditure. The Commonwealth Government took the position that borrowing by the States would add an inflationary burden to a rapidly increasing money supply, a money supply which was already increasing too rapidly due to foreign investment in the resource sector.

It was estimated by the Commonwealth Government in January 1981, that an increase in the money supply, caused by investment from overseas, of \$200 million dollars or more per month, would create the necessity of contracting the domestic money supply. By June 1981, overseas flows of money into Australia were averaging \$450 million per month. Therefore, at the Loans Council meeting on 19 June 1981, macro-economic issues of inflation, high interest rates, and a decline in the ability of Australians to be able to afford increasing mortgage payments were of deep concern to the Commonwealth authorities.

On the other hand, as argued above, the Premiers, particularly those Premiers from Western Australia, Queensland and South Australia, were under significant pressure to provide the necessary power grids, town development and infrastructure necessary to support resource development under way in their respective states. Premier Charles Court was seen as a leader in confronting John Howard in particular, and the Fraser Government in general, to promote rapid development of Australia's resource base. This issue again exemplifies the conflict between the States aligned with mining capital, and the Commonwealth Government acting to balance the financial and manufacturing fractions of capital with mining interests.

In 1979 and 1980 the State Government also launched a number of attacks on the working people of the State, and of the Pilbara in particular. These well-planned and co-ordinated attacks were meant to

politically repress and control wage-labour and further the interests of capital.

On 11 June 1979 a group of ten unionists holding a meeting in Karratha, during a dispute with Hamersley Iron, were arrested and charged with violation of Law 54B of the Police Act, which makes it illegal to meet in a public place. Well aware of the political intentions and consequences of State Government actions, unionists quickly made it a national issue. Ultimately a national day of protest was held on 20 June when two million workers in Australia stopped working for twenty-four hours.²¹ The issue has rumbled through the court system up to mid-1981. Although amended, the law is still on the books to be used again when the time is right.

In 1980, the State Government pointedly did away with 'preference to unionist clauses' in the State Arbitration and Conciliation system. While this has not affected workers in the Pilbara to date, it adds to the potential for power to be used, when and if necessary, by companies in the Pilbara.

Finally, in 1980, when the Aboriginal people at Noonkanbah took a stand against the desecration of their sacred sites and drilling on their land by AMAX Inc., the State Government acted promptly. A large number of trade unions officially took a stand in support of the Aboriginal decision and drilling was halted by union intervention until the issue was resolved satisfactorily in the interests of the Aboriginal people. The State Government responded by hiring non-unionists to drive a convoy from Perth to Noonkanbah, in paramilitary fashion to set up drilling at the site. Although unionists confronted the convoy throughout the Pilbara it did go through, with a large number of arrests being made along the way. A victory was scored by the Government on this issue; and there are many unionists who argue that the action was simply a test run on the part of the Government to confront, control and punish those workers and Aboriginal people standing in the way of capital accumulation and expansion. Each of these major instances indicates the role of the State in Western Australia in any conflict between capital and labour.

Most recently, in January 1981, Sir Charles Court, Premier of Western Australia made an extensive tour overseas to push for comprehensive development of the Pilbara region by Japanese, American and British transnational interests. He outlined proposals for the introduction of an integrated grid-system of coal-based power to the Pilbara, financed and developed with West Australian loan funds.

This has important ramifications for the agents of international capital with designs on the Pilbara. Specifically, energy and power generation has become a serious issue in regard to further processing of iron ore, transport and horizontal expansion into direct-reduction steel output. And generally, transnational interests are being informed that a new era has begun in the Pilbara during which time the State will now begin to become more actively involved in the provision of infrastructure.

Class relations and structures

As suggested by Connell & Irving, the subject of class analysis is social power; and to understand a class fully is to be concerned with people in situations—the structure of situations, their limitations, their intractability, and their potential for change.²²

However, in the determination of social classes the starting point for analysis is the economic relations. In the Pilbara the economic sphere is determined primarily by transnational corporations which control the process of production; and to a large extent, given the setting of company towns, they control the entire cycle of production, distribution and consumption as a unity. This setting of company towns also gives rise to the political and ideological relations which permeate class existence in the area. The company will print and distribute the local newspaper. Company representatives will run many of the community organisations. The company will provide sports grounds and facilities. And in the Shire Councils the company will be significantly represented by a number of councillors. Needless to say the retail shops will sub-lease their land from the company; and in many towns one major food outlet will have a monopoly position on company terms.

The principal role of the State is to maintain and perpetuate the cohesion of this social formation by promoting and sanctioning the class domination of those who control the means of production over those who own nothing but their labour-power.

The State can carry out its role by utilising the context of world class-contradictions. For instance, migrant intake can be assisted and expanded; or warnings of Japanese concern with the level of industrial disputation can be issued. The State can become involved even more explicitly by arresting workers for meeting in a public place; or by abolishing unionist preference clauses in the State industrial code. In other words, the State functions alongside transnational capital in class exploitation and dominance.

One of the major developments of the iron ore industry in the Pilbara is the advanced mechanisation of the open-pit operations, reducing both the amount of direct labour required and the autonomy of the remaining mine workers to control the production process.

On the one hand, capitalists continually attempt to reduce their variable costs in labour and expand their constant costs in capital, thus reducing the amount and quality of labour required. On the other hand, labour struggles against its own elimination and de-skilling. Here we see the forces and relations of production interwoven into a design which partially represents the class struggle.

Mechanisation has advanced the 'real subordination' of labour by taking away not only the control over the products of labour from the worker, but also over the way the worker utilises labour-power in the social organisation of work. Workers are transformed into 'collective labourers', and at the same time they are subjected to a detailed division of work.²³

Control over the labour process at the mine, rail and port has been achieved primarily by the introduction of capital-intensive technology which alters the skill levels of detail labour and reduces working-class control over the production as a whole. While groups of workers can halt production temporarily (engine-drivers can refuse to run the trains or cranes; metal-workers can ban maintenance on a power-house; or transport-workers can refuse to drive haul-pack trucks), the working class *as a whole* finds it much more difficult to intervene in the decision-making process which directs production and work organisation. This has to do with union structures and hierarchies, inter-union rivalry, sexism, racism, and the occupational specialisations which confront workers in their day to day activities. While 'collective labour' is directed by capital to mine, rail and ship ore through centralised decision-making, 'detailed labour' is separated, individualised, and provided with diverse tasks.

An example of dis-integration of the working class can be found in the original *Iron Ore Production and Processing Award* itself. This award was delivered for the first time by Commissioner E.R. Kelly of the Western Australian Industrial Commission on 20 January, 1967. It related to the quarrying, crushing, transporting, treating, storing and loading of iron ore—six basic tasks. To carry out these tasks eleven trade unions were respondents and seventy-two different occupational categories were recognised with relative margins of pay being established between the categories. At the present time on some sites, these occupational differentiations have been divided up into more than 200 categories. Besides the occupational differentiation, there will be special categories such as tool allowance, dirt pay and experienced-trades allowance. Each time a special allowance is won by a union this upsets the occupational wage relativity and a fight is created by one union against another to re-adjust 'relativities'.

One might point out here that a most significant aspect of industrial strife and working-class conflict on the Pilbara has been between and among the eleven unions in demarcation disputes; and between the occupational categories in what is identified as 'relativity disputes'. Of course, these types of dispute are well-known phenomena in times of depression, economic hardship, or declining union numbers, and are not specific to the Pilbara. But in the Pilbara, the difference is that these disputes seem to be integral to the industry all of the time—good times and bad. And what is uniquely important is that the companies continually use these types of confrontation to manipulate and control the labour force.

By way of example let us examine a recent instance of a union demarcation dispute interlocked with managerial prerogatives and technological change. In February 1981, at the Hamersley Iron mine site, the company, without consulting the respective unions, replaced overhead crane shovels with new front-end loaders at the mine. The front-end loaders have a new design, smaller turning radius, larger capacity than

the old loaders, and in general, increased output per unit of time as compared with the overhead cranes. In other words, we have here the classic example of independent managerial decision-making which leads to technological change at the mine-site with the specific intention of increasing output and therefore, profits. This is done with no input (before the decision) by unions and workers involved in mining. The problem was that two different unions had coverage of the shovels and front-end loaders respectively. The new heavy-duty front-end loaders would increase the job possibilities of one union; whereas making the shovels redundant would have tremendous repercussions on the other union in terms of job loss. The fight was then engaged between the two unions for coverage of the new front-end loaders.

The company washed its hands of the whole situation and the media reported the ensuing struggle as if it was a fight between two irresponsible unions disrupting the production of a company which was only trying to do its job—i.e. increase efficiency. This dispute, plus a couple of other mine-site disputes remained on the boil for a couple of months. Then in May, the company moved in rapidly, accused the workers of being irresponsible, tore up the industrial relations agreement of 1979, and announced a new get-tough policy. The original issue of high-handed and arbitrary managerial decisions, the manipulation of unionists into a fight against one-another, and the consequent use of the situation to initiate a new get-tough policy were no longer seen as inter-dependent issues by the media, public-at-large, and indeed, many of the unionists themselves. The workers are once again in a position of having to develop a co-ordinated effort just to win back what they had already won in a ten-week struggle in 1979.

Even more bizarre examples can be given of unions which will threaten to go on strike if another group of unionists receive an 'experienced tradesman allowance'. Or finally, of the worker who stood up and said at a mass meeting: 'Look, I would be willing to take a 10% reduction in pay if we could get a 15% reduction for those bastards in the other union'.

The problem is that these types of dispute are responsible for draining energy from the working class that might have been better used elsewhere.²⁴ As one union organiser put it, 'We spend so much time fighting each other for the bones the company throws in our midst, that we have nothing left over with which to take on the company. The problem is the company knows it'.

While the capitalist concentrates on directing 'collective labour', the trade unions concentrate on directing 'detailed labour' and the contradiction is that both bring the working people in the Pilbara further under the control and supervision of capital. If one needs an example to identify the institutional structure of trade unions as a working component of capitalism, we need look no further. As Karl Marx insightfully noted:

Being independent of each other (in different trade unions and occupational categories), the labourers are isolated persons, who enter into

relations with the capitalist, but not with one another. This cooperation begins only with the labour-process, but they have then ceased to belong to themselves. On entering that process, they become incorporated with capital.²⁵

The rank & file in the Pilbara have used their industrial muscle primarily to gain over-award pay and allowances and to establish strict demarcation positions between sexes (women are not permitted to be metal trade assistants); between members (strict separation between jobs of various trade groups); and between unions (an example would be the rivalry between the FEDFA and AMWSU on most sites in the Pilbara). Struggle over decision-making and control of production, work organisation and social issues (e.g. child care centres) has been minimal. As the rank & file told the convenors at Tom Price in 1980 (who at the time were arguing in favour of a 35-hour work week), 'We are up here to earn a quid, not to gain reduced working hours so that we have more time to enjoy the dust and desolation'.

Although they may be very hostile towards the company or management, the burning issues are still wage differentials and relativities. Many workers in the Pilbara act in a fashion that can only be described as 'petit bourgeois' (for lack of a better term). That is, they relate to their labour-power in the same way as the capitalist relates to the means of production. Labour-power is to be used so as to bring in a maximum return (money from in the shortest possible time). This 'overtime mentality' then articulates interests which are indistinguishable from the political interests of capital and the state. Maintenance of revenue in as high and continuous money flow as possible provides the pre-conditions necessary for preservation of the status quo in which that money form is created.

Any trade union which attempts to represent the general interest of the working class, e.g. in reduced working time or increased worker control over the means of production is immediately faced with an economic rebellion on the part of its members. The survival of union officialdom in the Pilbara requires above all, an economic guarantee of higher and ever higher wages to the members and the isolation of those 'trouble-makers who are trying to destroy the system'. All gains are irreducibly limited to the quantitatives increase in the wage packet irrespective of company domination over their everyday life.

It is possible that we have a situation analogous to the one described by Poulantzas in which he argues, 'what we are faced with here is the permanent fear of proletarianisation (a fear which is expressed in resistance to revolutionary transformation of society), as a result of the insecurity experienced at the level of earnings, and in the form of a monetary fetishism'.²⁶

Given their physical isolation from urban Australia; and their physical-social isolation from one another between sites and on site with specific demarcated duties, class solidarity gives way to economist forms of struggle. Rather than struggle against the corporatist forms of division such as trades-people *v.* non-tradespeople, skilled *v.* non-skilled, mental

v. manual, male v. female, black v. white, the trade unions in the area actively promote these divisions in their policies, attitudes and negotiations.

The working class of the Pilbara becomes an easy mark for the agents of capital, living in fear of economic disaster as they do and attracted by the consumer-technology-financial horizons of capitalism. Good convenors are 'promoted' to a career as personnel assistant, or labour relations officer, or foreman. If this doesn't work they can be taken to Perth and wined and dined while negotiating. Good wine, a rental-car, and exceptionally well-catered motel accommodations have kept many a convenor busy in Perth. This is not a critical comment for it is but a small part of the luxuries enjoyed by the capitalist class. But it is representative of the economicistic and corporatist traps facing working-class representatives every day of their working lives.

Every good shop steward at some time will be approached. There is the young shop steward at Shay Gap who hides his knuckles which have been crushed in numerous fights on site. It is immediately obvious that while he may not be liked by everyone in town, he is respected. He has spent his time, on and off the job, fighting for the working class since he arrived in Australia as a migrant from England. In early 1981, Goldsworthy managers approached him and asked if he wanted a good career with the company. The staff job of maintenance-coordinator was offered at \$26 000 with strong possibilities for advancement. He said to me, 'You know I am still in my twenties and that job looked good. It's a job my dad would probably never had a chance at his whole life'. When I asked him why he didn't take it, he responded: 'Well, I knew something was fishy when they said not to worry because I wouldn't have to have any contact with the workforce. I realised they were trying to buy everything I stand for; they weren't buying my labour, they were trying to buy *me!* I couldn't be in that; it isn't worth it'.

The political and ideological attacks, the capitalist barrage of enticements to play the game, the economic and political in-fighting between unions, the personality conflicts, racial and ethnic confrontations, the dirt, violence, heat and isolation, and the degradation of women and aboriginal people make up the complex reality of the Pilbara for working people. And when transnational capital makes the offer of 'personnel assistant' at a salary 30% higher than that being earned as a shop steward, with 'career opportunities', it becomes more than an offer of a job; it becomes a ladder of escape which some working class representatives still *imagine* can be climbed.

The fundamental relation in the Pilbara as elsewhere in any capitalist social formation is a social one: capital controls labour so as to maximise profits, using the technical division of labour to achieve this goal. The fundamental revolutionary aim of working people should also be a social one: create a system of property relations whereby the means of production become the common property of those using them so as to provide for an equitable distribution of surplus and the creative organisation of

work. Once this occurred we would no longer need people like the foreman at Goldsworthy Mining Ltd who described himself as a 'human motivator'; or the manager at Hamersley Iron Pty Ltd who said, 'This place would run a hell of a lot more smoothly without the workers'.

Now we shall examine the industrial structure of the four transnational iron ore ventures in the Pilbara to develop a comparison of class and power relations. As suggested at the beginning of this section, the economic sphere is dominated by transnational corporations; so we must have a concrete understanding of their structure and interaction if we are to be able to comprehend the notion of power in this particular area.

The iron ore companies

Goldsworthy Mining Limited (GML)

GML is the smallest transnational joint venture in the Pilbara in terms of tonnage produced. While the total capacity of this project is 6·8 million tonnes per year (mtpy), they have recently been shipping between 3·4 mtpy. As indicated above, the iron ore deposits presently being worked by GML are almost depleted and there is hope that their leasehold (Area C) will be the next mine to be opened for exports.

Ownership is held by: Consolidated Gold Fields Ltd (London) 46½%; Utah Development Co. (San Francisco)—33½%; and MIM Holdings Ltd (Brisbane)—20%.



Consolidated Gold Fields began to move into Australia in a big way in 1960 as part of a diversification project out of its major activity in South Africa. An Australian subsidiary was established and in 1961 a joint venture with Utah Mining and Cyprus Mines (later sold to MIM) of the United States to search for iron ore was announced. Iron ore was discovered and in December 1964, contracts were signed with the Japanese steel mills. Construction began in 1965 and the first shipment of iron ore was made in June 1966. Total investment in the project to date is about \$150 million plus another \$10 million in drilling and exploratory work on the Area C project which was discovered in 1970.

In the year to 30 June 1979, Consolidated Gold Fields net profits rose

63% to a record £56.2 million. The main contributor to these earnings was the strength of the gold price via the 46% stake in Gold Fields of South Africa. But the iron ore mine at Mt Goldsworthy as well as their Renison tin mine in Tasmania also did very well.²⁷

Utah Development Co. (UDC) is owned 89.2% by Utah International Inc. with a 10.8% public share listed as Utah Mining Aust. Ltd. Utah Development is also Australia's largest coking-coal mining company through its ownership of Blackwater Mine and of a 76.5% interest in Central Queensland Coal Association mines at Goonyella, Peak Downs and Saraji.

Utah International Inc., the major shareholder of UDC was formed in 1900 in Delaware, United States as a construction company. It became involved in mining in 1943 through contract operations, and in 1969 most of its construction business was divested and mining became its principle activity. UII now has mining ventures in the United States, Canada, Australia, New Zealand, Bahamas and Brazil for iron ore, coking and steaming coal, copper, uranium, gas and oil.

In December 1976, UII became a wholly owned subsidiary of General Electric Co.! Profits for the Australian operation of UDC are running at an average of about \$150 million per year of which about \$100 million per year is sent out of Australia to the parent corporation of UII and ultimately, the General Electric Corporation.

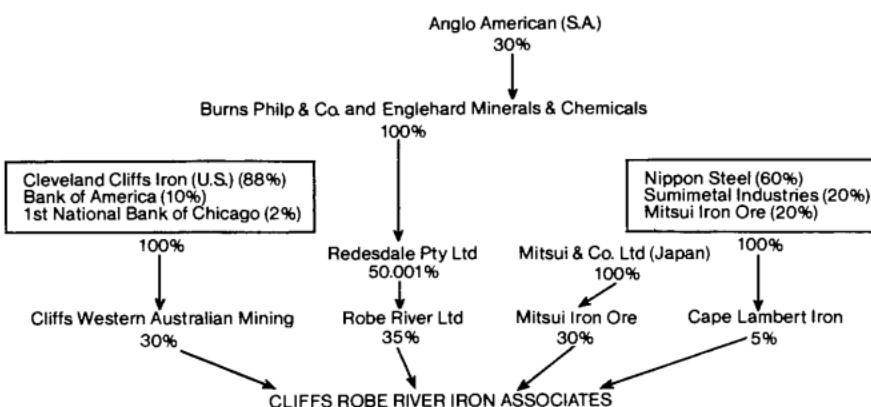
Mt Isa Mines Holdings Ltd (MIM) is the token Australian representative in this joint venture. 'Token' because MIM plays very little part in either the management or marketing functions of the mine. MIM's major interest is in copper mining in Queensland and the company was making record profits until the current slump. Obviously the Goldsworthy Mine provides the opportunity for diversification and investment of its large cash flow. In 1978-79, a profit of \$102.4 million was reported. In 1979-80 MIM doubled this for a record yearly profit of \$203 million with a sales revenue increase of 52%.

Cliffs Robe River Iron Associates (CRRIA)

CRRIA is a joint venture owned, operated and controlled by American and Japanese transnational corporations with a minority Australian participation. The components of ownership and control are shown in the accompanying diagram.

CRRIA began their iron ore project in 1962 when the State Government granted the joint venture the right of occupancy to the Robe River iron reserves located 161 kilometres from Cape Lambert in the heart of the Pilbara. The project is based on limonitic iron ore, a lower grade which makes it necessary to either process the ore into higher-grade pellets or ship it as lower-grade fines. When actual mining began in 1972 deposits comprised 166 million tonnes of ore. At present about one-half, or 80 million tonnes are left.

Initial contracts were signed between CRRIA and the Japanese steel mills in 1970 for 86 million tonnes of high-quality pellets over a twenty-



one year period; and 71.8 million tonnes of sinter fines over a fifteen-year period. However, in April 1980, the pellet plant was closed and increased shipments of sinter fines were negotiated. Ostensibly this was due to increased costs of producing pellets, given energy price increases. There does appear to be more involved in the decision, as recently very close arrangements with Broken Hill Proprietary Ltd (BHP) have taken place in exploration, industrial relations and infrastructure negotiations. BHP is the management arm of Mt Newman Mining and holder of the lease at Deepdale which is very close to the CRRIA mine-site. BHP also owns 50% of the CRRIA rail and port facilities which will be very convenient when the Deepdale site is put into production. This implies that a re-structuring of CRRIA could be taking place to increase Australian participation in the long run so as to be more competitive vis-a-vis the other iron ore companies. Remember that the next new mine which opens in the Pilbara will be based on two significant demands: first, the insistence of the Federal Government that there be a majority shareholding by Australian interests; and second, a Japanese insistence on a major equity share in any new venture. At present, CRRIA, with its large foreign shareholding, would find it difficult to comply with these two demands simultaneously.

The ultimate effect of replacing pellets with sinter fine output was the loss of approximately 250 jobs and increased profits for CRRIA. A six-week notice of the decision was given to the labour force—a decision which had obviously been under consideration for over two years. The company is ‘rationalising’ its operations and major changes in production and shipping are to be expected during the next two years. Of course the workers have not been included in any of the planning and decision-making involved in this ‘rationalisation’ process.

Robe River Ltd, the only publicly reported component of the joint venture reported a 103% profit increase for the six-month period ending 30 June 1980 amounting to \$2.35 million. This would imply an average yearly profit for the joint venture of approximately \$13.5 million.

Mt Newman Mining Co. Pty Ltd (MNM)

In 1967 Broken Hill Proprietary Ltd (BHP) assisted in forming the MNM venture to manage the mining project. In two years an open-pit mine, ore crushing, train-loading and industrial facilities along with a new town (Newman) were built. Then a 426 kilometre railway was completed to Port Hedland where a 140 hectare unloading, crushing, stockpiling and ship-loading complex with support facilities was completed.

Mining operations began in January 1969 at Mt Whaleback, which is the largest single, open-pit iron ore mine in the world. As of 1 June 1979, 241 million tonnes of iron ore had been shipped to BHP steelworks, Japan, the Pacific Basin and Europe. Production and shipping capacity is 45 mtpy.

Major technological changes foreseen as possibilities during the next decade include electrification of the railway using coal as the energy source; and the use of conveyor belts for material and waste haulage. The latter would have a major effect in reducing the present labour force.

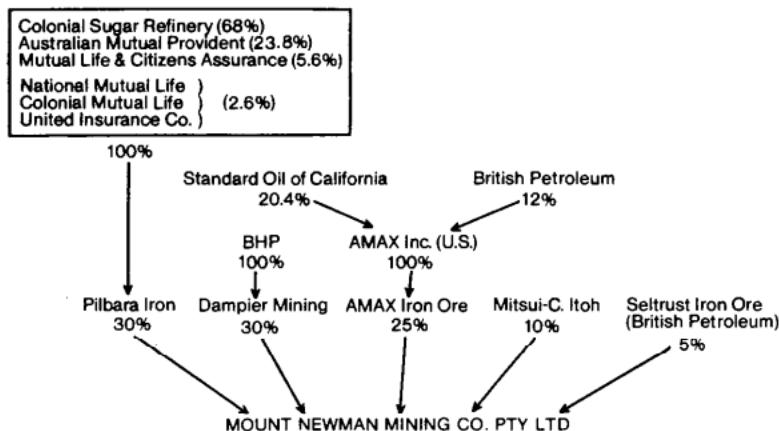
The MNM joint venture is owned, operated and controlled by the companies shown in the accompanying diagram.

BHP has substantial mineral, oil and gas and manufacturing interests as well as its steel-making activities. It is the largest company listed on the Australian stock exchange in terms of shareholder's funds and market value; and is ranked 101 in *Fortune's* list of the 500 largest industrial companies outside the U.S. in terms of sales.

Besides the Mt Newman venture, BHP has five producing iron-ore quarries in the Middleback Range of South Australia, two producing mines at Yampi Sound in the far north of Western Australia and another at Koolyanobbing, 400 kilometres north-east of Perth. Overall, BHP is currently responsible for about 20% of Australia's iron ore production including the 30% share of Mt Newman.

Net profit for 1979 was \$179 million (an increase of 119% over 1978), two-thirds of which came from its oil and gas division. And group profit to 30 June 1980 was \$221 million, a 24% increase over the 1979 figure.

The BHP directors announced in their 1979 annual report that '91% of its capital is held by shareholders with registered addresses in Australia distributed among 169 000 shareholders'. An interesting fact, not included in the annual report but uncovered by research officers in the Queensland branch of the Electrical Trades Union, is that among the top twenty shareholders are six nominee companies which enable investors to keep their identity secret (especially useful for overseas investors), and five banks or insurance companies which are wholly-owned subsidiaries of overseas companies.²⁸ Additional analysis of stock exchange listings as of August 1980 show that 20% of issued capital is held by the following nominee companies or foreign-owned subsidiaries: ANZ Nominees, Bank of N.S.W. Nominees, National Nominees Ltd, CTB Nominees Ltd, Commercial Nominees, OPF Nominees, Pendal Nominees, Prudential Assurance Co., MLC Assurance Co., and



Colonial Mutual Life. These shareholders, along with the admitted 9% of overseas shareholdings could lead one to speculate that as much as 29% of BHP's issued capital is directly owned by overseas interests.

CSR Ltd is rapidly becoming one of the largest energy companies in Australia through its purchases of coal deposits in eastern Australia. It has just reorganised its mineral and energy holdings into three divisions covering energy; aluminium, tin and chemicals; and iron ore and other minerals. In company plans coal is seen to be the main money-spinner during the next decade, although in late 1978 CSR made a major iron ore discovery in the Pilbara (Yandicoogina) which is a 2 billion tonne goethite deposit. It has an extremely low overburden ratio of 0.2 tonnes to a tonne of ore, low impurity levels and excellent sintering qualities; and it is only 30 kilometres from the Mt Newman railway, which could be joined by a conveyor system. It has an excellent ore content of 65.2% and would be very suitable for blending with Marra Mamba ore. Initial development plans would call for 20 million tonnes per year with a capital cost of \$1 billion. About \$1 million is being spent this year on studies relating to the project, and its partners in Mt Newman are being kept informed.²⁹

Net profit for the CSR group for the year ended March 1980 amounted to \$77.3 million, up 29% from the previous year.

Close examination of both BHP and CSR makes it clear that they are two of Australia's budding transnational corporations, not yet on the scale of U.S., Japanese or British transnationals but they seem to be trying very hard to emulate their overseas compatriots, particularly in the Pacific Basin.

AMAX Inc., a medium-size American company is bigger than BHP in all categories, and has had a major influence in Western Australia since 1963. It has acted as the selling agent for the Mt Newman venture from the beginning, and indeed acts as a proxy marketing representative on occasion for all the companies in the Pilbara.

AMAX Inc. itself is the world's largest molybdenum producer (57%). In the United States and Canada it produces tungsten, copper, lead, zinc and coal. It also produces agricultural chemicals, metal powders, specialty metals; and explores for oil and natural gas. It holds large nickel investments in Africa and is presently investigating nickel deposits in New Caledonia. Twenty point four per cent of its equity is held by Standard Oil Co. of California and 12% is held by Selection Trust Ltd (which was transferred to British Petroleum in August, 1980 in a share purchase arrangement).

In 1979 the AMAX group recorded a net profit of \$365 million, a 128% increase on 1978 figures. According to the Chairman and Executive Officer of AMAX Inc., Pierre Gousseland, the company will spend \$3 billion in capital investments over the next five years.

AMAX Inc. and the West Australian State Government have recently fought a running battle with Aboriginal people at Noonkanbah, a pastoral lease operated by Aboriginal people in Western Australia. AMAX, Charles Court and Malcolm Fraser have all insisted on the right to drill for oil on Aboriginal land irrespective of the disruption to the sacred sites and life-patterns of Aboriginal people. The 'enlightened' attitude of AMAX on exploitation and business has recently been quoted in a West Australian newspaper. Lloyd Parks, president of AMAX Petroleum said on the telephone from Houston Texas: 'I run an oil business and we have never had these problems before—not with Indians. We are sick of being given hell by the Press and communists over there. If the Aborigines want to talk to me, I am in my office any time—in Houston'.³¹

Hamersley Iron Pty. Ltd (HI)

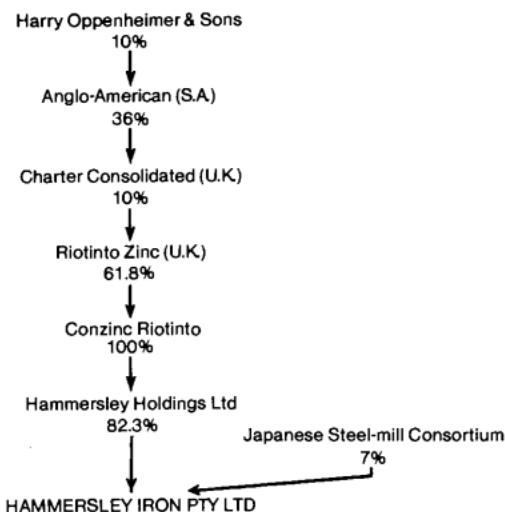
In 1962 the Hamersley Group was formed—Conzinc Riotinto of Australia (CRA) holding 60% of the shares and Kaiser Steel of the United States holding 40%. In January 1965 construction teams moved on to the Mt Tom Price site, completing the work in twenty months—in time to meet the first contractual delivery to the Japanese in August, 1966. In 1967 Hamersley became a public company with a \$25 million capital raising and then gained access to the Paraburdoo iron ore deposit south-west of Tom Price in 1968. In 1977, Kaiser Steel sold its share to CRA so that at the present time 24 000 shareholders own about 11% of the issued capital, CRA holds 82.3%, and a number of Japanese steel mills and trading companies hold the remainder.

By 1979, Hamersley Holdings Ltd (HHL) had shipped about 300 million tonnes to world markets. The two major deposits at Tom Price and Paraburdoo contain approximately 400 million tonnes of proven ore of high quality. Other deposits held by HHL either under temporary reserves or in mineral leases exceed 5000 million tonnes of material with grades in excess of 50% iron.

The principal activities of the Hamersley Group are mining, transportation and shipping of iron ore, exploration, servicing of sales contracts,

provision of tug, harbour and ship agency services, shipbroking and consultancy, raising of finance and the investment of surplus value. This massive company operates in the Pilbara through HHL, a subsidiary of CRA (82.3%), which is itself a holding company for the above interests.

The Hamersley Group which has the largest capacity for iron ore production in the Pilbara is, as mentioned above, only one of the many subsidiary operations of the largest mining transnational corporation in Australia—Conzinc Riotinto of Australia. Through subsidiary and associate companies CRA has wide and varied interests in most of the metals and minerals of economic importance in Australia including copper, iron ore, lead, zinc, aluminium, uranium, tin, coal, salt, diamonds, gold and silver. Moreover, the CRA Group extends its operations to the United Kingdom, United States, Japan, Papua New Guinea, Europe, Malaysia and Indonesia.



In 1979 the CRA Group reported a spectacular increase in profits of 76% to \$135 million; and for the half-year to 30 June 1980, profits increased a further 50% to \$100 million. This has added to the huge assets, cash flows and earnings all being reinvested in the world's resource base. Two-thirds of CRA profits in 1979 came from the earnings of its four listed investments, Bougainville Copper, Hamersley, Comalco and Mary Kathleen.³² And in 1979 a CRA-led consortium found what is to become the largest diamond field in the world, north-east of the Pilbara in the Kimberley area.

Our story does not yet end, as it must be pointed out that CRA (the largest transnational mining conglomerate in Australia) is itself only a subsidiary of what is the largest transnational mining corporation in the world—Rio Tinto Zinc of the United Kingdom (RTZ).³³ RTZ at present

divides its interests into four categories: mining, industrial operations, research, and portfolio management. In 1967, the *Economist* described RTZ as 'a sort of merchant bank, using its knowledge of the ways and workings of international finance to get the money for mining'.³⁴ Its metal and mining interests throughout the world reads like a periodic table of elements.

Soaring metal prices and higher contributions from Australian subsidiaries pushed pre-tax profit of RTZ up 59% during 1979 to £452.7 million, which, in the first-half of 1980 increased a further 48%. These profits are not only translated into commanding positions in most of the world's major economies but they also become the source of political and social manipulation. As clearly stated by Sir Val Duncan, previous Chairman of the board: 'We are very politically minded in RTZ, not party politically minded, but on an international basis'.³⁵ The political and economic astuteness might be validated by one small example. In 1977, according to a study by John Kay & Mervyn King on the *British Tax System*, RTZ earned \$279 million in profits from their world agents. In that year RTZ paid no taxes to the U.K. government.

The RTZ group, as well as its subsidiary CRA, has been at the centre of international litigation with regard to price-fixing and withholding supplies from the market. More than sixty uranium-producing and -consuming companies were involved in litigation, and liabilities could yet run into billions of dollars.³⁶

In 1975 the Westinghouse Electric Corporation of America pleaded 'commercial impracticability' as a reason for not supplying a number of utilities with 80 million pounds of uranium. Between 1966 and 1974 Westinghouse had been offering supplies of uranium as an inducement to utilities to buy its power plants. During this period uranium prices were \$6-\$8 per pound; but by May 1975, prices had risen to \$35 per pound.

In late 1976, Westinghouse filed an anti-trust action, demanding punitive damages charging seventeen United States uranium producers and twelve foreign producers with conspiracy to fix prices and withhold supplies from the market. Seven RTZ group companies were caught up in this action—CRA and Mary Kathleen Uranium of Australia, Rio Algom of Canada, RTZ and RTZ Services from the U.K., and Rio Algom Corporation and RTZ of America. The foreign companies, supported by their respective governments, initially refused to accept jurisdiction of American courts. The Australian government went so far as to admit that the government required the companies to join the cartel and then proceeded to pass legislation preventing the subpoena of documents from Australian companies.³⁷

However, in the early months of 1981, nineteen of the twenty-nine companies have settled with Westinghouse out of court. Among these companies RTZ, CRA and Mary Kathleen Uranium were included. While refusing to disclose the sums of settlement, Rod Carnegie indicated that settlement was made so as not to further damage CRA's

ability to engage in international business. It is estimated to date that the settlements have amounted to approximately \$100 million in cash payment, and the promise to supply Westinghouse with 23 million pounds of uranium at pre-cartel prices.³⁸

Peak of the pyramid

Four of the largest mining finance houses in the world have their headquarters in England—Consolidated Goldfields, U.K.; Selection Trust; Charter Consolidated; and Rio Tinto Zinc. All four, as indicated above are actively involved in West Australian mining activities. In early 1980 it was mooted that two or more of these houses could soon be merged into one world-beating conglomerate.³⁹

Some evidence for this possibility came to light in late 1979 when Consolidated Gold Fields discovered that a large amount of its shares were being purchased in the open market by a group of 'mystery buyers'. The buyer was subsequently identified as De Beers Consolidated Mines, a part of the transnational empire of the diamond magnate Harry Oppenheimer, of South African fame.

De Beers Consolidated Mines acquired 25% of CGF by 12 February 1980 in a two-stage process which exploited weaknesses in U.K. company law and share registration procedures, and involved members of the Stock Exchange in evading the 'spirit of fairness and disclosure on which the London market is based'. These conclusions are made in a 55-page report of a London Stock Exchange committee investigating the affair.⁴⁰

De Beers began buying shares in CGF 26 October 1979 through a number of friendly companies, each of which acquired less than 5% blocks so that they were not required to disclose their identities under company law. Shortly thereafter CGF asked the Exchange to make inquiries after the heavy buying had reached alarming proportions. However, Andrew Knight, deputy chief executive of the Exchange declined to investigate on the grounds that no *prima facie* breaches of either company law or market regulations appeared to be involved.

Then what is described as the 'dawn raid' of 12 February 1980 took place, where in De Beers instructed Rowe & Pitman, brokers, to stand in the market for a limited period with the intention of increasing its holdings from 14% to 25%. The whole deal was finished by 9.50 a.m. by which time Rowe & Pitman had picked up 16.5 million shares.⁴¹ As of March 1981, the holding has been increased further to 28.9%.

Further research has uncovered evidence that Anglo-American, the mining financial house of the Oppenheimer-De Beers conglomerate also controls 26% of Selection Trust (until the recent sale to BP) and 36% of Charter Consolidated. To complete this interlocking empire Charter Consolidated controls 10% of RTZ.

In July 1980, British Petroleum Ltd made a takeover bid for Selection Trust of \$855 million, the largest in British history. The boards of Selection Trust and Charter Consolidated have accepted BP's offer. The

sweetener appears to be that BP will sell to Charter the right to participate in one or more of BP's North Sea Oil interests.⁴²

In other words, with the world mining industry (much less the Australian) going through a major phase of 'rationalisation', the industry is becoming increasingly concentrated, centralised and dominated by massive transnational mining conglomerates.

Conclusion

There is a naive, misguided myth which is propagated by the media almost daily in Australia that trade unions hold excessive power in a capitalist economy. If we were to assume that this myth, believed by a large portion of the working class, could be dismissed by education alone we would be missing the point of the above information. What we see is that it is in the interests of transnational capital to generate information which attacks the collective organisations of the working class. It is in the interest of any capitalist state to judge and to find the working class guilty of using excessive power which disrupts the coherence and stability of the capitalist state for which governments are responsible. The fact that it is not in the interest of members of the working class to believe in this myth, although many do, is to indicate the power of capitalist ideology. As an illustration, the following letter to the editor was published in a local newspaper:⁴³

...It is hard to understand how a so-called anti-communist, free-enterprise government of Liberal and Country Party members could be so foolish as to give to known communist-dominated unions, by amalgamation, the power to disrupt our nation by crippling strikes, constant demands for more pay and allowance increases and now the demand for a 35-hour week on 40-hour week pay levels.⁴³

The largest union in Australia had revenues in 1980 of \$8 million, or an average of \$50 per member. The money was totally expended in the interests of working-class people throughout Australia. Expenditures were not decided behind closed doors; surplus was not sent out of the country to some transnational headquarters overseas; money was not spent on wasteful advertising, noxious pollutants or frivolous consumption. Compare this pitiful amount generated by the largest union in Australia with some of the profit figures described above. Concentrated wealth, power, and tools of manipulation lie totally in the hands of transnational corporate giants; and yet in a 1979 Australian poll, 53% of the Australian people said that unions were too powerful. This effect of capitalist ideology in constructing myths is part of the structure of capitalist wealth and power described above.

Much has been left out of this essay in the interests of time and space. Much more needs to be said and done to confront transnational corporate power. Much more research needs to be accomplished on the issues raised herein. This essay has, in a limited way, examined the pyramid of power for only one of the major mining industries of

Australia, albeit an important one. Most of the corporations discussed are involved in other mining and manufacturing sectors both in Australia and in other regions of the world. Their power is immense, cutting across economic, political and ideological structures. To understand that power, both descriptively and theoretically, is but the first step in confronting and diluting world capitalist hegemony for the benefit of working people everywhere.

The wealth of a nation, wrote Adam Smith two hundred years ago, is determined by 'first, the skill, dexterity and judgement with which labour is generally applied; and secondly, by the proportion between the number of those who are employed in useful labour, and that of those who are not so employed'. The massive development of capitalist enterprise has come a long way from this day, but it has yet to bring more than a small fraction of the world's population into useful employment. This is but one of the many contradictions of the concentration and centralisation of capitalism.

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4

ECONOMISTS AS MIDWIVES OF CAPITALIST IDEOLOGY

CHILLA BULBECK

Introduction

IN THE LATE 1970s monetarism, and particularly Friedmanism has displaced Keynesianism as the dominant economic justification for government intervention in the economies of Australia, the U.S.A. and Britain. This essay, in part, explores the reasons for this dramatic shift in legitimization. 'Legitimation' is the term used, because it is necessary to separate both what governments say they are doing and why (legitimation) from what they are actually doing. Despite the fact that economics is riven by internal disputes, it presents itself to governments and the public as a science, as a body of knowledge. Because of this it has a legitimating role—it serves to justify what governments decide to do. The political economy perspective seeks to establish whose interests the practice of economies legitimates. It is suggested that economics in general serves capital in general while it operates out of some specific institutions (e.g. the Industries Assistance Commission) to serve the interests of some fractions of capital as against others. The essay focuses on the role of Treasury and the IAC (Industries Assistance Commission) as two key institutions in which economists are located.

The rise and fall of Keynesianism

In the crisis of the thirties, the first significant intervention of economists into policy formation resulted in the Premiers' Plan of 1931 (Jones, 1980: 26) which put the interests of overseas creditors ahead of those of the working class. Debt obligations were met and budgets largely balanced, but only at enormous social cost, a cost so high that even some economists were plagued by doubts concerning the free enterprise system:

the results of leaving our economic affairs to look after themselves under the beneficent rule of the competitive system—or what is left of it... Idle hands, rusting machines, rotting ships, and silent factories. Slums,

ignorance and empty bellies. A world praying for poor harvests. These are the things that have turned men's minds to planning. (Wilson, 1934: 60)

In fact the 1930s witnessed the increasing conversion of governments to Keynesianism, and the Chifley government in 1945 adopted a full-employment strategy based on government spending within a framework of increased government planning of the economy. The combination of a full-employment objective and the needs of manufacturing capital for high tariff barriers was neatly encapsulated by Melville in the post World War II trade negotiations with the U.S.A.:

The worst barriers of trade will be removed only by the actual achievement of full employment and minimum living standards. Whatever agreements are signed, Australia will not abandon the industries established during the war until she can see some other way of making use of the resources set free. (Melville, in McFarlane, 1980: 237)

This is not only quite different from the IAC's present position, now that manufacturing capital is losing its hegemony, but also from the U.S.A.'s post-war position which was that free trade would pull full employment along in its wake. However, the labour governments of Australia and Britain put full employment first and planned to use Keynesian economics to achieve it.

Keynesian economics and its advocates grew in influence and apparent success in the post-war boom of the 1950s and 1960s, a boom led by the manufacturing sector. During this period economists developed a view of the economy as a sort of Bruce Petty machine with prominent levers such as 'government spending', 'interest rates' and so on which could be manipulated to create the desired levels of employment and economic activity. The government's major functions were to provide certain goods and services, to 'act in a regulatory and advisory capacity in relation to private production' (Grant et al., 1968: 158) and to maintain economic stability (Grant et al., 1968: 150-9).

The growing importance of economists is suggested by their increasing recruitment to the higher echelons (second division) of the public service. Between 1945 and 1949, of those recruited to the second division, 24% had arts degrees on joining the service and 7% had economics degrees. Between 1950 and 1959 the percentages were 31% and 16% respectively while for those recruited after 1960 the percentages were 26% and 25%. Forty-four per cent of officers working in policy areas at the time of the survey (1975) had economics degrees while only 33% had arts degrees (Boreham et al., 1979: 52-3).

If the economists had been correct about their ability to manipulate the 'Petty machine', the long boom would never have ended. However, as early as the mid-1960s problems outside the ambit of Keynesian solutions began to emerge. The most significant one was called stagflation or the concurrence of inflation and less than full employment of resources, including labour. This was conceptualised with the Phillips curve which described a trade-off between employment and inflation, i.e. the closer the economy moved towards full employment of labour the

greater the inflation rate. In the 1970s it appeared that the Phillips curve was shifting outwards (Anderson, 1980: 132)—even more unemployment was needed to hold down inflation.

The Petty machine was made more complex to cope with these new problems (Gruen [1979]: 232) describes this as more refined econometric techniques). One is reminded of pre-Ptolemaic astronomy which had to develop increasingly complex systems to account for the unruly planets' paths around the earth. Finally a Keynesian consistent solution to stagflation emerged. If wages and prices do not fall in times of unemployment of labour or capital, then it must be due to a stickiness in the market, caused by the fact that the economy was no longer competitive. Oligopolistic companies could afford to absorb wage demands by passing them on in higher prices. The solution was a wages-prices policy, government intervention to override and correct the failure of the market mechanism. These policies were tried in Britain and Holland with little success in the 1960s. Whitlam tried it but failed to get referendum support, Snedden advocated it in opposition and Fraser tried a short-lived wages-prices freeze in 1976 (Hughes, 1980: 141-5).

What the proponents of this policy failed to see was that it politicises distribution decisions and removes them even further from the legitimisation of neutral market forces. The distribution of wages and profits is increasingly seen as a result not of economic forces, but of power and lobbying (Deville & Burns, 1976). Thus a wages-prices policy weakens the legitimisation of economics because it bares the real relationship of power underlying the proposals for economic intervention. This is one reason why such a policy has not found favour. The other reason concerns the Liberal government's intention to support the needs of capital as against those of labour.

Thus a wages, but not a prices, policy has been adopted. On the wages side, the government makes continuous submissions to the Arbitration Commission for a wages 'less-than-indexation' policy. For many years the Arbitration Commission had taken account of inflation in its wages hearings only when inflation was fairly low (e.g. this policy was abandoned in 1953 and 1965—Nieuwenhuysen & Sloan, 1979). In 1975, following concerted ACTU pressure, wage indexation was again adopted by the Commission and this has caused Treasury and Fraser much grief since. On the prices side, the Prices Justification Tribunal, established by the Whitlam government, was weakened in 1979 so that public inquiries became a 'rare event' (*Australian Financial Review*, 12/3/81: 6) while the 'Razor Gang' (Committee of Review of Government Functions) recommended that it be scrapped altogether (*Australian Financial Review*, 27/3/81: 5). In Fraser's hands a wages-prices policy is converted to a partially successful wages policy only.

Friedman: the travelling salesman

Visiting economic wizard Solly Eichmann praised the Federal Government for its success in boosting unemployment. The problem

with economics, he claimed, was people... the remedy was to abolish people, after taking all their money and hiding it. In this way economic movements would become predictable. (Patrick Cook, 'Not the News', *National Times*, 12-18/4/81: 59)

As suggested above, the Keynesian solution to stagflation implied either increasingly massive government intervention and inflation to maintain high employment or a wages-prices policy which had both a poor track record and unwanted political implications. Into this breach, this crisis of both Keynesian economics and western economies, stepped Friedman and monetarism. Friedman and Phelps, working independently, attributed the continual outward movement of the Phillips curve to inflationary expectations. Once people expected inflation, they would plan for it by making higher wage demands and effecting higher price-increases to account for expected inflation (Hughes, 1980: 21-2). The monetarist solution to inflation goes something like this. It does not matter who puts up prices, these will only be effective if the government allows the money supply to expand to meet the increased demands on it. If the government takes a firm line, a succession of credit squeezes, bankruptcies and unemployment will soon convince people of the error of their ways; they will cease seeking price rises (Friedman, 1980: ch. 9). Inflation will stop, so will inflationary expectations. Bitter medicine which requires a strong government, and one that would appear to be against the short-term interests of capital and labour.

The purely economic policy aspect of Friedman's recommendations is monetarism, the control of the money supply to curb inflation. However, this is virtually the only thing that governments should do. Friedman also recommends reduced government intervention and free competition. He desires a return to the days of Adam Smith and J.S. Mill, days uncorrupted by welfare, unions or monopolies. His basic premise is that the dollar vote is better than the political vote because it is spent more wisely (one doesn't 'throw away' one's own money) and spent more efficiently, on exactly what the consumer wants. Thus we should be *Free to Choose*, the title of his latest book written in collaboration with his wife (1980).

With admirable single-mindedness Friedman pursues his analysis to recommend a negative income tax scheme (not generous enough to raise people up to the minimum accepted level of wages as this would be a disincentive to work) instead of social services in kind; a voucher scheme so parents can choose and control their children's schooling; a loans scheme for tertiary education (which assumes that tertiary education's only function is to increase income-earning capacity); the abandonment of consumer protection (licensing professionals, drug control, safety standards); the destruction of both unions and monopolies. In other words, whenever possible, the consumer should face the seller and the labourer should face the employer without government intervention and as many services as possible should be purchased by consumers with their own money.

All consumer-protection movements, according to Friedman, are anti-growth and anti-progress. Thus the nuclear energy industry is forced to pay \$100 billion (Friedman 1980: 191) per annum in safety regulations in the U.S.A., a price, Friedman implies, in excess of the value of the lives possibly saved. The best curb on dangerous-drug protection is the huge compensation payments the thalidomide producers, for instance, had to pay (too bad for the people already maimed by the drug, but the compensation payments presumably were an equivalent reward for their suffering).

Unions discriminate against potential occupational members by raising wages, say for airline pilots, which raises costs, say of air travel, which reduces the demand for air travel and, therefore, airline pilots. The basic wage discriminates against those who are not 'worth' it, the unskilled. However, in his thoroughness, Friedman also (fleetingly) attacks monopoly: 'The most reliable and effective protection for most workers is provided by the existence of many employers' (Friedman & Friedman, 1980: 246). He opposes indirect taxes, taxes on 'artificial persons' (corporate tax), and recommends a flat personal income taxation rate of 20% (Friedman, 1980: 306). He opposes government intervention into the conditions of overseas trade, for instance control of the exchange-rate and tariffs.

Friedman, then, recommends a return to the days of early capitalism, certainly not days which workers will look back to with a sense of longing. Neither are they days that multinational capitalists would be pleased to see revived. Friedman's basic assumptions are those of perfect competition and can be found in any first year economics textbook. In this world, resources flow freely to their most efficient use, in the process punishing inefficient producers with bankruptcy, and labour with less than adequate wages and the exigencies of moving, for instance, from Newcastle to Karratha to find a job. These hardships are *assumed* by this system as being acceptable. There are further hardships not assumed by the system, while the sheer possibility of such a world is questionable. Most textbooks start with perfect competition and then tell you why it is unlikely to occur. There is no perfect knowledge, or perfect mobility, economies of scale point to large plants, while competitors left to their own devices will create monopolies as fast as possible to avoid the punishment of bankruptcy. Labourers realise that their resources are better protected when they are united, and will strive for that even in the face of extreme business and government resistance. Friedman's story is more than a little anachronistic in the age of monopoly capitalism; after all, these factors have been at work for so long.

Additionally there are some aspects of social life which economics ignores. Yet even many economists believe these to be important. These are discussed as externalities. What they mean is that something done by one firm may positively benefit (e.g. the orchardist helps the bee-keeper) or harm (e.g. effluent by one factory upstream contaminates the input of the plant downstream) another producers, but the first producer takes no

account of them in assessing the costs and benefits of his operations. Friedman (1980: 31-2) does discuss the problem of externalities, but assumes that because we usually cannot assess who they benefit or harm, government intervention merely creates additional externalities and costs —e.g. the safety precautions imposed on the nuclear industry. In this example it is obvious who benefits (workers and those living near nuclear reactors), and who pays the cost (energy producers, but also ultimately the consumers who have no access to alternative energy). At a wider level, capitalists are only interested in profits. If they can sell non-nutritional foods, cancer-causing drugs, dangerous cars, then well and good as long as the sale is profitable. Friedman suggests that consumers can control the sales of such goods by refusing to buy them, but how else will they find out about these goods except from the companies themselves, if all government agencies have been disbanded?

Pure Friedmanism is, surely incompatible with advanced capitalism. The business sector has come to rely heavily on the state to underwrite the accumulation process—defence contracts, provision of infrastructure, training a workforce with the required skills, research and development. At the same time the existence of democracy in western societies in this century has led to the emergence of the welfare state or the expectation that the government will provide some basic social services like unemployment benefits, health care, education etc. Some commentators, e.g. O'Connor (1973) and Habermas (1976), see a contradiction between the combined needs of accumulation (which ultimately guarantees a government's revenue) and of welfare (which guarantees its re-election). This is especially true in times of economic crisis when both government receipts are falling and demands (bailing out failing industries, increased numbers on social security) are rising. The solution suggested is not reduced government intervention, but increased intervention with a strategy of corporatism. The corporatist strategy assumes that economic investment decisions will be further controlled by the state. In return for the loss of autonomy which this means to capitalists, unions (or their leaders) will also be incorporated into investment planning, but on condition that there are no strikes or other disruptions by labour. Basically corporatism means more planning and more state intervention to achieve it.

Given the greater involvement of the state in the economy over this century, this solution certainly seems more in line with historical trends. This is why the 'small government' side of Friedmanism is more rhetoric than actuality. The rhetoric has been used to lower the social wage in Australia, reduce the rate of growth of education and health expenses, but at the same time aid has been extended to the private sector in the form of investment allowances, export grants, infrastructure support through Loans Council borrowing and so on. For instance between 1976-7 and 1980-1 Federal budget outlays grew by 52.6%, outlays on health grew by 23.9%, on housing fell by 38%, but on industry assistance grew by 127.1% (*Budget Papers*, no. 1, 1980-1: 289). The

selective application of Friedmanism has benefited capital against the interests of labour.

That Friedmanism is more anti-labour than corporatism, is suggested by the policy of the unions of the EEC countries who have come out against the monetarist experiment, claiming that it destroys jobs. Their six-point programme stresses increased government intervention, e.g. public investment in energy saving, transportation and advanced technology, a strengthening of training schemes and job creation programmes and a move to work-sharing arrangements (*Australian Financial Review*, 13/5/81: 43). This is more in line with a corporatist strategy.

Treasury goes monetarist

By ensuring that intellectuals are employed in secure and responsible positions commensurate with the types and levels of education they have received, and that they are relatively free to think and do as they will, one produces intellectual moderates... and by restraining their freedom of expression and inquiry, one produces political extremists.
(Brym, 1980: 17-18)

Until the early 1970s, monetarist policy was relegated to 'sterilising' unwanted liquidity flows in the service of the full-employment objective (Davis & Lewis, 1979). From the early 1970s, monetarism gained increasing prominence in Australia not only among economists (Anderson, 1980: 82), but also with governments. Anderson (1980: 81-2) and Catley & McFarlane (1980: 292-3) both suggest that the shift from Keynesian to monetarist economics occurred not with the first Fraser budget, but with the Hayden budget of 1975. This marked the retreat of the ALP from any social democratic elements in its policy, hastened by Connor's failure to raise a loan for resource development and the failure to establish a state-owned insurance company. Without being explicitly monetarist, this budget accepted inflation as the most important problem, suggested that the public sector crowded out the private sector, accepted the need to discipline the workforce and encourage greater foreign capital flows.

The ALP's changed policy heartened the Treasury which had languished in the previous Whitlam years (Hughes, 1980: 126), either restricting itself to sullen silence or indirect attacks on the government (e.g. the 1974-5 statement number 2 to the Budget Papers). In 1975, however, Treasury expressed relief that the deficit had been moderated and suggested that, if not raising business confidence, at least the budget would not further dampen it (Budget Papers no. 2, 1975-6: 18).

From 1975 on, Treasury adopted an increasingly strident tone based on the assumptions that wages were too high, profits too low, and budget deficits would only increase inflation. Stone emerged, not only as first secretary of the Treasury, but also as a media personality and man of opinion. Hughes (1980: 53) summarises the economics of the 'Stone Age':

Unemployment, or at least the major part of it, is said to be the result of excessive real wages. Consumer spending it is alleged, cannot be stimulated by tax cuts because the rebate to households will simply disappear in extra savings. And finally, attempts to expand the economy that involve greater budget deficits will fail simply because this action sets up rational expectations of further inflation and thus sends businesses and consumers deep down into their bunkers.

Since 1976 the growth of M3 (the sum total of coins, notes, trading bank deposit accounts and savings bank holdings in the hands of the public at any one time) has been kept below the rate of inflation. Between 1975-6 and 1977-8, M3 was kept within the range projected, although it outstripped its projected growth rate in 1978-9 and 1979-80 (Anderson, 1980: 84, 99-100). There are, however, several difficulties associated with using money supply as an economic policy tool. Firstly there is debate over which measure should be used: M3, M1, which is only notes and coins and trading bank current accounts, or M4 which is M3 plus the holdings with building societies. The *aim* of the measure of money supply is to assess the amount of money available to the public, and none of these measures include money in the form of hire-purchase arrangements for instance, which creates spending power without increasing the supply of notes and coins, etc. The measure of money itself is suspect.* Secondly, as Anderson (1980: 101-4) points out, the Reserve Bank has had difficulty controlling the growth of the money supply (e.g. in the form of bank overdrafts and building societies' activities). Thirdly, and one would think, conclusively, Hughes (1980: 154-5) demonstrates that there is no relationship between the growth of money supply and inflation using Friedman's (reluctantly offered) 18-month lag hypothesis. Similarly, budget deficits have been reduced since 1975-6 (Anderson, 1980: 85), but there is no relationship between budget deficits and inflation over the last six years (Hughes, 1980: 152-8). Fourthly, on the 'crowding out' thesis, Anderson (1980: 152-8) suggests that there is no evidence that government expenditure, at least after 1974, either physically or financially crowded out the private sector. The political effects of budget deficits and Friedmanite economics appear to be more important than their economic effects. If not, presumably monetarism would be abandoned by now.

On Treasury's policy for real wage reductions, the ideological odour of their statements hardly needs stressing. Unfortunately, moans the Treasury, control of real wages is out of its hands and with the irresponsible Arbitration Commission. This insists on making partial indexation increases, work value increases (which 'are, for the most part, nothing of the kind'—Budget Papers, no. 2, 1980-1: 51) and fails to widen margins for skill to 'call forth enough skilled labour to meet demand' (Budget Papers, no. 2, 1980-1: 50). This statement provides a fascinating insight in to the neo-classical economics model. We are given a picture of engineers and craftsmen lurking in the dole queues

* See Hughes (1980: 14-16) for more on the measure of the money supply.

waiting to be called forth by higher wages. Treasury has neglected the lags associated with creating skilled workers, lags which the Federal government also neglected a few years ago when it scaled down the apprenticeship scheme. Wage levels have been blamed for unemployment, particularly of unskilled and young workers (Budget Papers no. 2, 1976-7: 24; 1977-8: 32; 1980-1: 50) and the failure of business to invest (Budget Papers no. 2, 1977-8: 32; 1979-80: 50).

In 1979-80 Treasury used data on factor income shares to suggest that households were still receiving 'excessive' shares in relation to enterprises, i.e. shares that were higher than pre-1973 levels. By 1979-80 Treasury had decided that a return to the good old days would be insufficient and that a 'higher than historically "normal"' rate of profitability is required to ensure that capital formation is adequate' (Budget Papers, no. 2, 1979-80: 50). The baseline for adequate returns to capital varies from year to year while there is no hint that the record ('excessive') profits of the mining industry should be redistributed to either other capital or labour. As Hughes (1980: 167) suggests:

It is a matter of considerable insight into Treasury's psyche that the official remarks of the department... could be so coloured by real wage effects and so muted on the investment allowance. In respect of factor substitution, the two are doing the same job.

Finally, the calculation of factor shares is open to debate. As Richardson (1979: 16) suggests there are at least thirty-two plausible measures of labour's share of income. Some will suggest that it has fallen since 1974, to pre-1973 levels (e.g. Transnational Co-operative, 1980: 2/1) while others, like Treasury, will suggest that it has fallen but little.

Because of the unpalatability of Friedmanism for democratically elected governments, Treasury has occasionally been more Friedmanite than Fraser. Treasury recommends reduced tariffs while Fraser has given way in the case of industries which employ significant sections of the workforce. Treasury believes that ALCOA should pay for its energy at world parity (or 'market') prices while Fraser supports the states' policy of subsidised energy.

The irony of Friedmanism is that only a truly strong government, and not a small government, would have any chance of overriding the interests of capital and labour to break up monopolies, withdraw industry aid, dismantle its own bureaucracy, destroy the unions, even control the money supply, given the enormous opposition and upheaval it would face. Instead we see a government offering incentives and taxation allowances to industry, and refusing to impose a resources rental tax to replace the oil levy, while also reducing its commitment to education and health, and forcing down real wages. We also see a government de-regulating industry (e.g. abolishing the Prices Justification Tribunal), but expanding its control of unions and labour (e.g. see Cooper, 1980 on changes to Arbitration and union control in Australia, or the government's opposition to the 35-hour week campaign). The government is caught in the no-man's land between Friedmanism and

Keynesianism, a land, however, that promotes the interests of capital—a wages policy, but not a prices policy, deregulation of industry and small government on the welfare front, while at the same time drawing on the support of monetarism for its legitimacy.

Now to turn from the interests of capital-in-general to the interests of capital-in-particular and the role of the Industries Assistance Commission.

The Industries Assistance Commission loses touch

In fact, some reputable journals suggest that the imposition of the Tariff should not be left to Parliament itself, but to some outside body... Tariff is a form of tax, and although taxation levied by Parliament may be regarded as disagreeable in a democracy, taxation imposed by a bureaucracy would be as impossible as would be the executions of an autocrat. (Greene, *Parliamentary Debates*, 1921, vol. XCVI, p. 9720).

From the inception of the Tariff Board in 1921 and almost up to its reformulation as the Industries Assistance Commission in 1974, there was a general upward trend in tariff levels. Between 1968-9 and 1977-8 the effective rate of protection fell from 36% to 25%. However, this general level disguises the very high levels of assistance afforded the textiles, footwear, clothing and motor vehicle industries (Anderson & Snape, 1980: 4). As Melville noted in 1945, tariffs were justified to maintain employment and protect higher living standards than obtained in Asia, for example. Happily they also protected the manufacturing bourgeoisie, and a cosy alliance between manufacturers and trade unions over tariffs persisted in Australia for about two decades. The alliance still exists but today it is not so cosy.

Economists provide few justifications for tariffs, among them being defence, the infant industry, and externalities arguments. The theory of comparative advantage (that each country presumably has in producing specific goods more efficiently than other countries) has been around for almost two centuries, but, apart from a period in the 1920s when the Brighden Report was produced, economists only came to dominate tariff discussion in Australia in the late 1960s. They then stormed the protectionist citadel of the Tariff Board and the IAC emerged as a professional body advocating relative free trade and certainly relatively even levels of protection. The arguments that the Tariff Board and more particularly the IAC brought to bear on the issue were of the 'imagine that' sort. Imagine that resources are mobile over the long term, imagine that they are paid their open market return, imagine that the economy is basically competitive. If these things are so, although lowered tariffs may cause short-run unemployment of labour and capital, these resources will eventually move to more efficient sectors of the economy and lead to a higher level of production (but different mix) than prevailed previously. Unfortunately for economists both employers and employees in the footwear and clothing industries refuse to believe that

they will easily find new employment in an economy already incapable of employing all available labour and using all potential industrial capacity. For this reason they consistently lobby for protection.

Freer trade stands to benefit some sectors of the economy against others, just as protection benefited the import-competing manufacturing sector. Within the manufacturing sector, however, the highly-concentrated and foreign-controlled industries have been the major beneficiaries of tariff protection. This is shown by the high and positive relationship between the effective rate of protection (a measure of the assistance levels) and the degree of concentration (correlation co-efficient = .48) and of foreign control (correlation co-efficient = .38) of Australian industry in the accompanying table. Not large industries (as indicated by the employment and value-added variables), but concentrated and foreign-controlled industries have been the main beneficiaries of high assistance levels.

After 1968, it is suggested, foreign capital's interest in Australia shifted. A combination of the opportunities to use cheap labour in the

TABLE SHOWING CORRELATION CO-EFFICIENT BETWEEN EFFECTIVE RATE OF PROTECTION AND SELECTED VARIABLES BY INDUSTRY CLASSIFICATION

	<i>Effective rate</i>
Concentration	.48
Foreign control	.38
Employment	.16
Value-added	.06

Source: Industries Assistance Commission, Annual Report, 1973-4: 60-9, 76-84, 9-100; 1974-5: 50-73; Australian Bureau of Statistics, 'Foreign Control in Manufacturing Industry: Study of Large Enterprise Groups, 1972-3'.

Pacific rim, and the resources boom in Australia, meant that multi-national capital chose to manufacture in Asia, and mine and sell manufactured goods in Australia. Such strategies required a reduction in the tariff walls which for so many decades had benefited foreign capital, producing goods in Australia. The evidence for this thesis is fragmentary, but on the whole consistent. There has been an increase of manufactured imports from Asia to Australia (Australian Bureau of Statistics, 'Australian Imports', 1977-8), a shift of overseas investment to the extractive industries in Australia, particularly for new projects (Foreign Investment Review Board Report, 1978: 1979), and a movement of Australian companies also to Asia to exploit the cheap and docile labour available there (in no small part cheap and docile because of government repression).

Manufacturing multinationals located in Australia find themselves in an ambiguous position over tariff policy. Thus in the recent hearings of the motor vehicle industry, Australian Motor Industries which hold the Toyota franchise in Australia, basically endorsed the IAC's proposals of reduced tariffs and the abolition of the local content scheme and import quotas:

Nissan and AMI would dearly like some relaxation in the local content plans so they could source more components to Japan. But against this they have made investments on the basis of the plans continuing. (*National Times*, Business Review, 1-7/3/81: 4)

A similar situation no doubt describes the other motor vehicle companies although the extent of preference for Australia as a production base vis-a-vis Taiwan, Japan or wherever, depends on the extent to which each company has predicted future tariff support and so invested in production in Australia. In this particular enquiry GMH and Ford requested the continuation of existing assistance arrangements.

Mining capital on the other hand has no such doubts. The Chairman of Mt Isa Mines has condemned tariffs as restraining the emergence of the new Australia (*Sunday Times*, 18/5/80: 57), while manufacturers in the Confederation of Australian Industry were horrified that Sir Roderick Carnegie (CRA) might get the presidency and influence tariff policy (*National Times*, Business Review, 3-7/9/81: 3).

During the IAC's hegemony in the mid-1970s it appeared that the interests of multinational capital located overseas, the importers, the rural and mining sectors were being looked after. In the early 1980s this is still so in general, but some sectors have established themselves as powerful lobby groups and for these industries the IAC's recommendations have been resisted. What these industries share is high regionally concentrated employment rather than high concentration or foreign control. The reason for Fraser's failure to push through with tariff reductions can be attributed to electoral motives.

In a realpolitik sense the unions have a much better grasp of the situation than the IAC. They know that lower tariff walls will put them in direct competition with the low-wage earners of Asia, and that 'economic' employment in Australia will ultimately be only at this reduced price. Unions have placed a ban on the importation of cheap Korean matches (*Australian Financial Review*, 1/4/80: 31). The motor vehicle unions threatened to do likewise if the IAC's motor vehicle recommendations were accepted (*Australian Financial Review*, 9/3/81: 6), and the Federated Ironworkers Association offered a similar service to BHP in relation to the dumping of imported steel and iron products (*Australian Financial Review*, 8/4/81: 38). The IAC, Treasury and some academic economists (e.g. see letter to the *Australian*, 18/3/81) are the only groups endorsing lowered assistance levels. Fraser has consistently caved in, the ALP has always condemned these reports (e.g. *Age*, 18/8/80: 1 and *West Australian*, 25/2/81: 9) and Anthony has stated his support of tariffs (*National Times*, Business Review, 11-17/1/81: 2).

One can hardly blame the unions for their alliance with manufacturing capital, but it is a defensive position. It divides Australian labour against Asian labour and testifies to the limited debate in Australia over these issues. Alternatives should be discussed, but these are outside the institu-

tional ambit of the IAC and, therefore to some extent, the debate. These are worker control of industry (presently being attempted in New Zealand following a report on protection of the rubber industry) and wider strategies for relocation of labour in more meaningful, less physically harmful but possibly non-profitable (in the capitalist sense) employment. Such discussion requires the concurrent discussion of the potentialities of technological change, human needs both for employment and consumption and the preparedness of those affected to trust the government. Neither political party has a track record which would encourage this.

Tariff policy for many years protected the interests of manufacturing capital, precisely for those years when it enjoyed economic dominance in the economy. After the 1960s, mining became the new growth sector and the transformation of the Tariff Board into the IAC sought, if not consciously, to meet this sector's interests. There are other indications that Fraser is looking after mining capital, but rarely with the benediction of economists. The accelerated depreciation allowance permits mining capital to write off equipment at 20% per annum while manufacturing capital's rate is 5% per annum (suggested by BHP, *Australian Financial Review*, 9/4/81: 2). Similarly Fraser has refused to consider a resources rental tax despite Treasury's recommendation. Meanwhile Gregory (1976) has suggested that all this concern over the effects of tariffs might be quite misplaced in relation to the massive sectoral changes generated by the resources boom and consequent pressure of mineral exports on the balance of payments. Gregory explicitly states that he is not offering policy options, but implicitly suggests that the future must be with the mining sector (*National Times*, 5-11/10/80: 14). This indicates the economists' continual claims that facts (how the economy works) can be separated from values (how it should work). However, the theory has been seized on by farmers and manufacturers to justify a reconsideration of the massive mining expansion. Some economists claim that the Gregory effect can be deflected by getting rid of foreign capital again, for Australia to become a capital exporter. Others have suggested that by the time the multinational mining companies have taken their cut, there will not be a large net foreign exchange inflow anyway (*National Times*, 5-11/10/80: 14-16).

As a postscript to the issue of tariff rates and capital in particular, there is Fraser's implicit admission in April 1981 that tariffs are not, after all, economic instruments, but political ones. Whether responding to the needs of capital in general or his own horror of life becoming any easier, Fraser opposes the 35-hour week campaign even when introduced voluntarily after negotiation. When ICI conceded the 35-hour week at its Altona plant, Fraser threatened to bring forward the IAC inquiry into chemicals as a punishment (*Australian Financial Review*, 30/3/81: 6). What more obvious evidence is needed to show that tariffs are a reward to politically powerful industries and not the result of sound economic management?

Economic blinkers

Orthodox economics tries to show that markets allocate scarce resources according to relative efficiency; political economics tries to show that markets distribute income according to relative power. It is good to know about efficiency, but in our world, it tends to be subservient to power. (Nell, 1976, p. 35)

There are some fundamental assumptions that almost all economists share. Firstly there is an uneasy interplay between the belief in the operation of the free market and the need for judicious government interventions. Secondly, there is a belief that all that comes within the measuring rod of money is all that matters for human happiness. Thirdly, there is a failure to locate Australia in the world economy except through linkages of capital and goods flows. Fourthly, there is a refusal to consider politics or power, institutions or ideologies which may affect economics, but which are not considered value-free enough for the discipline.

In relation to the virtues of the market place consider this statement by Treasury on the best way to introduce technology in Australia:

... in each case the decisions of the businessmen, industry associations, and specialised private and public agencies involved guided by appropriate economic signals, are likely to be a more reliable means of ensuring that the most efficient technological decisions are made than centralised and generalised forecasts, judgements or (what in the end all of these boil down to) *ad hoc* decisions by governments and/or bureaucrats who advise them. (Treasury Economic Papers No. 7, 'Technology, Growth and Jobs', 1979: 3)

The IAC feel the same way about free trade as opposed to the distortion of the tariff structure. On the other hand all economists believe that there are some things the government should do. Even Friedman, the arch-libertarian, believes that governments should control the money supply. Keynesians believe that deficit spending should be manipulated for full employment, and Treasury believes that the government should control the exchange rate. Economists do not agree on why some things should be controlled and others left to the market, because they do not even agree on which things should be controlled. The advantage of pure laissez-faire economics is just that—it is 'pure'. Anything else is a compromise and one not clearly articulated by economists.

Secondly, on the issue of human happiness, economists have long wrangled over the application of utilitarianism to welfare economics. Bentham, the father of utilitarianism, suggested that people are motivated by the pursuit of happiness and avoidance of pain. In economics this is translated as the maximisation of the material goods available to a society. The Pareto Optimum describes the maximisation of these goods, given a certain prior distribution of purchasing power. However, the utility of this tool in real world situations is extremely limited. One can argue that more of one thing without loss of any other creates greater human happiness, but one cannot ever argue conclusively

for a trade-off of goods or a certain distribution of goods (e.g. see the essays in Hahn & Hollis [1979] for a debate about this). Consequently economists usually ignore distributional arguments or blatantly assert that one particular distribution is somehow best. Thus Treasury advocate a pre-1973 distribution between wages and profits. The rationale is that the 1980 distribution leads to under-utilisation of labour. The effect of Treasury's strategy is that some labourers will have to surrender real income for other labourers' employment, and for the greater profitability of capitalists. There are no logical grounds for claiming that this will create greater welfare in society as a whole.

The IAC assumes that if economic resources are produced more efficiently then more non-economic resources can be produced. There is a failure to acknowledge a trade-off between some economic and non-economic resources, e.g. jarrah forests and bauxite, technological change which replaces labour and that which makes employment more meaningful (see also Treasury Economic Paper no. 7, 'Technology, Growth and Jobs', 1979: 3) or put simply in Galbraith's (1962) phrase, private wealth and public squalor. Where trade-offs occur economists are helpless to justify one allocation of resources over another.

Thirdly, Australia's role in the world economy is seen as one of a sovereign economic power linked by trade flows amenable to government control (e.g. through the exchange rate) and not controlled by economic actors, e.g. multinationals. This view fails to address the fact that the 400 largest multinationals control over half of the Western World's non-agricultural trade, control international monetary flows through transfer pricing, monopolistic buying and selling etc, and can induce nationally sovereign governments to rise and fall where necessary (e.g. ITT's involvement in Chile). Against this reality Treasury suggests that developed countries are not 'a cause of poverty in developing countries' and

... while developed countries can influence the rate of economic development in developing countries through the policies they pursue towards trade, international private capital and aid, the economic development of a country is primarily a function of its own actions and policies, not of the actions and policies of others. (Treasury Economic Paper, no. 6, 'An Assessment of the Proposals for a New International Economic Order', 1979: 1-2)

Economists also hold to a belief in value-freedom, witness Gregory's separation of the results of mining export growth and what should be done about it, and Treasury's condemnation of the New International Economic Order (NIEO) for not being value-free (*ibid.*: 2). The NIEO has suggested that disparities in wealth between developed and developing countries are immoral, partly because the developed countries have facilitated and gained by these inequalities. According to Treasury, such statements 'overlook the fact that questions of "morality" are in the realm of value judgements' (*ibid.*: 2). Perhaps the NIEO advocates would have been more acceptable if they had said:

The factor share of incomes going to the developed world and the Third World has become seriously distorted since 1900. Only with a return to pre-imperialist shares can we be encouraged to expand our economies and so allow greater economic activity, from which you also will benefit (in the long run).

Economists prefer the language of Budget Paper No. 2, rather than the honesty of the NIEO whose proponents are saying they want a higher factor share because they want to stop starving, stop supporting cash-crop agriculture instead of subsistence farming, stop the dumping of unsuitable western goods (e.g. baby milk-powder), and so on.

Overriding and linking all these criticisms is the failure, as Nell notes, to see that economics is not just about resource allocation, but also about power and ideology. Economics makes a virtue of its limited orientation which it describes as value freedom. This orientation carries its own values—that resource allocation can be separated from, and indeed is independent of, questions of distribution, government intervention, global monopoly. In accepting the *status quo* of a private enterprise system, economics accepts that capitalism is the most efficient method of allocating resources and yet never explicitly works through these assumptions. The preference for private enterprise over the socialisation of production is its profoundest assumption. Economics does not have to decry socialism. Too many Labor governments have had their fingers burnt—State governments in the early years of the century, Chifley over the banks and health, Connor over the national pipeline authority. The populace has not seriously considered these alternatives. Until they do the IAC will not recommend worker participation in industry, and state governments will not spend money on training nurses, community workers, park rangers etc. rather than infrastructure for mineral exploitation. The Department of Commerce and Industry has estimated that \$7.6 billion resource investment will provide 6700 permanent jobs—that is over \$1 million for each job created (Hughes, 1980: 20). If governments were really interested in job creation, there must be better, more efficient even, ways of achieving it.

What is needed are more challenging and innovative criticisms of the system to disrupt ordinary assumptions. We need to question why people are more important as producers than consumers in a society with increasing technological replacement of labour. Sheehan's (1980) suggestion for a guaranteed minimum income begins to break the nexus between income and employment. We need to ask why cutting the budget deficit means cutting welfare and not defence. We should suggest, as the Lucas Aerospace workers did, that the army hold jumble sales for aircraft carriers and the government fund medical care. Unions should explore ways of withdrawing not their labour, but capital's ability to make profits, as the bus-drivers in Adelaide did a few years ago when they ran the buses, but refused to collect fares. Such innovative actions question the deep assumptions of the capitalist system. It does not operate primarily to meet the needs of the community but to make a

profit. Guerilla type action to continually demonstrate this may force people to question those assumptions and eventually economists and other ideology craftsmen will be forced to question them too. Only these sorts of policies and analyses will challenge that deepest assumption of economics, that unquestioned assumption that capitalism is the best possible world or, in their words, allows the most efficient distribution of resources.

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5

ABORIGINES, LAND RIGHTS AND MINING

CHRISTINE JENNELL

THE MODERN 'CONSCIOUS' campaign for Aboriginal Land Rights may be said to have had its beginning in the bark petition which the people at Yirrkala sent to the Federal Government in 1963, asking that their rights to land be recognised. This action was prompted by the 'invasion' of their land by a mining company. However, it was the strike by members of the Gurindji tribe working in the pastoral industry on Vestey's Wave Hill Station in 1966, which sparked off *national* attention to, and organisation of, the land rights movement (Jennett, 1980a)—but this movement was mainly specifically in support of the Gurindji. In 1972 the Aboriginal Embassy, set up on the lawns of Parliament House, Canberra, heralded the beginning of a National Land Rights movement, i.e. Land Rights for Aborigines' *in general*.

The Aborigines' struggle for Land Rights raises several important issues:

1. Why is it that Land Rights has become the way in which Aboriginal protest is expressed and what has been the reaction of the state?
2. What is the maximal control of productive resources which a local community can attain?
3. In what ways are Aboriginal Australians articulated (as a people) with non-Aboriginal Australians (as a people) societally, politically, economically?

This essay attempts to respond to these issues. It is necessary to begin with an examination of some of the factors which have brought about the failure of capitalists to integrate Aborigines into their hegemonic control. Aboriginal and European Australians are not only in varying degrees racially distinct, an even more important distinction is the fact that they come from almost diametrically opposed cultural backgrounds. Central to this opposition is the way the two cultures view the concept of 'development'.

Development and underdevelopment

In Australia development is usually associated with the Anglo-European concept of 'progress' in which it is assumed that it is the historical role of man to conquer nature. It is assumed by the Anglo-Europeans that all people must *want* to subjugate nature, and that any that have not done so *cannot*. Therefore they are 'inferior' or 'backward' and should have 'development' imposed upon them (Hodge, Struckmann & Dorland Trost, 1975). This cultural assumption was a strong component of early settler racism. Although arguably anything might have been used to justify dispossession, this was a predominant argument which *was* used. Occasionally one still hears the objection 'But they weren't using it' to justify the colonisers' appropriation to Aboriginal land.

Hodge, Struckmann & Dorland Trost (1975) argue that there are specific cultural as well as economic and political elements of racial oppression as practised by Westerners (Anglo-Europeans) towards non-Westerners, who are usually also non-white. They point out:

It is hard for most Westerners to realise that in many non-Western cultures there is not only no desire to control nature, but an aversion to the thought of controlling nature. The quality and quantity of technology which developed within these cultures did not break away from the view that man functioned within nature, not over nature. (Hodge et al., 1975: 38)

David Mowaljarli enunciated this world view as manifested in Aboriginal philosophy. He was speaking at Noonkanbah (29/3/80) to Tom Lyon from AMAX when the water drill started to bore on a sacred site:

When anything bore a hole into sacred ground, it bore a hole into Aborigine. We are not concerned about beautiful clothes, beautiful cars, beautiful aeroplanes, we are concerned about human life.

We don't sow, reap or plant any food. Our Great Spirit put all the food and we look after it. We die like that. That's the Aborigine. Our philosophy will stand always. (*KLC Newsletter*, March 1981: 10)

The Anglo-European ideology of economic development has been an important factor in the course of Australian history. In their study of the formation of the class structure in Australia, Connell & Irving argue that the ideology of economic development was more powerful than the doctrine of ascendancy and broader than racism from the early 1800s:

Like all social thought at the time, this presupposed the system of private property; but it saw property, in combination with enterprise, as a dynamic force capable of transforming society. (Connell & Irving, 1980: 63)

What was first systematically expounded by W.C. Wentworth in 1819 as a concept of economic development, based on Australia's role as a supplier of raw materials (wool being the key product envisaged at the time) to the manufacturing economy of England, was developed as a doctrine of 'progress' as capitalist expansion. Connell & Irving go on to argue that in Australia successive governments sought to integrate the collective power of labour by measures such as institutionalising labour/

capital conflicts in the arbitration system and by recognising unions as valid 'interest' lobby groups in a pluralist liberal democratic society. Extremely important in this integration process has been bourgeois hegemony over working class life-style and aspirations. Both Labor and non-Labor parties have defined 'progress' as being the union of capital and science.

Warhurst (1981), analysing the results of the 1980 Northern Territory elections, argues that the ideology of development was very important in determining the favourable outcome for the Country/Liberal Party (CLP). He notes that the main productive income for the Northern Territory has always been the export of mineral products. Currently minerals account for more than 90% of export earnings. In its election campaign, he suggests, the CLP government was aided by the improvement in the beef and minerals markets and the start of the uranium development.

The CLP government had presided over self-government and the recent economic growth. Thus it was clearly in a favourable position. The outcome was complicated, Warhurst argues, by the fact that in the Northern Territory there are two 'electorates'. In the urban areas white voters predominate and to them:

In opposition, the ALP would be seen as 'negative' if it was critical of development policies and if not, as merely supportive of CLP initiatives. And if instead the ALP chose to fight on issues of social rather than economic development, then it ran the risk of the charge of being 'un-Territorian' or of neglecting the employment needs of the Territory. (Warhurst, 1981: 38-9)

The other electorate is the aboriginal rural outback one. Particularly in the Top End, conflict between economic 'development', such as mining, and land rights was more acutely felt. Here the costs of development weighed heavily against the benefits. Thus there were opportunities for the ALP to question aspects of development and insist both that Aboriginal rights be respected and that Aboriginal participation be secured in development projects. The Labor Party would appear to be in a similar predicament in all States. As a result all branches tend to stress development but the degree of stress varies according to the extent to which it is balanced by consideration of environmentalist and land rights lobbyists' demands.

Connell & Irving (1980) point out that progress has been stressed at many levels of Australian society throughout its history. Even at the family level social success and social mobility is indicated by perpetual attempts to keep up with modern developments, by unceasing consumption of new technological gadgets (this year the crock pot, next year the blender). As Ewen (1976) argues, the 'consumer ethic' has replaced the 'protestant ethic' which was more suited to a period of capital accumulation. In modern capitalist society this consumer ethic is reflected in insatiable 'needs' created and maintained by mass advertising (Ewen, 1976). Connell & Irving also draw attention to the role of the state school

in teaching the ideology of progress. Finally they argue that business and government have always laid down the contours of development, for example, by manufacturers making cars for mass consumption and governments constructing freeways to service them rather than concentrating on public transport for all.

By the late 1960s the continued existence of groups who became labelled 'the poor' called into question the propaganda of affluence but their presence was not perceived as a manifestation of systemic contradictions. Connell & Irving argue that the extent of ruling class hegemony was such that:

In a series of political debates and political inquiries, it was accepted on all sides that there was a category of 'the poor' that was somehow OUTSIDE the social structure, and that the appropriate response was an overhaul of state welfare measures; the debate was over the necessary adjustments to pensions and social services rather than over the social structure that generated such a situation. (Connell & Irving, 1980: 303)

This may have been true for other groups but it needs to be stressed that Aborigines were largely blamed for their own failure to succeed as individuals. They were called a 'backward race', and where their traditional culture could not be blamed (as incompatible with development) the supposed 'culture of poverty' of 'detribalised' groups was held to be the decisive factor. Connell & Irving do observe that 'militant Aborigines were the first to shift the argument to a more general ground, stressing the inbuilt racism of white Australian society' (1980: 303). However, they do not analyse why this was so.

If the majority of Aborigines were to be found in the ranks of 'the poor' it was predominantly because they were subjected to the same processes of super-exploitation as have been nations of the Third World. Their 'underdevelopment'/poverty was 'developed' by both state and capital as they were dispossessed of their common poverty—the land. In addition they were exploited for their labour power in some areas.

People who are considered to be 'underdeveloped' are usually seen as those who have not progressed, who live in poverty and disease, who must be introduced to industrial technology in order to 'catch up' with the twentieth century affluent nations. The majority of Aborigines do live in poverty.¹ Also they have one 'of the highest infant mortality rates, and one of the highest ethnic blindness rates, in the world' (ACOSS, 1979: 4):

They live . . . in a world of 'blinding poverty' and squalor in which even the most basic facilities for healthy, hygienic living are absent. This 'Dickensian environment' is matched in turn by a 19th century demographic pattern of high birth, mortality and disease rates allied to high rates of illiteracy and unemployment. (ACOSS, 1979: 4)

However, this is not a result of 'backwardness' of Aboriginal culture. Rather this state of affairs is a result of British colonisation and the social and economic processes it set in motion. Blainey, in *Triumph of the Nomads*, argues that the average Aborigine was probably as well off

as the average European in 1800 if the main ingredients of a good standard of living are specified as food, shelter and warmth. Obviously Aborigines could not match the comfort and security of the upper classes of Europe, the wealthiest one-tenth of the population, but it is likely that they were much better off than the poorest one-tenth.

So the impoverished and 'underdeveloped' state in which Aborigines are now found is a direct consequence of the dispossession of their land which was their means of producing their subsistence and trade goods. As Rowley (1972) has pointed out, it was the Aborigines' land rather than their labour power which was of most interest to the colonisers because of the availability in most areas of cheap convict labour. Invasion of Aboriginal land continues as transnational and local corporations attempt, usually with considerable help from State and Federal Governments, to wrest control over the raw materials this land contains.

Weineke (1981: 268) points out that, in the name of economic development, Australian governments have in many instances in both the pastoral and mining industries handed 'over productive control to trans-national corporations'. Access to, and often control over, international markets for the sale of their products has allowed overseas capitalists operating in Australia to control the conditions of production in industries which are relevant to Aboriginal interests. These controls exercised by 'capitalists operating from outside Australia enable them to make decisions about the investment of capital and conditions of labour in which the state often has little option but to acquiesce' (Weinecke, 1981: 268).

The State and Aborigines

This section attempts to provide some understanding of why Aborigines have become so militant since the later 1960s, and why they did not become integrated into the ruling class hegemony via affluence and the ideology of development in the same way that Connell & Irving argue that the bulk of the working class has been.

If claims to property are to be enforceable and the society is to achieve social order then it is necessary for challenges to state authority to be circumvented. State authority rests on *coercion* or *consent* and usually on a combination of the two. Consent is closely related to the concept of hegemony which refers to 'a situation of cultural dominance held by one class in the society as a whole' (Connell & Irving, 1980: 22).

Aborigines most certainly lived their daily lives in forms created by and in the interests of the dominant class. However, they were not integrated into an acceptance of ruling-class beliefs, motives and ways of thinking. In fact, as Lippmann (1973) argues, they have always either actively or passively resisted such ways of thinking, doing and being. It has been usual for many social scientists to look for the source of this resistance in cultural difference, and resentment at the historical 'period

of colonisation' during which they were subjected to violence against their persons and dispossessed of their land. Whilst these factors are very important components of Aboriginal resistance and their effects on Aboriginal thinking are not to be underestimated, there are also other very important reasons why Aborigines have not become absorbed into ruling-class hegemony.

First, since they have always experienced widespread unemployment and thus have been located in the ranks of 'the poor', they have never had the option to consume new technological gadgets (or even basics) at the same rate as most other Australians. Even where they identified with hegemonic goals their high rate of unemployment has meant they were not able to attain them. Also, these were not the significant goals in life for many, because achieving them meant competition on an individualistic basis—something which is unacceptable even to most 'non-traditional' Aborigines. Both traditional culture, and the mechanisms people born into inter-generational poverty use to survive (the so-called 'culture of poverty'), militate against the type of social mobility held by many Australians to be the result of individual and privatised consumption.

Another factor is that television ownership has been low amongst Aborigines, and they have thus not been subjected to mass advertising to the same degree as other Australians. Further, they have never been subjected to the same degree of schooling. Hence they have been less exposed to hegemonic ideas than any other group in Australian society (with the possible exception of some non-English speaking migrants). All these factors have meant that Aborigines have been less exposed to the ethic of consumption, and the ideology of development, than any other Australians and this is one of the reasons why most Aborigines have not believed, or were unable to act on, the same beliefs as white Australians. Demystification is much less difficult when you are not mystified. Thus incorporation through value consensus was not achieved.

Another way incorporation can come about is through economic interdependence. A further effect of the high rate of unemployment among Aborigines has been that they have been less concerned with the capitalist relations of production than other groups of Australians. Thus neither as producers nor consumers have they been integrated into hegemonic processes to the same degree as other Australians have been. This meant that their struggle has not been demobilised to the same extent as the working class in general. For many Aborigines the activities of the State lack the legitimacy which they have for white Australians.² Thus it is necessary to consider the structural position of Aborigines in Australian society.

Class position of Aborigines

In most areas, dispossession of Aborigines' land has meant that their own mode of production was destroyed. This, plus racism, has meant

that many Aborigines now have a marginal working-class position. For Aborigines the concept of a 'dual labour market' (Tabb, 1971) is the relevant one. Most are not in the main labour market. They are simply in another queue altogether.

Weineke argues that Aborigines have not become absorbed into the class system of capitalism. She says:

It is precisely the resistance of Aborigines to become incorporated into the working class or to adopt its ideological position that has permitted Aboriginal groups in central and northern Australia to retain many elements of their pre-colonial social structure. (Weineke, 1980: 275-6)

She goes on to argue that some groups on pastoral stations and in mining areas retain many elements of their pre-colonial mode of production. If these groups can gain *legal* and *productive* control of the land 'it would be possible for them to develop as independent communities articulated with capitalism only at the level of the market—i.e. through exchange relations' (Weineke, 1981: 271). If this were the case then the likely result would seem to be the type of structural pluralism described by van den Berghe (1967). However, the degree of 'independence' of such communities is likely to be constrained by the fact that they would be contained within one polity, a liberal democratic state, and an international capitalist economic system.

The concept of an 'internal colony' may be used in conjunction with that of the Third World to give a more complete picture of the processes at work which keep Aborigines an 'underdeveloped' people. This concept has received its most comprehensive elaboration in relation to the position of blacks in South Africa (Wolpe, 1975) and in the U.S.A. (Blauner, 1969; Carmichael & Hamilton, 1967). Its relevance for the position of Aborigines in Australia has been discussed by Hartwig (1978) and Jennett (1980b). The concept of the 'internal colony' is really only of use if one concentrates on the relationship between Aborigines on the one hand, and the state and local capital on the other, disregarding the international nature of monopoly capitalism (which of course means it is of very limited use).³

Aborigines as a national minority

In addition to their marginal working-class position, Aborigines are also a 'national minority' (or a series of national minorities) by virtue of their common cultural heritage and growing consciousness of racial unity, and because they are the original owners of the continent now known as Australia. As will be argued later, the national scope of government power and the international scope of capitalism is causing Aborigines to organise on a national scale.

As against their lack of integration as producers or consumers, Aborigines *have* been concerned with one aspect of class relations—property relations. Aboriginal groups have bitterly resented the dispossession of their land, as is witnessed by the fact that reserve dwellers

do not feel they should have to pay rent for houses on land that has been taken from their ancestors, and many groups are now claiming land on the basis of either traditional ownership or a 'needs' basis.⁴

Thus, if the state's role is largely to enforce claims of ownership, which will mostly be of non-Aborigines to land which Aborigines argue once belonged to their ancestors, and on which they have a just claim, it is hardly surprising if they view the state's role as not legitimate. As far as they are concerned, state organisations thus exist to enforce non-Aboriginal property claims against Aboriginal interest.⁵ Also, Aborigines are sometimes unable to see that it is ruling class white interests which are being met by this system of property relations. After all, if the majority of whites are better off than they are socioeconomically, it would seem that these other whites too are benefiting from current property relations—relative to Aborigines at least.⁶

If Aborigines have always resisted white governments' attempts to integrate them into the impoverished sections of the working class, why has land rights only become such a big issue since the Gurindji strike in 1966? Here it may be noted that the state enforces property relations through *coercion* as well as other means. Aboriginal lawyer and political activist, Pat O'Shane, in an address on Aborigines and the criminal law, argues that there can be no doubt that the capitalist criminal law is about the *protection of property and authority* (O'Shane, 1980: 32).

The extent to which Aborigines have been, and still are, in prison and in trouble with the police in numbers disproportionately high for their percentage of the total population has been the subject of much academic study.⁷ It has led some Aborigines to claim that their people are 'political prisoners'⁸ and also to the high priority placed on setting up Aboriginal legal aid services in the early 1970s. Thus it would seem that much Aboriginal 'co-operation' with white society has been brought about through coercion by police acting as 'enforcers' on behalf of the state. The fact that this is realised by politicians may be gleaned from attacks on the Aboriginal legal services made repeatedly by members of the Queensland and Western Australian governments.

Another tactic used by the state to integrate Aborigines into existing ruling class hegemony, has been assimilationist welfare measures such as early attempts by missionaries to 'civilise' and Christianise Aborigines, and later the forced removal of 'half-caste' children from their Aboriginal mothers, and dispersal of Aboriginal families by housing authorities.⁹ An explicit assimilationist policy was adopted in some States in the late 1930s, and by all authorities in 1951. Assimilation amounted to *ethnocide* (Roberts, 1978: 118), in that it was based on the assumption that all cultural differences should and would disappear.

Remaining in varying degrees racially and culturally distinct, Aborigines have not become assimilated. There are many reasons for this, besides those already mentioned. There are the contradictions inherent in the difference between the policy in theory and the situations in which it was implemented. Firstly, Aboriginal welfare practice and

legislation tended to linger in the tradition of control and segregation. Secondly, whites were racist towards Aborigines, both in their attitudes and their practice, and they did not want Aborigines living next door (Perkins, 1975).

The decade of the 1960s was a watershed in Aboriginal affairs as the policies to assimilate Aborigines brought more of their number to the cities (Gale & Brookman, 1975). This in turn meant that they were now visible to the majority of Australians and it also gave them access to media coverage of the conditions of their people and the nature of their protest. A policy of assimilation provided a yardstick to measure equality, and Aborigines clearly were not equal to the rest of Australians whereas under previous policies they had been meant to be separate and were so. In short, inconsistency between official policy and the facts of everyday existence, tends to make people more aware of injustice. Legitimacy was lacking in the new situation, although technically in 1962 Aborigines were admitted to citizenship of the Commonwealth of Australia.

Until 1966, protest by Aborigines was principally focused on gaining equal rights with whites by attaining the vote; lobbying to get the legal and administrative apparatus of segregation and control dismantled; endeavouring to bring about special projects in the educational and health fields, to help Aborigines 'catch up' on such aspects of the dominant society as would help them to lead fulfilling lives within it; and agitation for an end to informal racial discrimination against them. This sort of activity culminated in the 1967 referendum which resulted in Aborigines being included in the census, and gave the Federal Government powers to legislate for them.

The reason that Aborigines felt able to demand first the vote, then drinking rights, and later land rights and self-determination, was to be found in a variety of factors. At the most basic level, government agents—police mainly—were no longer able to use neck chains, shootings etc. to coerce Aborigines to stay in jobs they wanted to leave, or to respect property and behaviour codes of bourgeois society. The white electorate no longer accepted these measures as legitimate. Briefly, the reasons for this concern were the backlash against racism in many countries after the Nazi atrocities against the Jews in the Second World War; the war brought urban white Australians into contact with Aborigines living in remote areas and these people (mostly servicemen and women) saw the conditions under which Aborigines lived for the first time; and the sudden emergence on the stage of world politics of large numbers of independent black African nations in the early 1960s. Coupled with the socialist countries in world forums such as the U.N., these nations presented a powerful lobby against colonialism and racism in all its forms. These international factors were influential in opening 'up contradictions within capitalist nations with oppressed national minorities, giving rise to developments such as 'Black Power' in the United States.

All this meant that there was less opposition to Aboriginal political protest than there had been in the past. Also, the assimilation policy made manifest certain further contradictions in the situations in which Aborigines found themselves. Education became increasingly available to their children, and improved medical services meant that more of their children were surviving. Thus in the early 1970s there were quite a number of young Aboriginal men and women who were able and determined to communicate the extent to which their people were not integrated into bourgeois society to any other Australians who would listen, and they demanded that they listen. But to over-emphasise the role played by these educated spokesmen and women would be to under-play the key factor in the change in the style of protest politics adopted by Aborigines. This other factor is exemplified by the Gurindji's strike in 1966, which initially started as one over pay and conditions, but quickly escalated into a demand for land rights and self-determination (Hardy, 1972; Middleton, 1977; Jennett, 1980b). The Gurindjis were led by their elders, who pointed out that they could take this action now, but if their ancestors had done it they would have been shot. Thus lack of legitimisation for extreme forms of coercion would seem to have been a primary influence on the emergence of public displays of protest by Aboriginal groups.

Land rights and mining

The issue of Land Rights was first brought to the attention of the Australian public when the clans at Yirrkala sent a bark petition to the Federal Government in 1963 protesting against encroachment on their traditional lands by Nabalco Pty Ltd (*Identity*, July 1971: 3). This Swiss-Australian mining consortium planned to spend \$310 million at Gove in north-east Arnhem Land (an Aboriginal reserve) on bauxite mining, an alumina treatment works and a township for a thousand white employees. 'The people, who only 20 years before had been living their traditional hunting and gathering way of life, made a political protest of modern content although still in traditional form.' (SPA, 1978: 5-6)

The Gurindji Land Rights strike in 1966 sparked off Australia-wide organisation of the land rights movement (Hardy, 1972; Middleton, 1977). It provided an example of direct confrontation with the economic arm of the white power structure, and constituted a challenge to the concepts of private property and white ruling-class right to define the economic system of this country. The Gurindji stand initially appeared as part of a proletarianisation process with a strike over better pay and conditions for Aborigines employed as stockmen on a cattle station. However, it soon came to be seen as one over cultural and economic dominance, when the group attempted to regain ownership and control of the area of land which traditionally belonged to it. The Gurindji strike thus provides an instance in which protest on ethnic grounds evolved simultaneously with developing class consciousness. In order to regain

their traditional land they stood firm, although they were only a small group of a few hundred people against a British transnational company, Vesteys, which had a lease of Gurindji land (as 'Crown land') from the Australian government. The Gurindji strike was significant in that it could not be contained and distorted within the interpretative framework of 'criminal activity', in the way that previous attempts to retain or reassert control had been.

There emerged in Australia in 1969-72 a group, members of which were largely young and located in urban areas, which advocated the principles of 'Black Power'. As used by American blacks, Black Power was essentially a tactic of closing ranks around their race and forming a power base within it in order to challenge the white dominated capitalist system. The aim was to provide equality for blacks and whites. Whilst some branches of the movement advocated black separatism as an ultimate goal, others merely saw it as a temporary tactic (Lincoln, 1970; Carmichael & Hamilton, 1967; Davis, 1971). Although stylistically the Black Power movement was revolutionary rather than reformist, a proletarian consciousness was not predominant among activists. The pluralist underpinnings of this movement have been competently analysed by both Rustin (1971) and Lockwood (1970) as being self-defeating in the long term.

All these elements were to be found in the Australian movement. Black Power in Australia has been an attempt by Aborigines to bring about qualitative change in their people's life-style.¹⁰ It has been an attempt to gain power necessary to make those decisions which affect their lives fundamentally; through attainment of an economic base and equal opportunities, to achieve parity of status with non-Aborigines in a plural society. The economic base that was sought was not Black Capitalism of the type envisaged for blacks in the U.S. (Sethi, 1970), but Land Rights and just compensation for lands stolen, in the manner of settlements the American Indians had achieved.¹¹ Writing in 1969, Pittock argued the Aboriginal population was growing at such a rate that assimilation, even if it succeeded in individual cases, could not succeed for the majority. He noted that the number of Aborigines living in communities which were essentially segregated was increasing, 'so that economic, political and social development simply has to take place *in* those communities' (Pittock, 1969: 6).

The assimilation policy of 'skimming off the cream' of these communities and putting them in white society would not work. As the Borrie report (1975) pointed out, it left them deprived of their most able members. In fact Pittock observed signs that 'very slowly' the Federal government was coming to see this in a 'mixed-up sort of way'. Whereas ten years before it had been customary for the Northern Territory administration to regard all Aboriginal settlements as temporary, it now regarded 'them as sort of permanent' because it was building permanent buildings.

Aspects of the urban-initiated Black Power movement and the

Gurindji land rights struggle came to be fused as the two developed. The Gurindjis provided an indigenous symbol of protest for the Black Power advocates, who saw land rights and just compensation for lands lost as central to their cause (Jennett, 1980a).

In order to understand the basic issues over which Aborigines were protesting it is necessary to situate land rights and Black Power in their international context of anti-colonial liberation movements (which can be interpreted as including the American Black Power and Red Power movements). These were two sources of input into the political analysis of the urban Aboriginal activists, who set up self-help groups such as the Aboriginal Legal Service in Sydney in 1970, and the Aboriginal Medical Service and Breakfast Programme soon after. These organisations became prototypes for other such organisations throughout Australia and were a response to racism and Aboriginal poverty coupled with strategies for intervention on a self-help basis which were taken from the American Black Power movement. These groups were seen by the initiators as 'band-aid' operations until more general systemic change was forthcoming. The degree and nature of this change was the source of considerable difference of opinion. Attempts to situate such a change explicitly within a class framework brought about accusations that Marxists were 'using' the Aboriginal movement (which incidentally included some Aboriginal Marxists). As previously noted, in general the movement was characterised by its preoccupation with racial, ethnic, historical and socio-economic factors common to Aborigines as a group. The self-help groups combined the ideas and skills of Aboriginal activists (who reserved the province of policy-making for themselves) and white activists 'using their skills in a supportive manner'. White professionals such as doctors and lawyers also provided their specialised skills.

On 26 January 1972, Australia Day, three young Aborigines pitched a tent on the lawns of Parliament House, Canberra. The Aboriginal Embassy, as it was called, was launched in protest over Prime Minister McMahon's 'historical new statement of Aboriginal policy' (Harris, 1972). The aspect of the speech which really angered them was its denial of land rights in favour of 'general purpose leases' to be granted for fifty-year periods. Soon after McMahon's speech Hunt, Minister for Interior, issued a statement saying that freehold titles for Aboriginal communities were wrong because they would 'lock up substantial areas of land for small groups of favoured Aborigines'. Writing in 1972 Harris said that the Country Party (of which Hunt was a member) remained the main brake on Aboriginal advancement.

Although the term Black Power continued to be used by both Aborigines and the white media, the Aboriginal Embassy heralded the beginning of a general national land rights movement which focused on Aborigines's unique cultural heritage and history of colonisation. Some Aboriginal activists by now had been to the U.S., and could see that their people's situation had more in common with that of the American Indians than that of the American Blacks. Also, there was a tendency to

see Black Power as an 'urban' or even 'half-castes' movement. This tendency should not be overemphasised because there were also young people of unmixed ancestry from traditionally oriented groups who were stimulated by the idea. But basically the majority seemed to be more convinced that they were Aborigines and they needed land rights than that they were part of a Black Power movement. Furthermore, the case for land rights received its most sympathetic hearing from whites (especially after the passing of the 1976 Northern Territory Land Rights legislation), when argued in traditional terms or on the grounds of historical association (e.g. missions, reserves).

The authors of the Darwin-based Land Rights newsletter, *Bunji*, which is sent out from the Larrakia headquarters at Kulaluk, argue that the use of the words 'traditional ownership' and 'spiritual ties' is a trap. Such arguments, they contend, will cut off more and more Aborigines from their lands as it is impossible 'to make claims as though nothing has changed in one hundred years':

It is not justice to almost wipe out a tribe and then judge them by anthropology books—books that only tell a small part of Aboriginal history.
(*Bunji*, July 1978: 4)

Despite these sentiments it is possible to trace a continuing change in emphasis back from 'black' to 'Aborigine' from the period of the Aboriginal Embassy. This of course has not meant any less emphasis on pluralism.

The responses to this activity have varied with the political and regional complexion of the government concerned. In response to Aboriginal demands for self-determination which culminated in the tent embassy in Canberra, the Whitlam-led Labor Federal Opposition included in its 1972 election promises a policy of 'self-determination' and land rights for Aborigines. A view of society as composed of groups which are *equal but different* is usually called pluralism. Labor's self-determination policy grew out of this sort of pluralist world view.

Lorna Lippmann comments that we had 'now run the full gamut of policies towards an indigenous minority'. She notes that the only consistency between all these policies has been that 'their goals were never, in fact, fulfilled: and . . . they resulted from little or no consideration of the Aboriginal viewpoint'. (Lippmann, 1979: 173-4). In 1974 black British sociologist Chris Mullard evaluated the implementation of the policy of public servants and concluded that they were still committed to attitudes which assumed that Aborigines would become assimilated (Mullard, 1974).

The Whitlam government also initiated a land rights commission, set up a National Aboriginal Consultative Committee, upgraded Aboriginal Affairs to Departmental status and considerably upgraded spending on Aboriginal welfare generally, making a particular point of supporting Aboriginal self-help organisations such as the Aboriginal Medical Service. Despite all this it still basically allocated Aborigines an advisory role only. As well as being an attempt to improve the lot of Aborigines in

Australian society, the government's adoption of the rhetoric of self-determination may be seen as an attempt to integrate Aborigines into a liberal democratic political system as a legitimate 'interest' group. Thus it was now acceptable for Aborigines to assert their identity as a people and to demand reforms which would be specifically appropriate to their people. Nevertheless, in 1974 Mullard was able to conclude that 'self-determination' was a protectionist policy protecting white Australia from world criticism and 'Aborigines from attaining a self-determining status'. It also protected white business interests (Mullard, 1974: 12).

In theory, the concept of self-determination meant that Aborigines were to have autonomous decision-making power, and would thus be enabled to live as culturally and economically separate groups. This is the principle upon which apartheid is purportedly built in South Africa. However, any examination of that country must reveal the dangers inherent in putting such a policy into practice. The major problem is that the white racial group has control of the so-called independent African homelands through its stranglehold on their economies.¹²

In Australia under Labor it was never really envisaged that Aborigines would have the power to make decisions, but rather that they were to advise the government on the decisions which it would continue to make. The fact that some Labor spokesmen made statements, which Aborigines interpreted as meaning that they really were to have their own national executive in the form of the National Aboriginal Consultative Committee (NACC), led to much hostility between that body and the Department of Aboriginal Affairs (D.A.A., 1976). Nevertheless some significant initiatives were set up under Labor. For all its faults the NACC was the first attempt to introduce representative Aboriginal influence on decisions made at the national level. The subsequent Liberal Country Party has continued this initiative in the modified form of the National Aboriginal Conference.

In 1973 the Woodward Commission into land rights was set up and in 1975 legislation granting land rights to Northern Territory Aborigines was drafted. This was subsequently passed in a diminished form in 1976 by the Liberal Country Party government.¹³

Under the Liberal Country Party government elected in December 1975 the policy has been one of self-management, which would also appear to involve a pluralistic concept of Australian society. The Liberal and National Country Party's Aboriginal Affairs policy recognises 'the fundamental rights of Aborigines to retain their racial identity and traditional life-style or where desired to adopt partially or wholly a European life-style'. In view of the 1980 Noonkanbah dispute and that over Mornington Island and Aurukun reserves in 1979 the following section of the policy document is especially worthy of note:

A special obligation is also imposed upon us all to provide opportunities for Aborigines to preserve their traditions, languages and customs from further encroachment and destruction where possible. Aboriginal values are an intrinsic part of Australia's culture and heritage. We are part of each

other. Without mutual respect and support for each other's cultural integrity we cannot secure our personal identities and complement each other's enterprise as we should. (Preamble to Liberal Country Party Aboriginal Affairs Policy, November 1975)

In 1977 the Minister for Aboriginal Affairs (Ian Viner) informed the joint Committee on Aboriginal Land Rights in the Northern Territory that 'the Government has the broad policy of encouraging and developing Aboriginal self-management and Aboriginalisation in Aboriginal Affairs' (*Report of the Joint Select Committee on Aboriginal Land Rights in the Northern Territory*, 1977: 29). He said that consistent with this the government saw 'land councils, as wholly Aboriginal bodies, having a very important role in the future administration and development of Aboriginal land in the territory'. Stewart Harris raises an important political point when he says that governments can ignore groups which are their own creations such as the NAC (National Aboriginal Conference) and previously the NACC. Thus these are not effective organs for self-determination. On the other hand, Harris feels justifiably that bodies such as the Northern and Central Land Councils do have some real autonomy, partly because they are products of parliamentary legislation which he sees as representing a 'kind of bipartisan consensus of society', and also because they are based on property, on inalienable freehold ownership of land, which is a symbol and fact of power in Western society (Harris, 1979: 58).

The Land Councils derive independent incomes from royalties from Aboriginal-owned land and this gives them 'a choice to make and pay for their own policies' even where these are not what the Federal Government would wish. Harris emphasises the fact that whilst Prime Minister Fraser and Minister for Aboriginal Affairs Viner paid no attention to the NAC when negotiating the Mornington Island/Aurukun dispute, they both, plus Minister for Trade and Resources Anthony, flew to Darwin with the NLC chairman and executive when the NLC was negotiating with the Ranger consortium. Harris finds it 'sad' that the NLC's powers of self-determination were ruthlessly limited and it was obliged by the Act (and the government's power to amend it) to accept uranium mining in the 'national interest'. In this case it would seem that transnational corporations are having their interests met rather more than are the Australian people in general or the Aborigines in particular.

Ranger also illustrates another problem for full realisation of development of Aboriginal/European relations along pluralistic lines—white politicians and businessmen dominate the setting of priorities for what is in the 'national interest'.¹⁴ Any Aboriginal agenda of priorities will always be secondary to this because of their small number and the fact that their political power only exists within parameters defined by white politicians. Thus there is criticism from Aboriginal quarters that the appropriate owners did not sign the Ranger agreement and suggestions that the few who did sign were subjected to extreme political pressure and did not know that they were signing the actual agreement.¹⁵

Aborigines in the Northern Territory do not have the power to determine whether or not uranium mining will take place on their land. *The Aboriginal Land Rights (Northern Territory) Act 1976*, Section 45 (1) states: 'Where the Minister for Aboriginal Affairs is satisfied that a Land Council has refused, or is unwilling, to give its consent to the granting of a mining interest . . . the Minister may, after consultation with the Land Council . . . appoint an Arbitrator . . . to determine the terms and conditions of the agreement'. Marcia Langton, then General Secretary of FCAATSI, said that given that the traditional owners and Aboriginal people generally do not want uranium mining:

. . . why does the Northern Land Council continue to negotiate with the companies and the Governments for a greater share of the profits? The answer is simple: they have no choice. They put the views of the Aboriginal people to the Ranger Inquiry and to the Government and they were ignored ' . . . their opposition should not be allowed to prevail' [Second Ranger Report, p. 9]. Their opposition has never been in doubt; in face of a perceived inability to stop the mining, they have the right, in fact a statutory obligation, to negotiate with the companies and sign an agreement concerning the conditions under which mining should go ahead. If they don't participate, the Government will sign on their behalf, and they will get the proverbial bugger-all. (Langton, 1978: 9)

So although Harris (1979) and Tatz (1980) are correct to emphasise the potential power of the Land Councils as opposed to other local councils or the NAC, the Councils' power is also circumscribed by Federal and State Governments' powers to apply legislative, economic and even physical coercion. Sleight of hand is also at work. *Bunji* comments 'while the Northern Land Council talks, the big mining companies are busy behind their back, meeting the "traditional owners" out in the bush' (1978: 7).

The Central Australian Land Rights News sums up the position of the N.T. Land Councils when it says that they are under serious threat because it is a different era now compared to the time when they were fighting for their own right to exist and for the Land Rights Act to be passed. 'They have to recognise that they are walking the razor's edge between genuine influence with Government and being just another public service body.' (No. 12, May 1980: 3)

The Central Land Council, based at Alice Springs, is the other land council set up under the Northern Territory land rights legislation. It adopts a more critical stance towards mining and development than the Northern Land Council is currently doing.¹⁶ The CLC views the Northern Territory government's proposed amendments to the land rights legislation with alarm (pp. 7-9, *CLC News*, No. 13, July 1981: 5-9). Basically the Northern Territory government argues that 'Aborigines who own a pastoral lease to a cattle station should not be able to make a land claim to it'; 'Aborigines should not be able to claim national parks'; and 'Mining companies should not always have to have the permission of traditional owners to mine' (*CLC News*, July 1981: 5).

Many Australians assume that since the Federal Government passed the *Aboriginal Land Rights (N.T.) Act 1976* it is just a matter of time before Aboriginal groups have freehold title to their land. This is not so. Land rights in the Northern Territory, especially freehold title, are currently under severe threat from these proposed amendments. Whilst the Northern Territory government does appear to be genuinely concerned with Aboriginal health and welfare it does not always see these as connected with land rights. This, of course, is the one thing Aborigines want—inalienable freehold title to land—as a base for future development of their people's well-being.

Senator Peter Baume, Minister for Aboriginal Affairs has stated that Aborigines who comprise 2% of the Australian population, hold 9.6% of the land (738 032 sq. km, more than half inalienable freehold). However, this figure included reserves and leaseholdings as well as freehold. 'Aboriginal freehold now totals 361 700 sq. km in the Northern Territory and 106 763 sq. km in South Australia. Ten years ago there was nothing' (Baume, 31/10/81: 10). He claimed that there were different ways to achieve land rights and outlined four principles which his government in July 1981 set down as essential to any satisfactory outcome (with particular reference to Queensland). They were:

- the integrity of present reserve boundaries to be maintained;
- secure tenure for occupants and preservation of their rights to use of the land;
- local communities to play a significant role in the management of the reserves;
- full consultation with Aboriginals and Torres Strait Islanders before any decision is made. (Baume, 31/10/81: 4)

At the same conference at which Senator Baume made these statements, Opposition spokesperson for Aboriginal Affairs, Senator Susan Ryan, and Aboriginal activists speaking from the floor, said land rights did not mean 'secure tenure'—it meant 'inalienable freehold title'. However, Senator Baume's statements indicate the attitude the Federal Government is likely to adopt towards the Northern Territory government's attacks on freehold title.

At a meeting with the Central and Northern Land Councils and Senator Baume in August 1981, Paul Everingham (First Minister of the Northern Territory) is reported to have placed extreme pressure on the Land Councils to agree to certain amendments. Under the Crown Lands Act, provisions exist for small areas of land to be cut out of pastoral leases and handed over to Aborigines for economic and living purposes. There have only been ten such excisions in the ten years since this was made possible. These excisions and any land purchases for Aborigines give them leasehold title to the land. As the 1976 Act now stands any land held by or on behalf of Aboriginal people may be converted to Aboriginal freehold title.

Everingham asked the Land Councils to abandon claims to stock routes and their objection to the removal of the conversion clause. He

threatened that if the Land Councils did not agree to this then the Northern Territory Government would alienate all unalienated Crown Land and that the legislation to do this was packaged 'ready to go'. This move is a direct attack on Aboriginal freehold title to land which the Northern Territory government wishes to replace with special purpose leases or sub-leases. The Land Councils bought time by arguing that they could not commit themselves without first consulting their people. They were due to report back later. Information is that the Federal Government will not object to the removal of the conversion clause, and Senator Baume's speech certainly leaves the possibility open if the term 'land rights' is to be applied by the Federal Government to a variety of titles.

In October 1981 Swiss Aluminium Ltd, faced with declining alumina demand, decided to halve production at the Gove alumina plant in the Northern Territory. This action will result in the dismissal of 200 to 250 workers employed by the corporation at Nhulunbuy which is on the Gove Peninsula (*F.R.*, 28/10/81: 1). On the same day BHP announced that it would be scaling down production of manganese at its Groote Eylandt mine by approximately 20% because of the sustained slump in the world steel industry. In the same month Peko-Wallsend announced its decision to close the Gecko mine and smelter at Tennant Creek. These announcements mean that hundreds of non-Aboriginal workers are to be dismissed from their jobs.

The predictable response of the Chief Minister, Everingham, was to lobby the Federal Government and the Northern Land Council for an immediate start to the Jabiluka and Koongarra uranium mines. One cannot help but note the difference in response to threats of high unemployment rates among whites as against the chronically high unemployment rates among Aborigines. The Aborigines who are permanent residents in these isolated areas are to have their lives disrupted, perhaps devastated by 'get-rich-quick' transient transnational corporations and the Australian labour aristocracy. Senator Baume has stated that he will not allow negotiations to be rushed, and that he is sure that the two experienced negotiating teams involved will not be influenced by public statements by Northern Territory politicians (Interview ABC 'AM', 29/10/81).

Added to this, the Northern Territory government has contested every land rights claim put forward by Aboriginal groups. Thus it is not surprising that Aborigines in the Territory can never rest secure even when they do have 'inalienable freehold title'.

A further example of the Federal and Northern Territory governments' roles in relation to the Northern Territory land rights legislation, is the issue of Kakadu National Park, and the excision of the area around the Nourlangie catchment area to allow the Koongarra uranium site to be mined. The Federal Government has granted a mining lease of the uranium deposit to the Canadian company, Denison Mining. Tatz says:

In many ways, Kakadu is a microcosm of Australian Aboriginal issues in general, of a policy plus becoming a practice minus, of what Professor Bernard Smith calls a 'morality gap'. (Tatz, 1980: 38)

There have been many 'morality gaps' between Aboriginal policy in theory and practice. The problem would appear to be the powerlessness of Aborigines as an 'interest' group by comparison with transnationals and bureaucrats, and the fact that governments are not neutral. In the main Australian politicians are either businessmen or professionals. Anglo-European Australians have a culturally based unilinear idea of 'progress' and 'development', as being represented by technological control over nature to produce more and more consumer goods. Anything which can be represented as producing profits, jobs and/or consumer goods is defined as 'development'. However, frequently what this has brought about for Aborigines is 'underdevelopment', dispossession and hardship.

The crucial determinant of Aborigines' success in gaining land rights and of improving their economic position generally, is their relative powerlessness to impose *their* definitions of 'natural interest', 'land tenure' etc. Also their dependence on Governments, State and Federal, for implementation of policy concessions which they are able to gain, adds to this powerlessness. At both Federal and State levels, whites retain firm control of the sphere within which Aborigines may 'advise' on decisions made affecting them. So any notion of pluralism is heavily mediated by this, as was exemplified in the signing of the Ranger agreement. The latter provides an example of Federal/Aboriginal relations over land rights.

In general the Federal Government has been reluctant to use the power granted it by the 1967 referendum. This means that granting land rights has been left up to the States, and some real progress has been made in South Australia and New South Wales. In the former State, the Dunstan Labor government vested ownership of Aboriginal reserves in an Aboriginal Lands Trust, and this was followed up in 1978 by a Bill aimed at giving the Pitjantjatjara people inalienable freehold title to a large area of land. The Tonkin Liberal government watered down this proposal, but the net result was that the Pitjantjatjara in 1981 received freehold title to about 10% of the land area of the State. However, this did not confer an absolute right of veto over mining the land; and comparable concessions were not made to other South Australian Aboriginal groups who were less cohesively organised than the Pitjantjatjara.

In New South Wales the *Aborigines Act 1969* vested freehold title to land in reserves in an elected Aboriginal Lands Trust. The title carries with it rights to all minerals except gold and silver. Then, in 1980, a Parliamentary Select Committee on Aborigines recommended recognition of land rights. The extent to which this will be implemented remains to be seen as the Wran Labor government, though sympathetic, has hedged its position on the score of cost.

In Queensland, strong coercive actions against Aborigines at Mapoon and at Aurukun/Mornington Island have illustrated the Bjelke-Petersen government's previous outright rejection of the concept of land rights and Aboriginal control over mining. Its position on land rights was

modified in 1981 to acceptance of the concept of 'perpetual leasehold'. The government remains committed to a policy of assimilation which regards Aborigines simply as Queenslanders. In practice, this means opening up reserves to mining companies, especially transnationals interested in bauxite, and land developers. As the Rev. Jim Downing pointed out:

The Queensland government is guilty of a hypocritical abuse of power in granting freehold title to a large tract of land to a Japanese investor (Iwasaki) . . . while at the same time granting leasehold only to the original owners of the land at Aurukun and Mornington Island. (*Australian*, 30/5/78: 8)

In West Australia also, the State Government bears down heavily on Aborigines objecting to the activities of mining companies such as CRA and AMAX. Thus the government organised a para-military operation to break opposition to oil drilling at Noonkanbah in 1980. Aboriginal protests were led by the Kimberley Land Council (KLC), which was unable to prevent drilling but did succeed in a campaign to unify Aboriginal people to an unprecedented extent, enlisting wide support for their stand.

Noonkanbah provides an excellent example of pressure group tactics at work. If a group is not powerful enough on its own to force governments to listen to it, then it must enlist the support of other more powerful pressure groups. In this case the ACTU and the Uniting Church took strong stands, and National Aboriginal Conference (NAC) representatives went to Geneva to lobby the United Nations on behalf of the Noonkanbah people. KLC members have also visited Europe and North America, as they are very aware of the common problems indigenous peoples experience at the hands of 'colonising' governments and trans-national corporations. Howitt's studies of the corporate strategies of AMAX and CRA were commissioned by the KLC. Noonkanbah may well be a battle lost in a war that is just beginning.

The actions of both the West Australian and Queensland governments provide clear evidence in support of the argument that bourgeois governments play the role of the executive for capital. Actions of other Australian governments do at times appear to be influenced by other considerations. The Commonwealth Government is currently defending its Racial Discrimination Act against the Queensland Government's repeated refusal to allow transfer of title to land to Aboriginal communities. Against this can be shown the Federal Government's complete backdown over Mornington Island and Aurukun and half-hearted attempts over the Noonkanbah dispute. Senator Baume (and previously Senator Chaney) point to the South Australian Pitjantjatjara land rights legislation as a model of what can be achieved by State/Federal co-operation. Whilst this agreement did not meet all the Pitjantjatjara's initial specifications, it is certainly a large step forward for land rights in South Australia. However, where State governments have an entrenched anti-land rights stance, as do those of Queensland and West Australia,

reliance on co-operation to bring about a solution is likely to lead 'nowhere fast'.

The current Federal Liberal/National Country Party coalition government's policy of 'self-management' and 'self-sufficiency' may be seen as an attempt to further integrate Aboriginal demands into bourgeois hegemony. If Aboriginal communities refuse to dissolve and Aboriginal people refuse to think and behave as whites do then they must be integrated as communities. The commitment to granting land rights throughout Australia begun by the Whitlam government is one social reform which the Fraser government has attempted to continue, albeit not yet to the satisfaction of the majority of Aboriginal communities. Some State Governments have begun to move in this direction also. However, what the developments so far have in common is the element that 'now you have the land you *have* to agree to mining in the "national interest"'. Also a policy of 'self-sufficiency' could well be used to lock Aborigines into a motivation to encourage mining to pay the 'welfare' bills.

In his speech opening the Liberal Party's 1980 electoral campaign, the Prime Minister, Malcolm Fraser, coupled the term 'self-management' with that of 'self-determination'. Whether this was meant to indicate any change in direction for future government policy remains to be seen. To promote self-management and self-sufficiency, the government passed the *Aboriginal Development Commission Act 1980*. The ADC replaces the Aboriginal Loans Commission and the Aboriginal Land Fund. The most surprising thing about the ADC is that its ten members (all Aboriginal) are to be *appointed* by the Government (after the Minister has consulted with the National Aboriginal Conference) rather than elected or selected by Aboriginal groups. The Government has the power to dismiss Commissioners as well as appoint them. Also, it has not relinquished power over policy matters. The Commission is to 'perform its function and exercise its powers in accordance with such general directions as are given to it by the Minister in writing' (*ADC*, 1980: 5). Arguably this is not even consistent with a policy of self-management and it is a far cry from self-determination.

It is too early to assess the impact of the ADC but it is important to realise that it operates within constraints set by a non-Aboriginal government. There is suspicion amongst some Aboriginal groups and their supporters that its purpose is to phase out government funding for Aboriginal programmes. Since there is no guarantee of future government funding, 'many people involved in the ADC are suggesting that the Commission will be expected to find its own funds to operate future programmes' (*KLC Newsletter*, March 1981: 22). It is easy to postulate such a development after the Fraser government's announcement of further measures aimed at scaling down 'big government' and offloading responsibilities onto State Governments, especially in areas where a 'duplication' of services has taken place. If the states wish to retain services at their existing levels then they must find the money themselves.

The main possibility for an alteration of the direction in which Aboriginal policy is currently going is the election of an interventionist federal Labor government in 1983. Such a government might reverse the trend towards diminishing the role of the Department of Aboriginal Affairs, at least until State Governments give acceptable undertakings guaranteeing land rights and self-determination for their Aboriginal inhabitants. How far such measures might go towards achieving self-determination may be glimpsed in the ALP's guideline to its 1980 election policy on Aboriginal Affairs. It stated that a Labor government would 'replace appointed Commissioners with ones selected by Aboriginal bodies such as the National Aboriginal Conference' (West, 1980a). Also, since the Liberal/National Country Party government had not provided ongoing funding for the ADC, a Labor government would provide adequate finance for the administration of the ADC to enable it to fulfil the *consultative, management and advisory* roles envisaged by a Labor government' (West, 1980a). Thus it can be seen that although the Australian Labor Party is committed to self-determination for Aborigines, this is not conceptualised as amounting to the self-government which the term implies.

Conclusion

Whilst there has been some progress in the area of land rights, with Aborigines gaining freehold title to approximately 6% of Australian land since the Aboriginal tent Embassy of 1972, the majority of groups in all states remain without land rights. Where Aborigines do have title to their land they are still in practice, if not in theory, unable to have any decisive control over mining developments on it. Whites are always finding new uses for Aboriginal land—but for Aborigines? One direction is indicated in a recent outburst by one of Australia's foremost mining magnates—Lang Hancock when he stated that part-Aborigines should be sterilised and the 'full-bloods' sent to the Ord River Scheme. In December 1981, the Australian Mining Industry Council launched a campaign aimed not only at halting the land rights movement in the Northern Territory but at reversing decisions already made. The Council, a powerful body, claims that land grants already made are excessive.

The other direction in which some white Australians are headed is indicated by the Treaty Committee headed by Dr Coombs (Harris, 1979). The Committee believes that if freely negotiated between representatives of Aboriginal Australians and Torres Strait Islanders and the Commonwealth government, such a treaty would finally recognise the status and rights of Aborigines as the original owners of Australia. The issues raised by the Treaty Committee have been the subject of widespread discussion and consciousness-raising amongst some sections of the Australian public. In theory, all major political parties support the move, and the Senate Standing Committee on Legal and Constitutional Affairs is to hold a public enquiry into the feasibility of a formal agreement between

the Federal Government and the Aboriginal people. However, the terms of reference of the committee relate to the legal and constitutional aspects of implementing a treaty, and how it could be implemented. The enquiry will not deal with political or social aspects or with proposed contents. The main question mark hanging over the treaty move is: how will a treaty fundamentally alter the situation for the Aboriginal national minority, when the political and economic context in which it would operate will not also be fundamentally changed? At the November meeting of the Federation of Aboriginal Land Councils at Alice Springs, it was decided to oppose treaty/makaratta negotiations until the Federal Government recognised the Aboriginal people as a sovereign nation and not a subject people (*SMH*, 28/11/81).

True self-determination, self-management and self-sufficiency come with power to control production and distribution of resources. Currently Australian governments permit transnational companies to exercise this power, especially and more crudely, in areas where Aboriginal groups are claiming land on the basis of traditional association. Therefore, as Weineke argues, Aboriginal independence rests as much with the efforts of the Australian people to gain effective control of this country's resources, as it does with Aboriginal groups to press for the conditions which will lead to their own independence (Weineke, 1981: 272-3). But as Marcia Langton (1977: 59) points out—Aborigines are the most rapidly evolving section of the Australian community and they are not waiting for the rest of us!

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- 1 See Report of Australian Government Commission of Inquiry into Poverty 1974, 1975(a), (b). In October 1981 the results of a survey by Professor Charles Rowley revealed that more than half the adult males in N.S.W. country towns were unemployed. Professor Rowley had surveyed the same households in 1965. The 1981 survey found that unemployment among the Aboriginal families has more than doubled in fifteen years (21% compared with 53%). Seventy-five per cent of the people in the survey owned less than the equivalent of \$100 in personal property (*SMH*, 20/10/81). The latest *national* survey of poverty amongst Aborigines is provided by the World Council of Churches' report, *Justice for Aboriginal Australians*, which paints a similar picture.
- 2 For a useful discussion of the process of legitimisation see R. Miliband *The Capitalist State*, Quartet Books Limited, 1973.
- 3 S. Thiele (1980) reaches much the same conclusion in his case study of an N.T. Aboriginal-owned enterprise, the Yugul Cattle Company.
- 4 See M.F. Keane, 1980, *Aboriginal Land Rights and Sacred and Significant Sites*, First Report from the Select Committee of the Legislative Assembly Upon Aborigines.
- 5 E.g. Mappoon and Noonkanbah actions described in this essay.
- 6 The dossier entitled *Land Rights Queensland 1981* contains a cartoon from a newspaper of the American Indian people, depicting an ugly miner in a helmet eating trees and landscape, on which the editor has commented that while it's fashionable to blame large corporations for consuming Indian land and water, and while it's true they do, we should realise that the '*European/American life-style itself is the ultimate consumer—the corporations are the harvesters*'.
- 7 The director of the Australian Institute of Criminology, Mr William Clifford, during his delivery of the J.V. Barry memorial address, said: 'as against Australia's rough proportion of 60 per 100 000 persons imprisoned for the population as a whole, the

- Aboriginal proportion was 726.5 per 100 000'. In Western Australia, the Aboriginal prison population was notably even higher than this (*SMH*, 1/10/1981).
- 8 For a coherent political analysis of blacks in gaol as *political* prisoners, see Angela Davis, *If they come in the Morning*, parts 2 and 3.
 - 9 In 1981 the Task Force for Aboriginal Children estimates that in N.S.W., approximately one in every twenty-five Aboriginal children is living in some form of non-Aboriginal substitute care. This is twelve times the rate for the non-Aboriginal population.
 - 10 The first Aborigine to talk about applying Black Power locally was poet Kath Walker in June 1969, when she returned from a World Council of Churches *Consultation on Racism* in London, with a new sense of urgency for black Australians to take the lead in advancing their own cause (Jennett 1980a). She argued that the role of whites in Aboriginal Affairs should be *supportive* (see Cordero & Jennett, 1980).
 - 11 Limitations of these settlements for Indians have since become apparent. See e.g. P. Quinn, 'More on Land Rights', *National Outlook*, July 1980. See also M. Steketee, 'Plunder and ruin on the reservations', *National Times*, 13-19 July, 1980.
 - 12 The National Campaign for Land Rights and Self-Management in Queensland makes a useful distinction between land rights and apartheid. 'The difference between *apartheid* in South Africa and *land rights* for Aborigines in Australia is absolutely fundamental. *Apartheid* in South Africa involves the *forced removal* of Africans from places where they have been living, in most cases, for many generations, to the most barren, non-productive areas of South Africa ...
- Land Rights* in Australia involves the wish of Aboriginal people to remain on their traditional land, the land they always lived on, and identified with.. They demand the right to do with that land whatever they like; a right which anyone would expect to have, with land that belonged to them. *Land Rights* also included the legitimate claim for compensation by those Australian blacks whose land has been stolen, who have been dispossessed and continue to be exploited by the European invaders' (1981: 23).
- 13 For a critique of the 1976 land rights legislation, see G. Eames, *Land Rights or a Sell Out*, Central Land Council, Alice Springs, 1976; and *Aboriginal Land Rights Action Booklet—Extend the Freeze! Amend the Bill!*, Aboriginal Land Rights Campaign, Redfern, 1976.
 - 14 See, for example, the statement by Galarrwuy Yunupingu which is quoted in C. Jennett, 1970: 372-3.
 - 15 Personal communication from Pat O'Shane, Co-ordinator of the Aboriginal Task Force to the N.S.W. Select Committee on Aborigines.
 - 16 A. Heatley has correctly noted the changing Aboriginal attitude to mining exemplified by the Northern Land Council. However, he does not draw attention to the degree of pressure (both seductive and coercive) to which Aboriginal communities have been exposed and therefore his is a somewhat ahistorical view (Heatley, 1980: 18).

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6

HIGGINS AND ARBITRATION

HUMPHREY McQUEEN

FOR EDNA RYAN

The truth is, there must be sanction behind the award—there must be whip to crack in aid of the driver's voice.

H.B. Higgins to F. Frankfurter
25 January 1920¹

IN THE AFTERNOON of 13 January 1929, Henry Bourne Higgins returned to his mansion on the Mornington Peninsula from his customary walk to nearby Arthur's Seat. Around seven that evening he collapsed, and half-an-hour later was dead.

To mark his funeral, the Melbourne Trades Hall Council flew its flag at half-mast, a rare, perhaps unique, honour for someone who had never been a member of the official Labor movement. Melbourne Trades Hall secretary, Holloway, described Higgins as 'Australia's greatest public man of the last half century'.² A month before, the Italian Prime Minister, Benito Mussolini, had written to Higgins asking for a copy of his book, *A New Province for Law and Order*.³ In a perceptive and sympathetic obituary, the Melbourne *Argus* noted that in the early part of his career Higgins was 'regarded as a Radical, but would now be considered a Conservative'.⁴

It is the radical Higgins who has come down to us in history books: Higgins the opponent of an undemocratic constitution, opponent of the Boer War, independent Attorney-General in the first Federal Labor ministry of 1904, and, above all, the workers' friend who established a basic wage so that all Australians could live in frugal comfort.

To sort the truth from the legend would require not just a biography of Higgins but a thorough investigation of more than two crucial decades of Australian history. Such an investigation cannot even be sketched here. Instead, the authorised version of Higgins as the workers' friend will be tested around one important decision, namely, his resignation as

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President of the Conciliation and Arbitration Court on 25 October 1920. In approaching this vantage point some estimation of Higgins's thirteen years as the self-appointed initiator of a new province for law and order will be necessary.

The article opens with a reconsideration of Higgins's 1907 *Harvester* judgment in light of Marx's concept of wages as the socially necessary cost of reproducing labour power; it next examines the conflict built into the twin aims of preventing and settling disputes; a glance at the publication and context of his essay 'A New Province for Law and Order' leads on to Higgins's expanding sense of his own importance as an exponent of the 'Law' before we note the impact of his son's death in the Great War; mounting industrial unrest after 1916 is then outlined and a final section deals with Higgins's resignation and some of its consequences.

The socially necessary costs of reproducing labour power

Higgins was commissioned as a High Court Judge on 13 October 1906, having already told the Prime Minister, Alfred Deakin, that he would wait a year before starting work as the President of the Conciliation and Arbitration Court so as to be above any suspicion that his parliamentary career was influencing his industrial outlook.⁵ On taking over the Presidency on 14 September 1907, Higgins was at once involved in the case that made his name: the *Harvester* judgment. He had to decide if certain makers of farm machinery were paying what Parliament had unhelpfully called 'fair and reasonable' wages which would entitle them to an exemption from Commonwealth Excise tax. For at least a decade before the *Harvester* judgment, Higgins had openly supported some form of trade-off between protection for firms and a minimum wage for workers.⁶ Higgins found that 6s 6d a day was not 'fair and reasonable', but that 7s would be (2 C.A.R. 7).

Despite the great importance which many writers have since given to this decision, its impact at the time was limited. Peter Macarthy has shown how little interest most unions took in it, partly because 'Higgins set a minimum standard which had already received widespread approval'.⁷ If he had accepted the family budgets submitted to him he should have set the minimum at 7s 9d a day. Higgins himself hesitated 'between 7s and 7s 6d; but I put the minimum at 7s, . . .' (2 C.A.R. 7). This none too generous award was still higher than many unskilled workers were to receive for several years hence, especially from State industrial tribunals.

Higgins was unknowingly setting the basic wage according to Marx's analysis of capitalism. Marx argued that wages were the socially necessary cost of reproducing labour power. A wage-earner's labour power has to be reproduced on a daily basis: shelter and warmth supplement food in order that the wage-earner can have the strength to perform work for a further eight to ten hours. Commenting on one family's budget,

Higgins noted that 'This inability to procure sustaining food . . . is certainly not conducive to the maintenance of the worker in industrial efficiency.' (2 C.A.R. 6). Reproduction is more than a daily business and extends from one generation to the next so that wages have to provide for a wife, children and the latter's education so that they will become fitted, physically and mentally, for work. Higgins recognised in his first judgement that he was providing for a man, his wife and children when he based his determination of 7s a day on the fact that after rent and food a worker getting 6s 6d a day would have only 3s 7d a week to spend on a long list of household and work needs including life insurance, savings, accident or benefit societies, loss of employment and school requisites. In 1917, he re-affirmed 'that whatever we do we must see to it that the families, the children who are to take up the work of the country, be properly nourished and housed; . . .' (11 C.A.R. 404).

The family, or generational, basis of the minimum wage was made even clearer in his 1912 award for fruit pickers. If a job was generally done by men, then an occasional woman doing that work was entitled to the full male wage; if the job was generally done by women then a lower rate applied because her wage had to keep only one person, and not a family of five (6 C.A.R. 70).⁸ By the end of the Great War, employers were objecting to paying a family wage to single men, or to a man with a wife but no children. This matter came to crisis point when the Royal Commission into the Basic Wage reported late in 1920 that a fair and reasonable wage would be £5 16s 0d a week, instead of the prevailing £3 17s 0d⁹; the higher amount was almost equal to that paid to a skilled tradesman. The Commission's chairman, A.B. Piddington, suggested that

the desired result can be secured by a basic wage of £4 per week paid by the employer to the employee, and the payment of an endowment for all dependent children, whether three, or less, or more, in the family at the rate of 12/- per week.¹⁰

This endowment was to be paid for by a tax on all employers. Higgins seemed amenable to some such scheme although he was testily critical of the Commission itself which, he said, had received faulty terms of reference and had failed to distinguish 'basic' from 'typical' wage. Higgins intimated that Piddington had been too generous while his own Harvester judgment 'erred on the side of moderation' (15 C.A.R. 305). Other items on Higgins's 1907 list underline that his starting point for deciding the meaning of 'fair and reasonable' were the 'normal needs of the average employee, regarded as a human being living in a civilised community' (2 C.A.R. 3). Here the examples include union dues, books and newspapers, amusements and holidays, intoxicating liquors, tobacco, religion and charity. Marx had a similar understanding of the *socially necessary* costs of reproducing labour and observed that the English workers needed their beer while the French had their wine.¹¹

In raising some wages from 6s 6d to 7s a day, Higgins, like Marx, rejected the notion that there was an iron law which kept all wages at

those of the lowest paid worker, and would prevent any real increase in wages. In the 1908 Marine Cooks case Higgins acknowledged the forces which helped to keep wages low:

Much was made of the fact that in spite of all those disadvantages he does not take a job on shore. But it is not easy in such circumstances as his to go looking for a job on shore; and shore butchers prefer men who are used to shore work. This same argument, 'Why do you take the job?' is used as to all complaints about low wages and bad conditions; but it has little effect on my mind—or on the mind of any one who knows how human beings are driven to enter the service of others by the grim spectre of unemployment at their heels, and by the still more terrible spectre of hopeless pauperism never far behind. (2 C.A.R. 72)

In granting an improvement, Higgins was expressing the altered social attitudes in which wages were determined. Because of the organised labour movement—with its strikes, unions and parliamentary activities—a new standard of civilisation was being established, and the socially necessary costs of reproducing labour power thereby increased. The setting up of the Conciliation and Arbitration Court was itself a measure of these changes, just as much as Higgins's outlook was a continuing factor in altering the meaning of *socially necessary*.

In the Marine Cooks case he refused to 'make an award on the basis of conditions which are unnecessarily unwholesome or degrading—in other words, to treat shipowners as entitled to purchase the right of treating men as slaves or as pigs' (2 C.A.R. 60). In the 1909 Broken Hill Proprietary case he sounded much more thorough-going: '... if it is a calamity that this historic mine should close down, it would be a still greater calamity that men should be underfed or degraded' (3 C.A.R. 34). Higgins did not translate these high-minded preferences into economic prescriptions; there is no sign that his judgments forced the closure of firms, let alone entire industries. Few employers disputed that they had the capacity to pay a living wage, which is not surprising given the modest level set by Higgins's Harvester judgment, which also had the long-term effect of holding back the margins paid to craftsmen for their particular skills.¹²

To 'prevent' or to 'settle'

In 1908, the provisions of the 1906 Act relating to Duties of Excise under which the Harvester decision had been made were declared unconstitutional by a majority of the High Court, Higgins and Isaacs dissenting (6 C.L.R. 41). Henceforth, Higgins applied his 'Excise Tariff Standard' to wages by virtue of section 51(XXXV) of the Constitution which empowered the parliament to make laws with respect to 'the prevention and settlement of industrial disputes extending beyond the limits of any one State'.

From the outset, Higgins made clear the difficulties which faced him in this area. Under the *Excise Tariff (Agricultural Machinery) Act 1906* he

had to decide what was meant by 'fair and reasonable'. Higgins thought it was not only unfair and unreasonable, but positively dangerous for a judge to have 'to deal with social and economic problems':

It is the function of the Legislature, not of the Judiciary, to deal with social and economic problems; it is for the Judiciary to apply, and, when necessary, to interpret the enactments of the Legislature. But here, this whole controversial problem, with its grave social and economic bearings, has been committed to a Judge, who is not, at least directly, responsible, and who ought not to be responsive to public opinion. Even if the delegation of duty should be successful in this case, it by no means follows that it will be so hereafter. I do not protest against the difficulty of the problem, but against the confusion of functions—against the failure to define, the shunting of legislative responsibility. It would be almost as reasonable to tell a Court to do what is 'right' with regard to real estate, and yet lay down no laws or principles for its guidance.

In the course of the long discussion of this case, I have become convinced that the President of this Court is put in a false position. The strength of the Judiciary in the public confidence is largely owing to the fact that the Judge has not to devise great principles of action as between great classes, or to lay down what is fair and reasonable as between contending interests in the community; but has to carry out mandates of the Legislature, evolved out of the conflict of public opinion after debate in Parliament. I venture to think that it will not be found wise thus to bring the Judicial Department within the range of political fire. These remarks would not be made if the Legislature had defined the general principles on which I am to determine whether wages are fair and reasonable or the reverse. But I shall do my best to ascertain by inference the meaning of the enactment; and Parliament can, of course, amend the Act if it desire to declare another meaning. (2 C.A.R. 3)

Here, on the third printed page of his Harvester judgment, are the major problems which Higgins met during his thirteen years as Arbitration Court President.

During that period Higgins changed his attitude on the crucial point concerning the confusion of the functions of the Legislature and the Judiciary, and this change provided more than enough reason why his particular Judicial Department stayed 'within the range of political fire'. In 1917, Higgins declined the government's request to de-register the Waterside Workers Federation and then objected when Hughes tried to do so by employing emergency war powers. In reply, Hughes chastised Higgins for forgetting that 'the Judiciary has nothing at all to do' with 'the exercise of the Executive's powers of government'.¹³ Not only had Higgins moved forward into a new province for law and order, but he eventually resisted the Legislature when it used its power to amend the Arbitration Act; indeed, so much did he object that he resigned his Presidency of the Court. Higgins did not see himself as usurping the functions of parliament. Rather he believed that he was upholding long-standing legal principles which were crucial to liberty, justice and the rule of law itself.

Higgins did not come to Conciliation and Arbitration work with any

grand notions of establishing a new province for law and order. Ideas, correct or not, arise from social practice. His generalisations grew out of the cases before him. As can be seen in the passages cited above from his 1907 Harvester judgment, he began by wanting the parliament to set down some ground rules so that his role would be that of interpreter. It was not just his usual scrupulousness which led Higgins, in 1907, to tell the Attorney-General, L.E. Groom, that '... I never sought the position, as I am not sure, till I try, whether I am fitted for the task. It is not on the lines of my training'.¹⁴ This last remark was only partly true. Higgins had taken the student prize in political economy under W.E. Hearn and in 1875 failed to obtain a temporary lectureship in history because he had declined to give up his legal work. His experience as a colonial, and then a Commonwealth, parliamentarian for eleven years, plus his membership of the 1897-98 Federation Convention, gave him an understanding of the social and political implications of his position. His diligence, not to say pedantry, was to allow him to master the details of the hundreds of trades in which he had to determine extra rates of pay for skilled workers; here he kept up his vast reading of economics and industrial management.

Yet it is true that he had few, if any, precedents to guide him. Even if at first he did not wish to be, he was involved in a new province for law and order. In his 1909 BHP judgment, he pointed out:

The duties of this Court are sufficiently onerous as they stand; and I have no intention to claim in addition the powers of a benevolent despot. Nothing would injure this Court more than a general belief that it is eager to meddle in matters as to which its intervention is not sought; ... (3 C.A.R. 73)

This self-restraint need not be taken as a statement of Higgins's well-considered intentions. But it is an indication that after two years as President of the Conciliation and Arbitration Court he was still so overwhelmed by detail that he was not yet anxious to pronounce any new philosophy of law.

There were certain legal principles and procedures which Higgins could apply to his work. Frederic Eggleston remembered Higgins as 'a stickler for rights, personal and otherwise, his fees for instance'.¹⁵ Higgins was always concerned with the dignity of his Court, and of his person as a Judge of the High Court. Employers found his tone offensive. He appeared to believe that Judicial impartiality entitled him to smite them hip and thigh whenever they fell below his standards. The virulence of some of the employers' attacks are studies in class hatred. As E.C. Dyason noted they were not accustomed to being described as 'modern highwaymen',¹⁶ by someone from their own social class. Union officials welcomed Higgins's verbal outbursts almost as much as they did Higgins's judgments on their behalf; harsh words against the bosses helped them to accept the continuing deficiencies of his Harvester Standard and his consistent refusal to award preference to union members (e.g. 11 C.A.R. 287).

Within the first year of his Presidency, Higgins had spelt out two interlocking principles which led him into conflicts with Prime Minister Hughes after 1916. The first principle was expressed in terms of the interests of employers. In the *Harvester* judgment, Higgins said that he was 'impressed with the importance and the justice of uniformity as between manufacturers . . .' (2 C.A.R. 7). It would be unfair to award different wage rates to workers in different factories just because rents, for instance, were lower in Adelaide than in Melbourne. Firms had to be treated equally in terms of wages as a cost of their production. Here Higgins was helping to establish Australia as one market, free not only from colonial tariff barriers, but from sharp variations in costs. Because Higgins was restricted to disputes extending beyond any one State, his imposition of uniform wage rates was limited. The Engineers Case in 1920 (28 C.L.R. 129) shifted the balance of power markedly in favour of Commonwealth Laws. Before this decision could take effect, Higgins had resigned his Presidency and the increased Commonwealth powers were used to hold back wages and conditions obtained from State governments and State Industrial tribunals.

The second principle which Higgins accepted came in his 1908 *Marine Cooks* judgment. He began by repeating his complaints about the lack of legislative guidance and by reasserting his definition of 'fair and reasonable' as those conditions which allow 'a man to live from his labour, to live as a human being in a civilised community'.^{*} Then followed a new consideration which carried lasting and vital significance:

But I have to look all round the subject, and see that I do not create more disputes than I settle. There are not wanting indications, for instance, that the superior advantage given to the seamen's union by the respondents in their agreement made with it have provoked comparisons and stimulated discontent . . . and have contributed to the organisation of the claimant union . . . and if I were to make an award unduly liberal in this case, if I were to be benevolent with other people's money, other men who are not affected by the award might become discontented. The Act requires me (secs. 16, 18) to 'prevent' as well as to settle industrial disputes; and I have to see to it that I do not create other disputes in settling this—that I do not loosen a dozen nails by driving in one. (2 C.A.R. 61)

By giving weight to the need to 'prevent' as well as to 'settle' industrial disputes, Higgins embarked on a course which led to his wartime clashes with Hughes and finally brought on his resignation. Although he later denied that he wanted to meddle in matters not brought before his court,

* By the time of Higgins's resignation this attitude was accepted by others working in the area. Starke J. put Higgins's position better than Higgins ever did: 'The base wage . . . is fixed . . . to enable the unskilled workman to keep himself, a wife and three children in reasonable comfort without feeling the pinch of poverty' (15 C.A.R. 369). It needs to be stressed that the weight of this 'settled doctrine of this Court', to use Starke's phrase, was always on avoiding poverty rather than establishing any measure of comfort. In addition, the doctrine depressed wages for females and retarded the earnings of tradesmen as well. The basic wage dealt with poverty, not with civilisation or comfort.

that is precisely what 'prevent' required of him. In settling one dispute he had to imagine other disputes that might flow from it. Ultimately, this preventive function combined with his personal sense of dignity and importance to turn him into a 'benevolent despot'. The formulation of his work as a new province for law and order was a necessary stage in this progression towards upholding what he, by then, conceived of as fundamental principles of law and order, against the whims of politicians.

A new province for managerialism

Tied down to the detail of making awards, Higgins had little opportunity to realise the significance of what he was doing. Towards the end of his first term as President, he took leave and travelled to Europe and the United States. In America, he met Professor (later Justice) Frankfurter who subsequently described him as 'the greatest Australian he had met'.¹⁷ Higgins's work was of special interest to American liberals and progressives who were attempting to contain the openly violent class warfare of their society. Higgins's achievements offered just the kind of judicial solution that appeals to reforming lawyers. Through their interest and encouragement, Higgins gained a vision of himself as a significant contributor to jurisprudence. The academic preferment he had denied himself was now coming to him by way of his practical legal efforts.

The *Harvard Law Review* wrote in April 1915 asking Higgins to send an article 'Especially on such a topic as Labor Law . . .'¹⁸ On receiving the article four months later, the editor told Higgins what he longed to hear:

Many lawyers here will say that it doesn't deal with a legal topic. To me the principles and precedents that you have worked out seem to be of the essence of law—a new branch of jurisprudence that must be scientifically studied and developed.¹⁹

That Higgins still needed others to tell him what he had done is underlined by his informing Frankfurter that

The name that I chose for the article (*A New Province for Law and Order*) was influenced, I confess, by the desire to placate any old-fashioned subscriber to the '*Harvard Law Review*'.²⁰

In 1922, Higgins collected the three articles into a book which he submitted to the University of Melbourne for a doctorate. In the aftermath of his resignation he was more than ever in need of scholarly recognition and was prepared to submit himself to possible humiliation in order to achieve it. His 'thesis' was accepted and he was awarded a Doctorate of Letters on 11 June 1923.

One of the examiners, Graham Wallis (Foundation Professor of Political Science at the London School of Economics) reported that Higgins's book contributed 'to human knowledge in the same sense as are chemical or physical principles worked out by a distinguished scientist in his laboratory; . . .'²¹ This interpretation of Higgins's efforts deserves further consideration. In *A New Province for Law and Order*

Higgins began a chapter by pointing out that there were three aspects to his work and that each aspect appealed to a different group. Employers wanted to know if Arbitration reduced strike activity, while workers wanted to know if it improved their lot. The third group, with which Higgins presumably identified himself, were 'those who study the development of law and order in human relations' and they were interested to know 'how far the use of human life for industrial processes has been reduced to system and standardised' by his Court.²²

Despite this heavy emphasis on standardisation, Higgins was never an advocate of scientific management as applied to work processes. In his Harvester judgment he recognised that an employer 'can make the work as monotonous and as mind-stupefying as he thinks to be for his advantage' (2 C.A.R. 17). The choice of language hardly suggests that Higgins approved of Taylorism. His 1914 tour of the United States convinced him that 'it is in America that the danger of the de-humanising is greatest; ...'²³ Addressing the Millions Club in Sydney three years later Higgins told employers that 'from first to last' they should remember 'that employees are human beings with human needs ... They are not machines or automata, but human beings with their lives to live—...'.²⁴ The closest he came to endorsing scientific management was in 1919 when he tried to disarm critics of his call for increased productivity by quoting Lenin's support for Taylorism.²⁵ This comment was little more than a debating device since Higgins favoured tradesmen against attempts to reduce the skills required in their crafts (e.g. 12 C.A.R. 386; 14 C.A.R. 306 & 465 but cf. 383).

Like a large number of reformers at this time, Higgins advocated some form of worker participation. He did what he could by creating 'boards of reference' 'at which representatives of employers and employees meet to discuss details and grievances'.²⁶ He read and admired the ideals of the guild socialists, but found their programme unworkable.²⁷

If his reference to standardisation did not mean that he favoured scientific management, what was it about? The answer is to be found not only in his writings but even more in the intellectual concerns of his peers. From the late 1890s, British and American governments were frightened by the rise of Germany, and many Anglo-Saxon intellectuals became concerned to promote something they called 'National Efficiency'. This term covered a wide and sometimes conflicting range of ideas and practices—eugenics, racial purity, compulsory military training, infant and maternal welfare, slum clearance—to name a few.²⁸ Some of these could be politically progressive, while others were decidedly reactionary. Higgins was in touch with Australians who took up all or some of these notions: Frederic Eggleston, Meredith Atkinson, Vance Palmer.²⁹ Higgins subscribed to the progressivist United States weekly, *New Republic*. When he spoke of systems, standardisation, or law and order, he was not necessarily referring to any particular proposal to re-organise society. It is as likely that he intended to convey his general interest in the orderly management of human and natural

resources. Or even just his recognition that other people, whom he respected, were interested in these issues. His own particular interest in standardised systems came from his efforts to impose orderly wage rates that would keep workers, in all their grades, content and out of poverty.

As a member of the bourgeoisie who had sided with the workers' cause in parliament, and then as a judge who had, at least, to appear to be impartial, Higgins was encouraged to see himself situated above classes, and as one of society's managers, beholden to neither side, but committed to the orderly conduct of affairs on behalf of the broadest and longer-term interests of what he understood to be the Australian community. 'It is our duty', Higgins wrote in 1921, 'to keep a watch on ourselves, to study sympathetically the difficulties of the class to which we do not belong'.³⁰

The true embodiment

A decade of judicial experience, plus the esteem brought by the appearance of his article in the *Harvard Law Review*, gave Higgins an added sense of his own importance. In 1911, many of the technical changes which Labor Attorney-General Hughes had made to the Conciliation and Arbitration Act were based on suggestions from Higgins.³¹ Far from the Parliament declaring another meaning and overturning his inferences, Higgins was able to get his wishes translated into laws. When Hughes was planning further amendments in 1917, he again consulted Higgins but was no longer willing or able to follow his advice. Higgins saw the Act as his own preserve and in the covering note to the changes he proposed to it he told Hughes in 1917 that

The words which I have used will sufficiently show the nature of the amendments that I propose; but I am not committed to the exact verbiage.

At the same time, the fiasco produced by the departure from my suggestions as to boards of reference show that any substantial change of verbiage should be put before me for reconsideration.³²

Two months later, Higgins sent Hughes a long explanation for the changes he had previously been able only to sketch out because of the urgency of Hughes's request for suggestions.

In five and one-half typed, double-spaced, foolscap pages, Higgins's commitment to law and order was detailed. He wanted the Crown to be able 'to apply for a variation of award, as a matter of discipline and in the public interest'. He wanted sympathetic strikes forbidden in almost all instances. He wanted his powers to commit for contempt to be broadened to cover 'contempts published in the press etc.'. Alongside these strengthenings of the Court's coercive powers, Higgins recognised that justice had to be seen to be done. The penal provisions for striking currently had to go to magistrates who were 'regarded as more amenable to the pressure of the executive or of infuriated public feeling'; thus penal powers should be transferred to his jurisdiction. But these were all secondary points to his major proposal which brought together the two

principles which he had put forward in 1907-08: uniformity and prevention:

At present the Court can deal with disputes only. It cannot make a common rule applicable to employers who are not in the dispute as well as those who are; and the award may do injustice as between employers in competition.

On the other hand, the State tribunals are admittedly embarrassed by the fact that they cannot prescribe the same wages and conditions for employees in other States as for employees in their own States ... This difficulty, of interstate competition, applies even to the fixing of the 'basic wage' ...

It is submitted that the same authority as deals with the tariff—the Commonwealth authority—should have power to deal with the labor conditions affected by the tariff.

A central appellate Court could bring State tribunals' decisions into harmony, and prevent comparisons such as engineer industrial trouble.³³

Important as these suggestions were in themselves and informative as they remain concerning Higgins's outlook, they were of little value to Hughes who was interested primarily in the immediate war, not in general legal principles, and did not follow Higgins' suggestions on any point.

Higgins's conflict with Hughes began in earnest in December 1916 when the New South Wales coal miners' refusal to resume work led Hughes to purpose the first of his special Tribunals. Higgins refused to be a party to this procedure because it broke his rule about not arbitrating under coercion, and more particularly because he claimed that Hughes did not want him to arbitrate at all but merely to rubber stamp a deal already arrived at with the mine workers. As he explained to Frankfurter:

I declined to arbitrate in such conditions. From his point of view, the Prime Minister was right in trying to get the coal at all costs; but if I had lent the forms of the Court to such a farce, the Court would have lost all its influence as a judicial institution.³⁴

Just before submitting his suggested Arbitration Act changes to Hughes in 1917, Higgins explained to a Sydney friend that the year before, when the wharf labourers had refused to load food for export because such exports tended to raise food prices in Australia, 'I managed to get a quiet talk with some of the ringleaders and they came to work. This year, Hughes has taken the matter in hand, and I do not interfere'.³⁵ The implied disapproval of Hughes's interference would have been obvious to anyone accustomed to Higgins's irony.

It is possible that Hughes had resented Higgins since 1904 when Higgins joined the first Commonwealth Labor ministry as Attorney-General even though Hughes was a qualified barrister. Early in 1913, Hughes—by then Attorney-General—made some remarks which Higgins thought capable of being interpreted as the government trying to get him to resign.³⁶ Undoubtedly, Hughes would have found Higgins far too

haughty and reserved to fit in with the rough-house politics at which the Prime Minister excelled. Any disagreement over policy would not have been eased by their years of personal contact. In the aftermath of the 1917 general strike in New South Wales, and faced by Higgins's refusal to join with him in battle against the Waterside Workers Federation, Hughes lost all patience with Higgins and threatened to have him taken off Arbitration work.³⁷ Higgins resented the government's failure to consult him about the terms for the Basic Wage Royal Commission and may also have been piqued by the appointment of Piddington as its Chairman (15 C.A.R. 302).

The Great War

Higgins was by no means remote from the war and its demands. His only son and sometime Associate, Mervyn, had enlisted in 1914. Woodrow Wilson's call in 1916 for a League of Nations immediately appealed to Higgins:

We must organise the international State, with international policies, with international Courts. My view is that there is no subject of dispute which should be treated as, ultimately, non-justiciable. They told us that labour disputes were non-justiciable as there were no principles of right to guide us; but we found principles—invented principles, if you like—drew them from the storehouse of justice and humanity.³⁸

Two months later his son was dead, killed in action in North Africa, two days before Christmas. Six weeks afterwards Higgins wrote to his niece, Nettie Palmer:

I thought I had steeled myself for an event like this; but I had not. The first thing that raised me from the slough of despond was a passage that I read written by one Felix Adler—I suppose 'Made in Germany'—'The love thou canst no longer lavish on one, the many call for it'. Poor aunt Mary and I are trying to be brave and cheerful towards life, because he would have us so. This may seem priggish; but it is genuine.³⁹

At New Year, at Easter and again in July 1917, Higgins wrote forty-eight line poems with the titles 'The Shadows on the Slope', 'The Grave at El Magdhaba'⁴⁰, and 'The New Communion'. Just before the first anniversary of Mervyn's death, Higgins sent Frankfurter a photograph of his dead son: 'This is a fancy of mine which you will forgive—a desire that our American friends should see what our boy was like; and I feel secure when I commit a thing so sacred to you'.⁴¹

He continued to write to Frankfurter in this unprecedently personal way for several years, possibly because the great distance between them precluded the embarrassment of a meeting where Higgins's confessions might infect their conversational ease.⁴²

Reading those letters today it is impossible to be unmoved by the old man's grief. Sometimes he finds it hard to persist in his work but then 'it cheers me to fancy that I am doing just what my boy would like me to do'.⁴³ At other times he accepts that 'My grief has condemned me to hard

labour for the rest of my life'.⁴⁴ At the end of 1919 he had an operation on his antrums and was suffering with gout. As the year of his resignation began he needed 'all the aids that I can get; for I am weak enough sometimes, to feel a profound discouragement'.⁴⁵ Just before he stepped down from the Presidency he replied to Frankfurter's optimistic suggestion that progress need not be a straight line by asking 'what ground have we for assuming that there is progress, in the highest sense, at all? ... The war has upset many of our complacent theories; and I think of my boy'.⁴⁶

For Higgins, the war was more than the clichéd destroyer of liberal hopes. On top of his age—seventy in 1921—and his illnesses, there was the ever-present loss of his only child. Although he could never admit such weaknesses to himself, his decision to resign was taken when his health and his determination were less than they had been.

Disorder

The ingredients for Higgins's decision to resign were coming together. In opposition to Hughes's willingness to enter into deals with certain strikers in order to keep war production going, Higgins looked beyond the war to the lessons that the use of force, as strikes, was teaching the workers. As he explained to Lord Bryce: 'The Government asked for the arbitration ... and now that the Government has not got all it wanted, it kicks. It is a most sinister example to set the Unions'.⁴⁷

This fear grew. Not only were strikers learning that lawlessness could pay, but those who did not strike soon found that they were left behind and their relative margins for skill overturned so that they were also forced into disputes, and into strikes. The same thing had happened in England where 'Lloyd George and the Government are largely to blame. They have yielded when the pressure was strong, have granted concessions unsystematically; they have thus created anomalies which the workers are quick to exploit'.⁴⁸

For 'Lloyd George', read 'Billy Hughes'.

In Australia, Hughes settled a seamen's strike by arranging for the men to get what they wanted for once. Higgins was totally opposed to these deals:

I have made the road of access to the Court easy for the Union: but I have declined to act until the men resume work. I have explained that I cannot do what appears to be just while the men are using the strike weapon. I cannot act under such coercion.⁴⁹

If Higgins had followed his fancies he well might have granted the workers anything they wanted, always providing they had asked for it in Court so that he could be seen to hand it down to them. 'Capitalism can pass away, but the authority of the Law must be maintained', seemed to be the logic of his priorities.

When workers sought victories outside his Court by striking, Higgins was more determined to break their power than was the Government. At the peak of the 1919 Seamen's strike he urged the Government, in

Hughes's absence at the Peace Conference, to 'keep firm now to its principle of no concessions under the coercion of strike . . . , and it is better to have the struggle now than to have many struggles later'.⁵⁰

Higgins's relations with Acting Prime Minister Watt were open, if correct, and this encouraged Higgins to advise Watt on the conduct of the dispute:

... may I point out the essential points just now are to keep the other unions on your side, and to reassure the public as to Walsh (in jail) not being singled out as the one victim? If you saw your way to call the industrial disputes committee to see you, express your sense of their endeavours to aid the community, and to get their approval of any attempt to man the ships (even some of them), it would be of much use. To man *some* of the ships with the acquiescence of the Trades Hall would be a great advantage. Then there might be an intimation in the press that the Government never intended to prosecute Walsh alone, but that you are collecting the evidence against the Union, Le Cornu and others. I feel sure that there are many men in the country who could act as competent deckhands and firemen.⁵¹

So committed was Higgins to his notion of law and order that he found himself calling for the imprisonment of even more union officials in the name of equality; and for the use of scab labour on the ships. So complete was his faith in the Court and its principles that he, of all people, could suppose that his friends on the Melbourne Trades Hall Council could enrol the scabs for him.

At the close of the war the militants led more and more unionists into the direct action of strikes and away from Arbitration. Higgins's niece, Nettie Palmer, reported that 'the men who a few years ago would have suffered the Court for the sake of its President are now so cynical about the Court that they doubt its President's sincerity too'.⁵² Higgins's public attacks on striking unionists meant that this reaction was more widespread than Nettie Palmer could bring herself to believe. In June 1920, Higgins accused Melbourne's striking gas workers of 'Prussianism' after misrepresenting their claims.⁵³ In a letter to her brother, Esmonde Higgins, Nettie Palmer attributed this particular instance of their uncle's support for law and order to his being 'too pathetically in love with his Court'.⁵⁴ Esmonde was in England at this time and about to join the Communist Party there. In 1923, he published a scathing review of Higgins's *A New Province for Law and Order* under the title 'Peace by Order'.⁵⁵ Esmonde moved rapidly and sharply to the 'left' from 1918 onwards, to the annoyance and admiration of his uncle whose perplexed response was the measure of the disorientation he experienced in the face of war and revolution. In broad, the war made Higgins less sympathetic towards capitalism while the prospect of revolution made him more determined than ever to uphold the rule of law in industrial matters.

Resignation: decision and consequences

On Hughes's return to Australia he once more settled disputes while strikes were in progress. Higgins refused to shift from his position of no

arbitration under coercion. For him, the 'prevention' of more disputes was by now more important than was the 'settlement' of existing ones. As a consequence of this stand, almost every week saw some new pressure or conflict surrounding Higgins's public work; and there were private griefs and alarms to focus the point of his retreat.

In April 1920, Higgins asked and advised the Waterside Workers Federation to boycott any special tribunal which Hughes might set up to deal with its application to restore preference in employment for its members. Higgins described the proposed tribunal as 'unconstitutional and even illegal', a violation of the 1689 Bill of Rights which forbade the Crown to set up novel tribunals without statutory authorisation (14 C.A.R. 284). For as long as the Waterside Workers flirted with the idea of a special tribunal, Higgins refused to agree to their application to hasten the expiry of their Award (14 C.A.R. 286). In July 1920, the Industrial Peace Bills were given their Second Reading in the House of Representatives where Hughes made it clear that tribunals were to be used if, but only if, exceptional industrial circumstances arose. A week later, Higgins attacked the exceptional status of these tribunals and intimated that their existence might oblige him to resign as President of the Conciliation and Arbitration Court. The public conflict between Hughes and Higgins crescendoed in September 1920 around the Merchant Service Guild dispute which came about when the ships' officers tried to catch up with increases for engineers, seamen and stewards who had all got higher wages through strikes which Hughes had had settled.

Higgins believed that by these out-of-court settlements

... the Prime Minister has, as it were, thrown scrap iron into the machinery of wage fixing; and it is for me to try to bring order out of the chaos. This feeble, feckless, reckless practice of yielding to men when they strike, and only under constraint of strike, must obviously foster strikes; ... (14 C.A.R. 469).

To Hughes, Higgins's refusal to arbitrate under the coercion of a strike, like his concern to maintain due proportion in wages between the various trades and between grades of tradesmen,⁵⁶ was simply obstructionist.

On 25 October 1920, and just after the Industrial Peace Acts became law, Higgins announced that he would begin no new cases and would retire from the Presidency as soon as he had finished the cases in hand. His second seven-year term was due to expire in September 1921. In announcing his resignation, Higgins issued a lengthy statement of his reasons which centred on his opposition to the appointment of special tribunals to deal with exceptional disputes in particular industries:

From the nature of the case, any such temporary tribunal must be merely opportunist seeking to get the work of the particular industry carried on at all costs, even at the cost of concessions to unjust demands, and of encouraging similar demands from other quarters. On the other hand, a permanent Court of a judicial character tends to reduce conditions to a

system, to standardise them, to prevent irritating contrasts. It knows that a reckless concession in one case will multiply future troubles.

If his years of patient standardisation were to be pushed aside by emergency arbitrators, he saw no point in continuing his labours. 'A tribunal of reason cannot do its work side by side with executive tribunals of panic.'⁵⁷

This last sentence was the crux of Higgins's argument. The law was a continuing thing and respect for it was a slow growth that needed great care. From the early tasks of solving a dispute here and a strike there, Higgins had gained a wider view of his role, until he saw the Court, and perhaps himself, as a working example of the rational liberal spirit that had suffered so much in the war, in subsequent revolutions, and by the collapse of his long-standing hope for a peaceful path towards home rule for Ireland, the country of his birth.

Hughes's reasons for wanting to be rid of Higgins were less philosophical even if they were no less complex. Hughes opposed Higgins's willingness to give workers higher wages and shorter hours, just as much as he opposed Higgins's refusal to give them anything when they were on strike. To Higgins, Hughes appeared 'vain, vindictive, reckless—does not know the psychical effects of his conduct on the workers'.⁵⁸ To Hughes, Higgins's rejection of political realities was likely to 'do more harm than good',⁵⁹ and by April 1920 he had come to 'the opinion that the Arbitration Court as constituted at present should be abolished'.⁶⁰ From this conviction came the Industrial Peace Acts.

What divided Higgins from Hughes was something quite unusual in Australian political life. Both were centralists, both favoured more governmental activity and both accepted that wide-ranging social reform was the best way to prevent revolution. They disagreed in their conception of the law in that Higgins was a Burkean conservative against Hughes's Machiavellianism. Like all successful parliamentarians, Hughes approached laws as things to amend according to the demands of the times; Higgins accepted this attitude, but only to a point, and believed that beyond and around specific laws there was 'the Law', that which held each Act and verdict in place. Hughes tended to seek immediate answers to get himself out of particular problems, whatever the long-term cost; Higgins looked to the long-term interests of capitalism by defending the Law as the foundation for all social life. Gramsci's categorisation of intellectuals as 'organic' and 'traditional' should not be applied to the careers of individuals but reserved for particular functions. On this issue of upholding the 'rule of Law', Higgins performed as a 'traditional' intellectual. His overall work in establishing a new province for law and order may also be considered as 'traditional' but this description is less clear-cut. What remains unusual in the clash of Hughes and Higgins was that Higgins's outlook was held by someone with so great a capacity to influence hourly events in the class struggle. Such differences are normally argued between remoter authorities, professors of jurisprudence or a High Court full bench.

Under its moderate and Australian Workers Union leadership, the Melbourne Trades Hall Council expressed its 'profound regret' at Higgins's pending resignation and hoped that 'his services may be retained in the interests of social justice and industrial peace'.⁶¹ The Government was preparing to undo the mischief which Higgins had done. They appointed Mr Justice Powers to the Presidency of the Conciliation and Arbitration Court. Before his appointment to the High Court in 1913, Powers had been Queensland's Solicitor-General and he continued to see himself as a public servant employed to do the government's bidding rather than as an independent judge of the High Court. It is difficult to speak too lowly of Powers's abilities or probity. He had been Deputy-President to Higgins till April 1920 and resigned because his judgments regularly undercut those given by Higgins.⁶² In 1925, he summed up his career as President when he asked the government to recommend him for a knighthood on the grounds that he had refused to endorse the 39/- increase recommended by the 1920 Royal Commission in the Basic Wage, that he had restored the 48-hour week, and that he had cut 12/- a week from the wages of fitters and turners:

All these were very unpleasant duties but necessary in the interests of the Commonwealth. *As to worry:* Imagine for eleven years refusing requests to increase the basic wage and to grant claims the workers believe thoroughly in but which if granted would do them more harm than good—where men have families of more than two it is hard work to insist on them getting the basic wage—but at present that has to be done.⁶³

Without waiting for Powers to take charge, Cabinet set up a sub-committee 'to enquire as to the effect and application of the recent 44 hours per week decision of Mr Justice Higgins'.⁶⁴ Not that Powers would have needed much help in working out what he was there to achieve.

* * * * *

In deciding to resign, Higgins doubtless believed that the motives set down in his statement of 25 October 1920 were the only ones operating on him. His entire life and training obliged him to believe that 'nothing but the strongest reasons would induce me to abandon the trust before the appointed time'.⁶⁵ He could no more give in than believe that his son would have fled before an enemy. Yet we do not have to doubt his sincerity in order to accept that other forces were at work undermining his determination: his grief and his gout; his age and his long service; somewhat less creditably, his annoyance at being pushed aside by the government and by many workers.

All these reasons were held in place by forces which Higgins knew largely by their results. When he penned his resignation the world of his manhood was gone, its pervasive optimism shattered. In place of prospects for a liberal, competitive and rationally-based system there was the brutalising reality of monopoly capitalism with its Janus children of war and revolution. His beloved Ireland was broken and bleeding from

unholy wounds of hate. For reasons beyond the control of his court, industrial strife was increasing. A great and futile war had taken his only child. A great and frightening revolution was claiming his only nephew. For all its poignancy, Higgins's resignation was much more than the defeat of one man of good will.⁶⁶

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- 18 G.C. Henderson to H.B. Higgins, 13 April 1915, NLA MS 1057/1/233.
- 19 Henderson to Higgins, 26 August 1915, NLA MS 1057/1/238.
- 20 H.B. Higgins to F. Frankfurter, 14 December 1915, NLA MS 2525.
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- 30 On Seeing Both Sides, op.cit., p. 4.

- 31 G. Sawer, *Australian Federal Politics and Law, 1901-1929*, MUP, Melbourne, 1956, p. 96; *C.P.D.*, vol. 61, 31 October 1911, pp. 2005-6.
- 32 Higgins to Hughes, 13 August 1917, AA, CRS A2/20/3306.
- 33 Higgins to Hughes, 12 October 1917, AA, CP 103/22/5.
- 34 Higgins to Frankfurter, 16 December 1916, NLA MS 2525; see also 11 C.A.R. 994.
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- 37 *C.P.D.*, vol. 83, 26 September 1917, p. 2735.
- 38 Higgins to Frankfurter, 15 October 1916, NLA MS 2525.
- 39 Higgins to Nettie Palmer, 30 January 1917, NLA MS 1057/1/269.
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- 42 cf. Higgins to Alfred Deakin: 'There are many things a man may say in writing which he may not say face to face', 14 October 1906, cited in J.A. La Nauze, *Alfred Deakin*, MUP, Melbourne, 1965, Vol. II, p. 418. Like John Latham and Keith Murdoch, Higgins struggled with a speech impediment.
- 43 Higgins to Frankfurter, 16 September 1918, NLA MS 2525.
- 44 Higgins to Frankfurter, 17 September 1918, NLA MS 2525.
- 45 Higgins to Frankfurter, 25 January 1920, NLA MS 2525.
- 46 Higgins to Frankfurter, 1 May 1921, NLA MS 2525.
- 47 Higgins to Lord Bryce, 28 September 1918, NLA MS 3732.
- 48 Higgins to Bryce, 27 February 1919, NLA MS 3732.
- 49 Higgins to Professor A.E. Zimmern, 23 July 1919, NLA MS 3731.
- 50 Higgins to Senator Millen (acting for Acting PM), 29 July 1919, AA, CRS A2/1919/2420 (Part 1).
- 51 Higgins to W.A. Watt, 2 August 1918 (sic, 1919), AA A2/1919/2420 (Part 1); see also my "Shoot the Bolshevik! Hang the Profiteer!" Reconstructing Australian Capitalism, 1918-21", in E.L. Wheelwright & Ken Buckley (eds) *Essays in the Political Economy of Australian Capitalism*, vol. 2, ANZ Book Company, Sydney, 1978, pp. 185-206; this present article corrects some of the views expressed on pp. 195-7 and p. 205, n. 67.
- 52 Nettie Palmer to Vance Palmer, 11 June 1919, NLA MS 1174/1/2180-1.
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- 56 Buckley, *The Amalgamated Engineers in Australia*, op.cit., Ch 20-22; Tom Sheridan, *Mindful Militants*, Cambridge University Press, Cambridge, 1975, pp. 63-79.
- 57 Higgins's retirement statement, 25 October 1920, AA, A457, K 303/1/-; for years afterwards Higgins tried to get his statement and his subsequent replies to Hughes included in the Commonwealth Arbitration Reports. For the relevant correspondence see NLA MS 1057/1/485, 489, 491-2 & 494-5.
- 58 Higgins to Zimmern, 28 December 1920, NLA MS 3731.
- 59 W.M. Hughes's minute on memo from W. York Syme, 12 March 1920, AA CRS A2 20/774.
- 60 Cabinet Minutes, 13 April 1920, NLA MS 1538/155.
- 61 *Argus*, 25 February 1921.
- 62 C. Powers to H.B. Higgins, 23 October 1918, NLA MS 236/2/917 and 14 C.A.R. vii-xii.
- 63 C. Powers to L.E. Groom, 16 April 1925, NLA, MS 236/2/854. Powers got his knighthood in 1929 when he resigned from the High Court on a pension of £1500 a year after having his son as his associate since 1913.
- 64 Cabinet Minutes, 27 June 1921, NLA MS 1538/155/2.
- 65 Higgins's Retirement Statement, 25 October 1920, AA, A457 K303/1/-.
- 66 cf. my "We Are Not Safe, Clarence, We Are Not Safe"; Sentimental Thoughts on "A Moody Bloke", *Meanjin* 36, 3, October 1977, pp. 343-53.

THE IMPERIAL STRUGGLE FOR CONTROL OF THE BROKEN HILL BASE-METAL INDUSTRY, 1914-1915

FRANK CARRIGAN

ON THE EVE of the outbreak of the First World War the base-metal industry of Broken Hill was dominated by German finance capital. Broken Hill was at this stage the centre of Australia's base-metal industry and the bulk of the lead and zinc produced by the mines was controlled as regards price, output, destination and treatment by two international cartels that emerged in the first decade of the twentieth century. At the pinnacle of both the lead and zinc cartels stood the trans-national mining corporation the German Metallgesellschaft, a company controlled by the Frankfurt-based Merton family. Even prior to the signing of the first lead and zinc cartel agreements in 1909, the Metallgesellschaft and other German metal traders had gained a strong foothold at Broken Hill. With the formation of the cartels the pre-eminence of the Metallgesellschaft was assured, for they and their English subsidiary H.R. Merton were appointed the exclusive selling agents in Europe and the UK for the sale of the bulk of the lead and zinc produced at Broken Hill.¹

The German passage to supremacy at Broken Hill in the pre-First World War period was achieved at the expense of Anglo-Australian capitalists who were relegated to various degrees of dependence on the Germans. While some of the usurped Anglo-Australians were content to rest as collaborators with German imperialism, others were beginning to chafe at the bonds and were struggling to assert independence from German control. It is this inter-imperialist conflict, which intensified with the outbreak of war in 1914, that is the focus of this essay. Particular attention will be paid to the years 1914-1915 as they applied to the imperial struggle for control of the Broken Hill mines. It will be argued that just as World War I was a struggle between, in the main, U.K. and German finance capital for an economic re-division of the world, so also the struggle over Broken Hill in the period following 4 August 1914 was for a re-division of the lead-zinc mines based at Broken Hill.

Within Australia the interests of the Metallgesellschaft were served by its subsidiary the Australian Metal Company, established in 1897. Two other German-based metal traders—Beer Sondheimer and Aaron Hirsch—also created agencies in Australia, and along with the Metallgesellschaft, they became known in local mining circles as the ‘Trio’. Well before 1914 the Trio had succeeded in tying most of the Broken Hill mining companies to long-term contracts for their concentrates. The Broken Hill Proprietary Company (BHP) for instance was committed to sell a substantial proportion of its zinc concentrates to the Australian Metal Company until 1921.² There was no semblance of competition between the Trio over the return the Broken Hill companies received for their concentrates. This the Trio simply decided by mutual agreement.

The Trio used a most effective strategy to gain a hold on the output of the Broken Hill mines. When their buyers first went to Australia the smelting industry was controlled by British concerns. However, the latter part of the nineteenth century had witnessed the technological eclipse of the British smelting industry by Continental smelters under the command of the Trio. The advanced nature of German metallurgy enabled their buyers in Australia to offer the mine owners at Broken Hill better prices for their raw material than could be offered by British buyers. In time the Germans’ price war ensured the disappearance of most of the Australian-based smelters and almost destroyed the once prosperous British lead-zinc smelting industry.³ Of all the mines at Broken Hill in the pre-war period, only BHP and the Sulphide Corporation which owned the Central Mine possessed the ability to smelt into metal a proportion of their output.⁴

The advantage the Germans held by virtue of their technical superiority in smelting, which was so important in ousting the British from control of the major part of the output at Broken Hill, cannot be viewed in isolation from the economic organisation of the Trio. For the technical efficiency of German industry was linked to the advanced development of finance capital in Germany. Lenin clarified the essence of finance capital when he stated ‘the concentration of production; the monopolies arising therefrom; the merging or coalescence of the banks with industry—such is the history of the rise of finance capital . . .’⁵ The Metallgesellschaft, which was by far the most powerful of the Trio, exemplified a company in which there had occurred the merging of banking and industrial capital to boost the inception of an imperialist company. In 1906 the Darmstadt Bank and the Disconto-Gesellschaft joined with the Metallgesellschaft to form the Metallbank which was designed to procure capital to fuel the metal firm’s expansionist designs.⁶ In 1913 the German bourgeois economist Professor Robert Leifmann stated that only two German-based companies—the German General Electric Company (A.E.G.) and Siemens—stood in front of the Metallgesellschaft in terms of their holdings overseas.⁷

Compared to the Metallgesellschaft, the financial structure of British mining companies was anachronistic. Generally speaking, there had been

little interpenetration of banking and industrial capital in British industry in the pre-war period, with the result that the monopolisation process had been seriously retarded.⁸ On the international level this meant that British companies could not match the updated imperialism of such companies as the Metallgesellschaft. These companies were getting a grip on key sectors of the international economy and thus eroding Britain's hold on its formal and informal colonies.

If we accept that international cartels express the economic division of the world between monopolies, then the relative strength of each cartel member is indicative of the state of play in the imperial stakes. That German capitalists were dominant in the lead and zinc cartels and could call the tune as regards the price that British manufacturers would have to pay for these two important metals provides a clear example of the decline of the British Empire in the early years of the twentieth century.

However, the majority of British imperialists did not give way to their German competitors without a struggle. At Broken Hill it was a group of Anglo-Australians collectively known as the Collins House Group (CHG)—controllers of North Broken Hill, Broken Hill South and the Zinc Corporation—who presented the greatest threat to the Germans on the eve of the war. From a position of relative insignificance in 1905, the CHG had, by 1914, rocketed to the position of being the owners of the three richest mines on the field.⁹ With the continued growth of their operations the CHG became progressively disenchanted with reliance on the Germans to treat their concentrates. W.S. Robinson, W.L. Baillieu, F.A. Govett and F.C. Howard—four of the leading members of the CHG—were in 1912 and 1913 so exasperated with the Germans' predilection for continuously raising the smelting prices, that they made attempts to purchase their own smelters.¹⁰ The CHG plan was to buy the Port Pirie works from BHP. But according to Robinson, BHP worked hand in glove with the Metallgesellschaft to sabotage the CHG scheme and preclude them from smelting their own concentrates.¹¹ The relations between the U.K.-owned Sulphide Corporation and the Germans were also deteriorating as war approached. The owners of the U.K. company were disturbed by the persistent efforts of the Beer Sondheimer Group to gain a financial stake in their Australian-based smelting works.¹²

In so far as BHP was concerned, its behaviour prior to the outbreak of war revealed that its Anglo-Australian directors harboured no desire to supplant German control at Broken Hill. Amongst the group of Anglo-Australian concerns allied with the Trio at Broken Hill, BHP stood out as the most notable example of integration into the orbit of German finance capital. One of the reasons behind this integration was alluded to by S. Baer, a director of H.R. Merton, the English subsidiary of Metallgesellschaft. For in an indiscreet moment he divulged that there were more Germans with holdings in BHP than there were British.¹³

Whilst the CHG and the Sulphide Corporation had nowhere near the same scale of German presence on their share registers as did BHP, there were German holdings in both these concerns. For instance the Dresdner

Bank, the Deutsche Bank and the Disconto-Gesellschaft—all German based banks—held shares in the Zinc Corporation.¹⁴ In the case of the Sulphide Corporation, which was not a member of the CHG, the Deutsche Bank and a member of the Beer Sondheimer family appear as shareholders.¹⁵ However the German presence on the share registers of even the most independently inclined mine owners at Broken Hill was only a fraction of the strength of the material forces that acted to keep Anglo-Australian capitalists anchored to the Germans. More important was the power that the Germans exercised on the world base-metal market through their controlling voice in the lead and zinc cartels, and through various contracts that ensured a ready market for the output of the Broken Hill mines. It is these factors that must be seen as being mainly responsible for the ambivalent behaviour which dissident Anglo-Australian capitalists at Broken Hill often exhibited towards the Germans prior to and after the declaration of war.

The outbreak of war was the catalyst that signalled the arrival of a new stage in imperial relations at Broken Hill. It only remained to be seen in what manner all the contradictions existing at Broken Hill between the different capitalists would be resolved.

The onset of the war certainly brought forth no public pronouncements on the part of the Broken Hill base-metal industry leaders to match Federal Labor Party leader Fisher's cry of willingness to expend the last shilling and last man for the sake of the British Empire. In fact, only Elder Smith & Company—who were the Australian representatives of Beer Sondheimer—showed any sign of urgency in breaking their connections with the enemy. They ceased to be Beer Sondheimer's agent on 4 August.¹⁶

In the face of the massive dislocation of their enterprises, the rest of those involved in the Broken Hill base-metal industry were concerned to do only one thing—to keep their mines working despite the closure of the German and Belgian smelters. However as time passed and the gravity of the crisis sank in, there were definite signs that those interested in the means of production at Broken Hill were jockeying to take up their respective positions in the new metal climate.

To begin with, BHP offered to take the North and South mines' production of lead concentrates and treat them at Port Pirie. A condition of this successful offer was that the selling of the product was to be in the hands of BHP.¹⁷ Meanwhile H.R. Merton rapidly went onto the offensive to ensure the continued Merton-Metallgesellschaft domination of the Broken Hill mines. After 4 August, Mertons, a British-registered concern, immediately put into operation a strategy designed to Anglicise their company and obviate any possibility of it being dubbed an enemy enterprise. At all cost they wanted to secure the contracts for selling lead and zinc to the U.K. government and thus put beyond any challenge their status as a patriotic U.K. firm. Any suggestion that they were in fact a German-owned company would imperil their control of the U.K. market and access to the metal products of Britain's dominions and colonies.

They therefore instructed BHP and other members of the cartel that the Lead Convention was suspended.¹⁸ Then Alfred Merton and Richard Merton, who lived in Frankfurt and were both directors of Metallgesellschaft, vacated their H.R. Merton directorships. The remaining board members then passed a special resolution 'that in future no person, not a British subject, should be eligible for a seat on the Board of the company'.¹⁹

In mid-August, H.R. Merton held a board meeting with a BHP representative in attendance to discuss the future of the world lead-zinc trade. The meeting heard that whilst war now prevented most of the Continent from being supplied with lead, the major producing countries had not adjusted their output accordingly. Thus despite the upsurge in demand created by the war, the U.K. market was faced with an impending glut of lead unless 'prompt steps are taken to restrict production'.²⁰ The meeting was then informed that it would be a grave mistake for the ex-members of the cartel in Spain, Australia and the U.S.A. to 'enter in open and free competition' for the disposal of their lead.²¹ Instead, Mertons suggested that 'the best plan would be to bring these parties temporarily under one head, namely ourselves, in order to dispose of their lead to the best of their interests and pro rata of their contributions and importance'.²² This proposition was 'very favourably received' by the BHP representative.²³

In effect this meeting was rearranging the lead cartel by excluding the Metallgesellschaft but accepting its London subsidiary as the prospective selling agent for a revamped cartel. And BHP men were not only accepting this situation but were doing everything in their power to encourage Mertons to take the leading role in the new Lead Convention. In brief, they were revealing by their actions that they were still firmly within the orbit of German imperialism. Those in charge of BHP were content to assist a company which they knew to be German-controlled to fix production and price levels for a metal crucial to the production of ammunition. Henceforth every bullet fired by an Allied soldier would in reality entail a profit for the Metallgesellschaft.

With the terms of the reconstituted Lead Convention agreed upon, the cartel document was duly signed for a period that was initially to last for six months. The agreement stipulated that Mertons were to be the sole selling agent for the cartel in the U.K. and specific countries in Europe. Cartel members agreed that the proceeds of the sales made by Mertons were to be shared out between them on the basis of 25% to BHP, 20% to H.R. Merton as agents for the American Smelting and Refining Company and the American Metal Company, 42½% to Penarroya Company and 12½% to the Spanish-based Sopwith Company.²⁴

The American Metal Company, which owned a string of mining and smelting companies in North and South America, was founded by a member of the ubiquitous Merton family. Furthermore, W.S. Robinson believed that the Sopwith Company was likewise a Merton-owned firm.²⁵ The Penarroya Company also seems to have been very closely related to

German mining interests for it was the view of Robert Harnden, the American Consul stationed at Seville in Spain, that on the outbreak of the World War I the Penarroya Company 'was subject to German influence'.²⁶ So while the amount that would actually pass into the hands of the Merton empire and other German capitalists from the renewal of the Lead Convention cannot be computed, it obviously would not have been negligible.

As things stood in mid-August, the Mertons in Frankfurt must have been very pleased with H.R. Merton or 'our English House' as they liked to refer to the London company in pre-war days.²⁷ The H.R. Merton directors were mostly Germans who had become naturalised British citizens well before the war started and they were now proving to be very adroit guardians of their parent company's interests.

Later that month the BHP London Secretary cabled the Melbourne office of BHP informing them of the details of the new Lead Convention. He stressed that it was 'absolutely necessary you insist all companies from whom you smelt concentrates put lead under your own control'.²⁸ F. Dutton, the London Chairman of BHP, had already written to BHP Melbourne apropos an invitation he had extended to Govett of the Collins House Group to smelt the lead concentrates of the Zinc Corporation under the same terms as those applicable to the North and South.²⁹ So the possibility of lead slipping through the hands of the Convention and competing on the market was being circumvented.

All these events signify that the CHG were prepared to continue their subservience to the Germans. For BHP, as the group knew only too well, was dominated by the Metallgesellschaft. However the nature of the CHG's continuation of links with the subsidiaries of the Metallgesellschaft was not entirely similar to BHP's. There was nothing but enthusiasm from BHP for its relationship with Mertons, whereas the CHG's role vis-a-vis the Germans was pragmatic. The group's most pressing need was to get access to a market for its metal. Fear of being unable to obtain any outlet for their product was revealed in a letter from W.S. Robinson to his brother Lionel, a London stockbroker. The CHG were producers of concentrates only, stated W.S. Robinson, and thus the war had initially left them 'without a buyer of any sort' when access to the German and Belgian smelters was denied them.³⁰ Necessity had compelled the group to turn to BHP—and thus the Germans—if they were to keep their mines working. It was W.S. Robinson's opinion that the group was now really paying for not having established its own smelter.³¹ As regards the group acquiring its own smelter and thus shedding reliance on BHP and increasing its chances of gaining independence from the Germans, various schemes directed towards achieving this goal were being touted. For example the question of buying the Port Pirie smelters from BHP was again coming to the fore.³²

Whilst the scenario of their future ownership of smelters may have been of mental comfort to the CHG, they were nevertheless confronted with the fact that the German control of the Empire metal trade had not

dissolved with the declaration of war. Indeed the Germans were digging in all along the metal front. To remove them would require more than wishful thinking. Hard material reality was in fact driving the group to remain firmly enclosed in the grip of German imperialism. The group was unable to produce refined metal and the renewed Lead Convention controlled the traditional markets for the output of the Broken Hill mines. Faced with this situation they bowed down to a superior force and came to an arrangement with the Lead Convention. It was agreed that they would be allotted a proportion of BHP's share in the Lead Convention.³³

If the existence of the Port Pirie works and its capacity to produce refined lead allowed BHP and the CHG to continue their operations and get a share in the Lead Convention, the situation as regards zinc was totally different. For with European smelters closed to them, the Anglo-Australian producers were confronted with the disturbing fact that the British Empire was almost bereft of zinc smelters. Of the 450 000 tons of zinc concentrates produced annually by the Broken Hill mines, the sole zinc smelter in Australia—situated at the BHP Port Pirie works—was capable of smelting only 5000 tons. In the U.K., which consumed in the pre-war years an average of 180 000 tons of refined zinc annually, the domestic smelters could only produce less than 30 000 tons of refined zinc.³⁴ The U.K. was to pay a stiff price during the war for allowing the rundown of its smelting industry at a time when German metallurgy was making great advances.

As regards zinc, the outbreak of war resulted in a big jump in demand for an item that was essential for munitions purposes. There was for instance 'zinc as brass in cartridge and shell cases, zinc in die castings for shell fuses, tanks and aircraft components, and zinc as dust for smoke screens'.³⁵ To make up for its wartime deficiencies in zinc, the U.K. turned to the U.S. which, up to 1917, remained a neutral country.

The main 'American' benefactors of the U.K. call for zinc were in fact the Trio, who were the chief members of the Zinc Convention. The Metallgesellschaft acting through the American Metal Company, and L. Vogelstein & Company who were the U.S. representatives of Aaron Hirsch were, along with Beer Sondheimer who traded in the U.S. under their own name, the owners of many of the major mining and smelting companies in the U.S. Under the guise of being American companies, which they achieved by being registered in the U.S. and having as directors a combination of U.S.-born and German-born naturalised U.S. citizens, the Trio obtained contracts to supply the U.K. government with zinc and grew fat on war profits.³⁶ Shortly after the war started, the price of zinc in the U.K. went from its normal pre-war level of £23 per ton to £105. At the same time in Germany zinc was priced at below £30.³⁷ To maintain this artificially high price for zinc in the U.K., the Trio's interests in Australia did everything possible in the early stage of the war to ensure that the Australian zinc industry remained in a paralysed state. They achieved this by, amongst other means, embroiling the Anglo-Australian producers in legal wrangles over the state of their contracts.³⁸

The first weeks of the war thus passed with the German grip on Broken Hill metals looking very secure. If a battle for control of the Broken Hill base-metal industry was going to take place it was not yet apparent from which direction the assault would come.

In fact it was a few U.K. and Australian newspapers normally fed by informants within the mining world that brought the situation in the Empire's metal trade out into the open. Using newspapers to fight a proxy war was certainly an intelligent stratagem. For in time it would put the mining industry in the limelight, and powerful forces in the community beyond the metal world would, given the fact that the U.K. and Australia were at war with Germany, be forced to take note.

On 5 September 1914, a U.K. newspaper, the *Globe*, featured an article titled 'In The City, German Bankers And The Metal Market. A Frankfurt Combination'. The article declared that

It was always been common knowledge that German capitalists exercise a very strong influence in the metal markets of London, but the extent to which they have derived profits from the contracts made by English-registered companies in which they held large share interests is only now being realised.³⁹

To substantiate this claim the *Globe* highlighted the position of H.R. Merton, disclosing the extent of the capital held in this company by the Metallgesellschaft.

The revelations of the *Globe* met with an immediate response from Mertons. They consulted their solicitors and then issued an invitation to the government to inspect all their books. The firm indignantly proclaimed its status as a U.K. company and made clear the measures taken since the start of the war to eliminate any German influence. All these protestations of fidelity to the U.K. skilfully managed to evade grappling with the facets of their business that incontrovertibly branded them as a German concern, such as their stand-in role for the Metallgesellschaft in the renewed Lead Convention. The government duly appointed auditors to check the dealings of the company since 4 August and H.R. Merton came through clean. No evidence was found of direct trading with the Metallgesellschaft. So the U.K. government continued to use H.R. Merton as their metal brokers.⁴⁰

However, H.R. Merton were not out of trouble yet, for in the following months the struggle against them shifted to Australian soil. It mainly focused on the Australian Metal Company which for many years had been the agents in Australia for both H.R. Merton and the Metallgesellschaft. On 8 October 1914, the *Australian Mining Standard* carried an article which severely admonished the Victorian Country Roads Board for accepting a tender for the supply of road-making machinery from a company that was 'essentially German'.⁴¹ This company was identified as the Australian Metal Company. It was further revealed that the great majority of its shares were held by the Metallgesellschaft and the Merton Metallurgical Company of London and that the shares in the latter company were all owned by H.R. Merton. The *Australian Mining*

Standard also listed the directors of the Australian Metal Company, four of whom were also on the board of the Metallgesellschaft.⁴² It was later recorded that these four—who included members of the Merton family—resigned from the Australian Metal Company on 29 August 1914 ‘owing to absence’.⁴³

An even more overt sign of the push against the Metallgesellschaft and their U.K.-registered client companies—and one that was of a far more dangerous nature—appeared in the same newspaper on 8 October 1914. Under a provocative title querying ‘Is It British?’ was an article which made many damaging references to BHP. The *Australian Mining Standard* was keen to know if BHP had ‘entered into any undertaking to dispose of its lead or lead-products or if it was free to sell to purely British firms or their agents?’.⁴⁴ It came closer to the hub of the issue when it further demanded to know whether, if BHP had entered into an arrangement to sell its lead, it was dealing with ‘a British company or a German company or a British company with German connections and if there is any objections to the name of that company being known?’.⁴⁵ Finally BHP was requested to clarify whether an offer for its lead had been received from British buyers and ‘if such an offer has been declined?’.⁴⁶ It is quite obvious that someone in the metal trade had blown the whistle on BHP and its association in the Lead Convention with German mining interests.

After the appearance of this article the spotlight was on BHP. The *Australian Mining Standard* continued its campaign of casting doubt over the true nationality of BHP. Its next edition revealed that a merchant metal company in London called James Forster had been the source of its original report. Forsters had just recently distributed among metal traders in the U.K. a document titled the ‘Lead Report’ which had quite openly linked BHP with the Metallgesellschaft. The report suggested that the U.K. should soon be in a position whereby it would have access to plenty of lead at lower prices, as Germany was cut off from supplies. In so far as Forsters were concerned the only impediment to this prospect was the possibility of price rigging and restriction of lead on the market due to the activities of the Lead Convention. According to this document the sale and control of BHP’s lead was in the hands of the Frankfurt Metallgesellschaft.⁴⁷ Strictly speaking, this was wrong, for H.R. Merton controlled BHP’s lead. However, in the mood beginning to emerge amongst certain people in the mining world, such minor inaccuracies were patently not important. The *Australian Mining Standard* finished its Forster-inspired exposure of the lead market with an appeal to BHP to show its patriotism and remove the stain from the company’s name.⁴⁸ The truth of the matter is that if this newspaper had waited for BHP to reveal its patriotism—a term which the *Australian Mining Standard* defined as being identical with a frenzied desire to go ‘Waltzing Matilda’ with British imperialism—hell would have frozen over. For BHP stayed tight-lipped on the charges levelled at it, refusing to make any public statement.

With the withdrawal of the American Smelting and Refining Company from the cartel, October also proved a bad month for BHP and for H.R. Merton within the Lead Convention itself. The main reason behind the abrogation of the cartel agreement was disenchantment with the proportion it was allotted under the arrangement reached in August.⁴⁹ In effect this Guggenheim-Morgan concern was convinced that the war offered it a chance to expand its business at the expense of its competitors. It was particularly interested in establishing a presence on the Continent now that the Metallgesellschaft was precluded from dealing in many European markets. This urge on the part of the American Smelting and Refining Company to find a market for its increasing lead output was something that Dutton of BHP had long recognised. For as he later wrote to a BHP colleague, the Americans had constantly pressed for the sale of the largest possible quantity and 'it had always been a difficulty keeping them "in order"' .⁵⁰

American historian Richard Sasuly has noted that the duration of a cartel contract is not determined by the terms that appear on a piece of paper. For the period that a cartel actually lasts depend on the different pace of economic development among cartel members. When the productive capacity of one party outstrips those of its partners then the cartel 'will fly apart, sometimes with explosive violence'.⁵¹ This is, in a sense, what World War I was all about. Thus the American Smelting and Refining Company—which was a U.S. imperialist company and the property of one of the greatest U.S. financial oligarchs—was by its break with the Lead Convention seeking to enlarge its role in the world lead market.

Later that month the Melbourne branch of the Australian Metal Company contacted H.R. Merton on the subject of the American Smelting and Refining Company's withdrawal from the Lead Convention. The Australian Metal Company correspondent revealed that W.S. Robinson had been made aware of the situation and that, with the departure of the U.S. company, BHP was now entitled to 31.25% of the total Lead Convention sales. W.S. Robinson was 'greatly delighted' at hearing of the increase in the share of BHP in the Lead Convention because the CHG would also benefit.⁵² However, the Australian Metal Company felt that Robinson's jubilation was premature, for the price of lead was already beginning to slide as news spread of the breakaway by the Americans.

If W.S. Robinson was greatly delighted in late October, he was far from being a happy man in early November. For it was then that Robinson personally experienced the intervention of the Australian state in the affairs of the CHG. Henceforth the direction that the CHG metal dealings would take in the course of the war was not to rest solely with the leaders of the group. Moreover, after November, the imperial struggle for control of the Broken Hill base-metal industry took on an entirely different complexion.

On 8 November 1914, the caretaker at 360 Collins Street Melbourne

answered the front door of the premises which housed the offices of the Australian part of the CHG. He was confronted by a Captain of the Commonwealth Military Forces, a fully armed military escort and an officer of the Commonwealth Customs and Excise Office, and was instructed to take the two in command of the raid to W.S. Robinson's office whilst the rest of the party stood guard over the entrance and exits to the building. Once inside the office, W.S. Robinson's papers were sifted through for any evidence of trading with Germany or her allies since 4 August.⁵³

Robinson was not the only figure involved in the Broken Hill base-metal industry to be visited by military and customs officials on 8 November. Amongst those also raided were the offices of BHP, North Broken Hill, Broken Hill South, the Australian agency for Aaron Hirsch and the Australian Metal Company.⁵⁴ On the following day accounts of the raids were prominently featured in Melbourne newspapers. The *Age* reported that they 'were carried out in connection with the terms of the Trading With The Enemy Act, the Attorney General having authorised the action on behalf of the Federal Government'.⁵⁵ The Trading With The Enemy Act arose out of a proclamation issued by King George V on 5 August 1914, 'warning all persons in his Majesty's Dominion not to trade with the enemy'.⁵⁶ During the Bill's passage through parliament it was clearly stated by W.M. Hughes, the Federal Labor Attorney General, that the Bill was retrospective and operated from 4 August.

This piece of legislation was an example of an important part of the Australian state apparatus intervening to defend the interests of that section of the U.K. imperialist class which was the economically and politically dominant force within Australia. It is obvious that the state's intervention in the Broken Hill base-metal industry was similarly motivated. In this particular case, various arms of the state were to be directed against the Germans and their Anglo-Australian collaborators to repress the threat they posed to the hegemony of U.K. imperialism. In his campaign against those whom he considered to be in any way associated with the Germans, Hughes was continually able to strike effective blows and ultimately achieve his aims. His ability to implement his directives apropos the Broken Hill metal war derived from his position as one of the chief political representatives of U.K. imperialism in Australia. Although it's true that Hughes was not bereft of a sense of nationalism this, in effect, was an Empire nationalism which, while ostensibly promoting Australia's interests, in fact helped to perpetuate British imperialism in Australia.

Hughes' power to deal with capitalists at Broken Hill who were acting in a manner detrimental to the interests of U.K. imperialism was strengthened by the fact that the base-metal industry of Australia absorbed very little U.K. capital compared with other sectors of the Australian economy. The most powerful U.K. imperialists at this time were those who owned or controlled the biggest banks and other financial institutions in Australia, and who ploughed capital into the key sectors of the economy, notably the pastoral sector.⁵⁷ Moreover, the City

of London financiers also had an economic grip over the Australian state by virtue of the huge sums they had loaned to the Federal Government and all the State Governments, particularly in the years 1870-1914.⁵⁸ Thus, while U.K. finance capital was not deeply involved in the Australian base-metal mining industry, the German dominance here threatened the overall U.K. command of the Australian economy and it was this that Hughes sought at all times to defend.

In the coming months the interventionist role that the state played at Broken Hill was to be directed towards the goal of re-establishing Anglo-Australian control there. The task was one whereby the state used both coercion and persuasion to assist in cutting the Gordian knot that tied U.K. and Australian capitalists to the Trio and thus bring the Anglo-Australians at Broken Hill firmly into the camp of U.K. imperialism.

It was early December before Hughes was sufficiently well informed to make a major speech in the House on the outcome of the raids. Prior to this he had reported that no evidence of trading with the enemy had been discovered in regard to North Broken Hill, Broken Hill South and W.S. Robinson.⁵⁹ However a controller had been appointed to take over the affairs of the Australian Metal Company, which in Hughes' opinion had 'nothing Australian about it but its name'.⁶⁰

In his major speech in early December, Hughes stated that BHP's metal dealings had not contravened the strict letter of the law. Nevertheless, he was of the opinion that within the base metal industry,

a position of affairs exists quite incompatible with our attitude towards the vital interests at stake during the present war, the commercial and industrial supremacy of the Empire, and the development of the resources of the Commonwealth.⁶¹

He made it clear that he considered inconsistent with the interests of the British Empire, the stranglehold of the Germans on 'the base-metal industry of the civilised world'.⁶² It was Germans, he pointed out, who were getting the biggest slice of the profits in an industry with a world annual turnover worth £200 million. Within Australia Hughes put the annual value of the metals produced at £13 million. The role of the German-dominated lead and zinc cartels was outlined, and Hughes put forward the proposition that with the aid of those in the U.K., the treatment of all metals could be carried out on imperial territory. The struggle against the Germans, he stressed, would require the support of the Anglo-Australian companies. However, his comments suggest he was not entirely confident of getting total industry support for his scheme. For he said, referring to the companies:

If they prefer to be tied up by contracts which provide for resumption of business after the war, and if they prefer that the control of the industry shall rest with the alien enemy, the task before us will be rendered very difficult.⁶³

To obviate the possibility of the companies not playing ball, Hughes stated in this speech that the status of the contracts might be decided by the state. The most important element of this speech was Hughes'

advocacy of the treatment of Australian metals within the Empire. If such a scheme eventuated it would obviously be a big step towards the achievement of full Empire ownership of the base-metal industry.

A similar scheme to the one being propounded in parliament was, at the same time, being aired by various members of the CHG. A corollary of the raids was a greater sense of purpose on the part of the group to buy their own smelters. By mid-December, W.S. Robinson was confidently predicting that the group was on the verge of acquiring control of the Port Pirie works. He was proposing that at the very most the group would value the smelter at £500 000, and that it would purchase a two-thirds share in the works, leaving BHP with a one-third stake.⁶⁴ Apart from their designs on Port Pirie, the group was also contemplating setting up its own metal-selling company to market the refined metal that Port Pirie was capable of producing. W.S. Robinson, W.L. Baillieu and F.C. Howard were together discussing the prospect of the group selling the whole of its output through an organisation with offices in Melbourne and London.⁶⁵ The inception of such a metal-selling company would of course entail a break with the Germans, as W.S. Robinson made clear to his brother Lionel. On 16 December he wrote that 'we desire to eliminate the German interests as far as our metals are concerned and we desire to treat and handle our metals in Australia if possible and certainly within the Empire'.⁶⁶

Yet the compulsion on the part of all members of the capitalist class to be in a position to realise the surplus value contained in the commodities produced by the labour power employed—and so survive as capitalists—was still forcing the CHG to keep one foot firmly planted in the German camp. Even a week after the raids, W.C. Robinson was still intent on the group maintaining its involvement in the Lead Convention. It was his belief that if they broke with the Lead Convention then the world market would be closed to the group. He even went so far as to project the possibility of the group becoming bona-fide members of the Lead Convention.⁶⁷ Robinson was obsessed with the fragile and chaotic nature of world trading conditions and argued that if the group's present lead selling arrangement was disturbed 'we would have to review our decision to continue working at Broken Hill and probably close altogether'.⁶⁸

1914 was ending with the Germans still holding on to their commanding role over metal output and marketing at Broken Hill. Despite the clampdown on the Australian Metal Company, the Metallgesellschaft through H.R. Merton and the Lead Convention was still in control of the lead output of Broken Hill. Yet for one representative of the Germans at Broken Hill, 1914 ended on a bitter note. The Australian agent for Aaron Hirsch appeared in an Adelaide court on 12 December and was charged with having attempted to trade with the enemy and was consequently interned.⁶⁹ Whether his fate was an omen of what the New Year would bring the Germans at Broken Hill was, as yet, a matter for conjecture.

In January 1915, the Lead Convention agreement was up for renewal.

Although Dutton of BHP London was by this stage expressing to his colleagues in Melbourne his growing concern at the mounting criticism being levelled at H.R. Merton, he insisted that it must be retained as the selling agent for the cartel. He believed that a rupture with Mertons would 'set the most powerful firm in the metal trade here in deservedly bitter enmity towards us, the results of which as regards our business might be very seriously and materially detrimental'.⁷⁰ After the new cartel agreement had been forwarded to Melbourne for the perusal of the Australian directors, the BHP Melbourne Secretary cabled Dutton in mid-January that 'Board approve Convention agreement'.⁷¹ A new Lead Convention agreement covering the period 18 February to 31 July 1915 was thus brought into being. H.R. Merton was retained as the selling agent for the cartel and Dutton similarly continued to act as the President of the Lead Convention.

The tempo of the war on the metal front appreciably quickened with the renewal of the Lead Convention. To begin with, the Melbourne agent of the metal merchants Forsters called to see Hughes and presented documentary evidence of BHP's recent refusal to sell lead to the London company.⁷² This move by Forsters was a masterly step for they were well aware that under the terms of the Lead Convention, BHP was not allowed to sell lead to any UK-based firm other than H.R. Merton. Forsters' ploy worked. For Hughes acted swiftly on the information supplied to him and contacted Bowes Kelly, a BHP director, to arrange a meeting at which he hoped to put an end to BHP's dealings with enemy-supported firms. Hughes laid it on the line to Bowes Kelly that BHP must withdraw from the Lead Convention. He also wanted an assurance that BHP would break totally with Mertons and any other German influences.⁷³ BHP ostensibly acceded to Hughes' demands, for their Melbourne office cabled Dutton that due to an arrangement with Hughes, BHP London was to inform H.R. Merton that BHP would cease to be a member of the Lead Convention on 30 June. The Melbourne Secretary then contacted Hughes, confirming BHP's withdrawal from the cartel. However Hughes was still dissatisfied and complained about the ambiguous phrasing used in Melbourne's cable to Dutton concerning the withdrawal from the Lead Convention. He concluded in an uncompromising tone that as

Bowes Kelly has assured me that your company is not only desirous but anxious to cut itself adrift from Mertons and all German influence, no matter in what shape or under what guise it manifests itself, I am venturing to ask you for a clear and definite declaration of your immediate intention so to do.⁷⁴

The Melbourne Secretary wrote again to Hughes and this time unequivocally assured him that not only would BHP withdraw from the Lead Convention, but they would definitely sever all links with any German-influenced agency. He also promised Hughes that BHP would 'give preference in the sale or disposal of any products to any bona-fide British buyer'.⁷⁵

On the very day that this capitulatory letter was sent to Hughes, the Managing Director of H.R. Merton wrote to Dutton. He warned that the dissolution of the Lead Convention would result in 'a fierce fight in the market' which would have a severe impact on BHP.⁷⁶ He put it to Dutton that

If your Board does not care for the name 'Convention' we should be quite ready to enter into a special agreement for the sale of all the soft lead produced by your smelters on a commission basis so that your company would not appear at all as a member of the Convention; and at the same time we would guarantee to them the same net results as they are now obtaining under the present arrangement.⁷⁷

Such camouflage has served cartels well during the epoch of imperialism when, due to pressure from various quarters, some bourgeois states have been forced to implement anti-cartel measures. However during an imperialist war or any other deep crisis, the situation is entirely different, as the power of the state to enforce its dictates rigidly is far greater than usual. What is at stake at such times are the property relations of all combatant nations and during such a crisis the state becomes endowed with greater powers to suppress sections of the bourgeoisie who are threatening the overall interests of the whole bourgeois class. This is the role that Hughes, as the representative of the Australian state, played with BHP. Thus Dutton was compelled to reject Mertons' suggestion for, as he informed BHP's Melbourne Secretary, the pressure on BHP to conform to Hughes' ultimatum was too great.⁷⁸

The clash with BHP was the final straw for Hughes. He was now convinced that most of the mining companies, and especially the big ones, would not of their own volition cut the bonds that tied them to the Germans. So in May 1915, Hughes introduced into the House of Representatives an Enemy Contracts Annulment Bill, designed to annul contracts between Australian-based companies and Germans or representatives of German interests. It was not, however, received with universal acceptance by the House. An opposition member named Glynn drew attention to the U.K. government's reluctance to implement similar legislation, explaining that the U.K.'s vast global interests often depended on contracts.⁷⁹ Implicit in his remarks was the fear that if the U.K. began contract annulments, Germany would follow suit and commodity relations between nations would be imperilled. The freedom to exchange commodities on the market and the buyer and seller's duty to abide by contractual obligations are two of the pillars of capitalism. Glynn was in effect posing the potential of a disastrous future for imperialist trade if legislation of the sort being proposed by Hughes was followed by the bigger powers, and was then perhaps imitated by under-developed nations seeking freedom from the debts heaped on them by their association with imperial powers.

The volatile Labor member for Darwin, King O'Malley, pitched into Hughes' Bill by a different route. Flourishing a copy of a U.S. newspaper, the *New York American*, O'Malley reeled off a series of quotes he

had culled from it demonstrating that a huge cartel was controlling the international ammunition industry. As the cartel included both U.K. and German companies, and certain U.K. capitalists had sizeable investments in the German munitions industry, it was O'Malley's opinion that the House of Commons was not interested in replicating the proposed Australian legislation on contracts.⁸⁰ Contrary to O'Malley's usual claptrap, he had in this speech pinpointed one of the factors retarding Britain's war effort. The war had still not severed the ties that linked a section of the U.K. capitalist class to their class counterparts in Germany.

Luckily for Hughes and those within Australia who supported him, just as the Enemy Contracts Annulment Bill was passing through parliament the tide of events in the U.K. was beginning to bring to the fore those who shared his outlook. In May 1915, Secretary of State for War, Lord Kitchener, precipitated a public scandal in the U.K. by disclosing the country's chronic shell shortage at a time when the news from the war-front was grim.⁸¹ This revelation was the catalyst that compelled Liberal Prime Minister Asquith to agree to the formation of a coalition government later that month. Lloyd George, who shared with Hughes a belief that war on all fronts had to be waged if the British Empire was to survive, took command of the newly created Ministry of Munitions. This portfolio became the most powerful in the new coalition, effectively independent from cabinet and parliament.⁸² Its inception was a coup for the imperialists who supported Lloyd George, for they were able to bring closer to realisation their plan of the complete severance of ties with Germany. Their tough-minded approach to the war included a willingness to face the risks involved in repudiating contracts, realising that such a step was essential for 'a vigorous prosecution of the war'.⁸³ The elements of the U.K. bourgeoisie supporting Lloyd George did not become completely dominant at the political level until December 1916, when Lloyd George headed a new coalition as Prime Minister. However their strength was such that by mid-1916, the U.K. government had taken the plunge and begun cancelling contracts between British and German firms.⁸⁴

May 1915 was a crucial month within the parliamentary sphere in the U.K. and in Australia as these events were to have a direct bearing on the eventual outcome of the imperial struggle at Broken Hill. At the same time the CHG was also beginning to make deliberate moves towards a re-division of the metal output of the mines. The Broken Hill Associated Smelters (BHAS) was formed in this month with the CHG as majority shareholders, and the new company moved in to take control of the Port Pirie works. The new company declared that it 'was created with the chief objects of providing the means for Australia to carry out the smelting of its own lead ores, and to market the refined products through a purely British agency'.⁸⁵ Hughes' move to pull BHP out of the Lead Convention and his plan to annul contracts had forced the hand of the CHG. After 30 June, when BHP officially ceased to be a member of the Lead

Convention, the CHG would be in the position they had long aspired to but always approached with trepidation. Despite its declaration of fidelity to the British Empire, Hughes sought a written undertaking from those in charge of BHAS that they would have nothing to do with the Germans or their representatives. BHAS hastily complied with this request.⁸⁶

Meanwhile in London Minto Wilson, one of the directors of both Mertons and the Australian Metal Company, informed BHP's Dutton that BHAS would be hit very hard in the period of acute competition and fall in prices that would follow from the dissolution of the Lead Convention. Wilson was confident that as Mertons were still agents for Penarroya, Sopwith and the American Metal Company they would still have a 'large control of the lead market'.⁸⁷ He was sure that after a period of bad trading those in charge of BHAS 'would gravitate back to the same position as existed before and negotiate for a renewal of combined selling on lines similar to the old Convention'.⁸⁸

Mertons wasted little time in seeking to implement their threat that a grim economic future awaited the Anglo-Australians' attempt to go it alone on the London lead market. For by mid-June Dutton was convinced that the state of the lead market provided ample evidence to suggest that Mertons were selling outside the Lead Convention. On 18 June Dutton's suspicions were confirmed by three of Mertons' directors. Dutton demanded an explanation for Mertons' decision to sell outside the Lead Convention in direct violation of the agreement that was binding until 30 June but was curtly told that as far as Mertons were concerned, the Lead Convention was finished and they thus felt no compunction about placing lead under their control on the market.⁸⁹

While the relationship between Anglo-Australians and Mertons was deteriorating in London, Hughes was preparing to give the final blow to the Metallgesellschaft's interests in Australia. In July a notice appeared in the *Commonwealth Government Gazette* declaring the Australian Metal Company an enemy firm. This meant all trading with the company was prohibited and so guaranteed that the company would be forced into liquidation.⁹⁰ The stepped-up campaign against the Germans also embraced the interests of Aaron Hirsch. In early July Hughes, in a stinging letter to the Electrolytic Refining and Smelting Company (ERS), accused the directors of reneging on the assurance given some months before to undertake the production of copper rods, wire cables, pipes and tubes. He linked the refusal to develop this new side of their business, which would have enabled the Empire copper industry to greatly expand, with the company's domination by Aaron Hirsch. Before the war, Hirsch had been the purchaser of the company's copper output and still owned one-third of the shares in ERS. Hughes concluded that it would be a waste of time for the company to attempt to defend their actions, for a notice was in the process of being framed that would declare them to be an enemy company.⁹¹

That Hughes was heartily sick of the vacillating approach thus far

shown by the mining companies to all his endeavours to free them from every semblance of German control was made obvious by his public admission that not a single contract had been forwarded to his office for judgment under the Enemy Contracts Annulment Act. He bitterly asserted that

Britain calls aloud for munitions. Our metallic products are essential for the production of munitions, yet it is still true, as it was before the war, that the metal market is dominated by our mortal enemies; they control the selling agencies, manipulate the market and thus bleed Great Britain and the Allies of money, so striking a blow right at her heart.⁹²

Hughes' public onslaught found its target, for a flurry of activity followed from his allegations. In mid-July he was able to report confidently to the Governor-General that his office was now being 'bombardeed with contracts for filing under the Enemy Contracts Annulment Act'.⁹³ Moreover, the CHG led by their most astute member W.S. Robinson, was at last taking measures to accord fully with Hughes' wishes. Long before any other member of the group, Robinson perceived the eventual rewards that would accrue to them if they got onside with Hughes.

On 11 July, W.S. Robinson was berating his brother Arthur, who along with W.L. Baillieu was a director of ERS, over that company's behaviour, which had led to the confrontation with Hughes.⁹⁴ W.S. Robinson later contacted Hughes personally in an attempt to placate him, promising that all the resources of the metal companies he was associated with 'could be quickly organised into one body which could render most valuable assistance to the Government in meeting the Nation's requirements in this crisis'.⁹⁵ However Hughes made it clear that he was not going to be beguiled by empty promises. It was unbearable, he stated, to see zinc at £105 a ton in the U.K. and £29 in Germany and 'he wanted to know how that was going to be stopped'.⁹⁶ Hughes also criticised Robinson over the links being forged in London between BHAS and British metal merchant companies which he believed were merely other fronts for the Metallgesellschaft in the U.K. Robinson was left in no doubt at the end of the conversation that a lasting rapport with Hughes rested on his ability to convince all of the members of the CHG to cut themselves adrift entirely from any company even slightly suspected of being under the influence of the Germans.

That Hughes was not prepared to let Robinson do all the running in the battle to inspire loyalty to the British Empire amongst the ranks of the Broken Hill mining companies, is apparent from further measures taken. In a speech to the House of Representatives on 21 July Hughes pulled the noose a little tighter around the necks of those who ran BHAS, revealing that the company had recently refused to sell lead to bona-fide British buyers. He followed this charge by a series of damaging allegations against other companies affiliated in one way or another with the CHG. The announcement of a new body that would be set up to finally shatter the German control of the Broken Hill base-metal industry completed

Hughes' attack. He concluded

It is proposed to create an Australian metal exchange under Government control. No metal or metallic products will be allowed to leave Australia unless they are sold in Australia . . . No persons will be allowed to buy unless they are registered members of the metal exchange. No persons will be registered unless the government is satisfied that their application is bona-fide and the applicants pro-British.⁹⁷

This proposed government body signified that the CHG and other mining concerns would have no further room to manoeuvre. By this decisive act Hughes was going beyond annulling contracts and was using an arm of the state apparatus to determine the basis upon which companies would sell their output.

However H.R. Merton in London did not seem unduly concerned about the proposed metal exchange. Their response to it was summed up by one of the company's directors, S. Baer, who confidently predicted the exchange would fail for it was impossible to find consumers on the world market 'except through partly Germanised sources'.⁹⁸ When Hughes was shown a copy of this comment he exploded with rage, exclaiming that everything he had ever said about German control of the U.K. and Australian metal trade was corroborated. Whilst accusing Baer of the 'bombastic truculence and sliminess of the Teuton', Hughes also stressed that time would prove Baer to be very wrong.⁹⁹

In contrast to the lack of discretion being shown by H.R. Merton, the period following the news of the establishment of a metal exchange saw W.S. Robinson counselling the exercise of caution and co-operation to his associates. In particular he wanted all members of the CHG to cease criticising Hughes publicly.¹⁰⁰ However, Robinson failed to get immediate support for this suggestion. The BHAS released a few press statements which amounted to fervent denials of Hughes' claim that they were refusing to sell to British dealers. Hughes responded to these claims of innocence with a devastating counter-attack, and this was to be the final exchange in the public slanging match with the CHG.¹⁰¹ Henceforth W.S. Robinson's advice was adhered to.

In a letter to brother Lionel in late July, Robinson asserted that

We will not deal with any Broking Firm under the influence of, or associated with, the enemies. We must follow the indications given by the Government here. In times like these it is the duty, in my opinion, of everyone to carry out faithfully the wishes of the Government . . . and as far as I am concerned that is my policy, and I cannot help who it hurts.¹⁰²

Time was to show that the CHG were to benefit enormously from this policy of total co-operation with the government.

As the weeks and months passed, the relationship between Hughes and the CHG began to flourish, growing with each step taken towards the creation of an Empire-owned base-metal industry. The proposed ban on ERS was never introduced, for the CHG were able to assure Hughes that a company known as Metal Manufactures was being set up that would greatly enlarge the production of copper goods within Australia.¹⁰³

Hughes and the CHG also worked together to form the Zinc Producers' Association which was given the sole right to find buyers for the total zinc output of Australia.¹⁰⁴ It proved in time to be an effective organ for assisting in the displacement of German monopolists by Anglo-Australian monopolists. Other important landmarks towards achieving an Empire-owned base-metal industry were the introduction of legislation that excluded enemy subjects or naturalised persons of enemy origins from holding shares in Australian-based companies, and also W.S. Robinson's key role in formulating rules for the metal exchange.¹⁰⁵

By early September 1915, W.S. Robinson was so confident of the CHG's growing strength that he was making plans to go to the U.K. to 'arrange a proper organisation of the whole of the lead business there so that Mertons and other interests could be properly fought'.¹⁰⁶ Meanwhile in London, Govett, the leading U.K. member of the CHG, was engaged in discussion with officials from the Ministry of Munitions who were anxious to get an organisation to erect a large zinc smelting industry in the U.K.¹⁰⁷ Then in late September the CHG quest to supplant Mertons in the U.K. was given an unexpected boost. For as a result of a court decision in the U.K., Mertons lost their position as metal brokers to the U.K. government. H.R. Merton had come forward to claim a large cargo of zinc concentrates aboard the *Bilbster*, a ship seized by British officials while sailing from Sydney to Antwerp just after war had started. When the case came before the President of the Prize Court, Mertons' claim was rejected as it was found that they had claimed the cargo on behalf of the Metallgesellschaft. By acting in this manner the President believed Mertons had 'not hesitated to engage in commercial intercourse with the enemies of this country'.¹⁰⁸ This decision reflected the growing intransigence of those in the U.K. ruling class who were no longer prepared to tolerate Mertons' German associations.

The final scenes in the campaign to eliminate German interests from the Broken Hill base-metal industry were played out in London. During their stay in the U.K. in 1916, Hughes (then Prime Minister) and W.S. Robinson—who acted as metals adviser to Hughes—put the CHG in what Robinson was to term 'an impregnable position'.¹⁰⁹ These two had no trouble arranging contracts with the Ministry of Munitions that resulted in the U.K. taking the entire lead production of BHAS for the duration of the war.¹¹⁰ On top of this, the U.K. government committed itself to accepting until 1930 an average of 300 000 tons of zinc concentrates per annum from the Zinc Producers' Association. These were sold at wartime prices for the duration of the contract.¹¹¹ The U.K. government also pledged itself to take 45 000 tons of electrolytic zinc per annum from Australia for a period of ten years. This particular contract led to the formation by the CHG of the Electrolytic Zinc Company and its subsequent establishment of a zinc works at Risdon near Hobart.¹¹² While the Australian and U.K. governments were dispensing rich contracts to the CHG in return for their allegiance to the British Empire, H.R. Merton's fortunes continued to decline and in 1918 they went into liquidation.¹¹³

The years following the First World War witnessed the spectacular growth of the CHG. They took over and expanded smelters in the U.K. and mines as far afield as Burma. In time the Australian component of the CHG declined in importance and this was capped off in 1962 when the most profitable part of the CHG was absorbed by a British mining concern to form the Rio Tinto-Zinc Corporation (RTZ), now one of the largest transnational mining companies in the world. Within Australia, RTZ's interests are served by its subsidiary Conzinc Riotinto of Australia (CRA). While British-owned, RTZ's distinguishing feature is its close relationship with U.S. capital. In brief, it is as true today as it was prior to and during World War I, that finance capital rules at Broken Hill. In effect the imperial struggle at Broken Hill in the course of the first world war solved nothing. The underlying causes of that war were not eliminated. And as long as finance capital dominates at Broken Hill and elsewhere in Australia and the world, there will continue to be fresh struggles to decide which imperial power will get the lion's share of the profits to be gained from exploiting natural and human resources. Only the establishment of socialism promises a future in Australia free from the shackles of imperialism and war.

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CAPITAL ACCUMULATION IN AUSTRALIA AND THE EXPORT OF MINING CAPITAL BEFORE WORLD WAR II

STUART ROSEWARNE

THE DEVELOPMENT OF the Australian economy has often been characterised as being dependent. The pace of industrial development has been determined largely by the inflow of overseas capital and by the success with which locally produced commodities have met the requirements of overseas markets. Radical historians have been prominent advocates of this thesis. Brian Fitzpatrick's studies placed the economy firmly within the web of British imperialism. McQueen has pointed to the advantages the connections brought and, more recently, Peter Cochrane has argued forcefully that British capital played a prominent role in the rapid growth of manufacturing industry during the 1920s and 1930s.¹ Indeed, other observers would not disagree that the fortunes and progress of the Australian economy were very much dependent upon capital inflow and successful marketing of Australian produce.²

For the first century of capitalist development in Australia the spheres in which capital accumulation was possible were limited by the comparatively small size and isolated nature of colonial markets. Commodity production was most profitable in those areas which could find an overseas market, and this was for the most part, in Britain. The trajectory of this development was assured with the support of banks mobilising domestic savings for investment, particularly in pastoral enterprises, and especially by the attraction of British capital. Referring to the period following the gold rushes, Butlin has observed that adequate funds for the rate of capital formation that was evidenced were not available within Australia. The greater proportion of investment was attributable to imported funds such that 'perhaps two-thirds of Australian capital formation was financed by British capital'.³ The influx of this finance was largely via the medium of local banks, land mortgage companies and Anglo-Australian companies, and was mostly bound for pastoral and

agricultural development and residential construction.⁴ Even with the expansion and increasing integration of the colonial economies, any development outside these areas was retarded by the underdeveloped state of the financial system. The establishment of industrial enterprise, not geared to the production of commodities for export, was obstructed because such ventures could attract only a 'comparatively small proportion of domestic savings, banks being the most important recipient of savings'⁵ and being more inclined to make advances to industries producing for export or, later, financing residential development. Indigenous-funded capital formation was then, as Connell & Irving have noted, largely based upon family enterprises or a small network of personal contacts and, even in those periods when locally mobilised investment funds exceeded British investment, the enterprises formed were mostly established to service the export industries.⁶ Moreover, outside the pastoral and related service industries, industrial activity was generally in private hands and was very much localised, operations and markets being mostly restricted to particular colonies.

By the 1880s, it was evident that this pattern of development was beginning to change. There was a greater interest in the development of manufacturing industries.⁷ As well, the parochial tendencies of colonial capital were weakening. Melbourne and to a lesser extent, Sydney, capital was being mobilised to develop the cultivation of sugar in Queensland and Fiji.⁸ Melbourne capital was instrumental in developing mining interests beyond Victoria, especially in South Australia and Tasmania⁹; several enterprises were floated to explore for gold in Papua and New Zealand and for gold and tin in Malaya, although these ventures did not attract much attention, were undercapitalised and mostly shortlived as a result.¹⁰ A key factor in this development was the increased opportunity to mobilise funds outside the banking system following the establishment and increasing attraction of stock exchanges in most of the leading cities during the 1880s.¹¹ Although the significant inflow of British capital had been a catalyst in the establishment of stock exchanges, the exchanges provided the first substantial opportunity for the direct mobilisation of indigenous savings for capital formation, in the form of share issues in joint-stock companies. But just as colonists were becoming less inclined to place their savings in banks or gilt-edged securities, and more willing to invest in share issues on the stock exchange, their confidence was shattered by the abrupt ending of the first period of sustained growth in the Australian colonies with the onset of the Great Depression in the 1890s. The withdrawal of British capital exacerbated the situation but it also forced dramatic changes in the sourcing of capital formation in Australia. For a generation following the ending of the boom, the mobilisation of local savings underlined the capital accumulation of the period. This was a period characterised by the growing importance of industrial development not directly associated with or dependent upon the production of commodities for export or upon British finance. It was a period, then, which signified a greater

degree of autonomous development than had heretofore been possible. It was also a period which saw the mobilisation of capital for investment in industrial enterprise beyond Australia, an interest which at times, and particularly during the 1920s, attracted more attention on the stock exchanges than any local industry. This essay presents an analysis of this development, of the mobilisation of capital within Australia, the export of Australian capital and the impact on this capital of the changing character of capital accumulation in the international economy prior to World War II.

I

The Depression of the 1890s was marked by the dramatic downturn in the prices of primary products and, if this was not enough to throw the leading Australian industries into crisis, the decline in British capital invested in the pastoral sector as well as in residential construction most certainly was. Gold finds in Western Australia partially offset the declining interest of British investors in Australia, but this proved to be of only temporary effect for, by the end of the century, British capital was being withdrawn from mining.¹² The Federation of the colonies did not halt this withdrawal of British funds. In fact, the amount of British capital invested in public works and private enterprise continued to fall through the first few years of the Commonwealth. The contemporary financial analyst, R.L. Nash, reckoned that British investment in publicly subscribed ventures, both government and private, declined through the 1900s, an observation borne out in later studies by Roland Wilson and G.L. Wood.¹³ The interest of British investors in private ventures in Australia continued to fall, although the exodus of British capital was arrested with an upturn in Government overseas borrowing before World War I. By the end of the war, when it was evident that British investors were exhibiting a more general interest in exploring investment opportunities in the Australian economy, national prosperity had been well and truly restored and the striking feature of this recovery was the mobilisation of savings within Australia for investment in industrial enterprise. Cochrane has observed that the Australian investor placed more confidence in Australian securities, reflected by the ever-growing proportion of the public debt raised within Australia. More important though, was the process of Australian capital 'supplanting British capital' in joint-stock companies and enabling the rapid expansion of public companies in the decade prior to the war. Whereas Australian funds provided some £139 million for new capital formation in public companies during this period, British funds declined by £3.5 million. Moreover, there was a marked expansion in (locally-owned) private companies and this coincided with some growth in reluctance by Australians to invest in Government loans, according to Nash.¹⁴

The initial source of this recovery was in the breaking of the 'Great

'Drought' in 1903 and the subsequent boom resulting from the rapid expansion in the production and export of primary products as prices for these products rose. The recovery prompted a confidence in the desirability of expanding existing enterprises and establishing new ones, and not even the temporary setbacks of the primary industry in 1908 could retard the surge of confidence in developing new undertakings. Stock exchanges, more firmly established and respected as financial institutions, became the medium through which funds from throughout the community could be collected for such ventures.¹⁵ Of particular interest was the effect that this confidence and comparative ease in raising funds had in fuelling the interests of Australian capital in expanding opportunities beyond Australia.

The industrial development of the pre-war period, and especially that encompassing the increasingly important manufacturing sector, prompted an interest in expanding overseas market, outside Britain, for Australian-produced goods. Conceted attempts were made to build up trade with the East and additional shipping was introduced in anticipation of an expansion of exports. Governments appointed trade representatives to promote Australian commodities and provided subsidies for shipping to the East to facilitate the efforts of the producers.¹⁶ One company, the Tasmanian jam manufacturer Henry Jones & Co., which had grown quite rapidly by competing successfully on the mainland, sent a commercial representative to the East to investigate the market for jams, timber and other products in 1904. Their representative, Captain E.T. Miles, visited a number of countries and renewed acquaintance with a Chinese family, living in Siam and Malaya, with which he had previously had some business dealings. At the invitation of the family, Miles examined tin-bearing deposits in one of the three provinces governed by members of the family. Upon discovering that there were rich alluvial deposits that were not being mined Miles approached the directors of Henry Jones with a proposal to set up a dredging company to extract the ore. The proposal was eagerly received. Henry Jones & Co., by this stage profiting from rapidly growing business in the buoyant Australian economy, was searching for investment outlets; it was also concerned that it might gain advantage by alleviating an imminent shortage of tin. In late 1906, the Tongkah Harbour Dredging Company was formed with £150 000 authorised capital, two-thirds of which was to be issued fully-paid to a syndicate comprising Miles and the directors of Henry Jones & Company, Henry Jones, E.A. Peacock and A.W. Palfreyman. Fifteen thousand shares were to be reserved for the Penang interests, and 35 000 shares were to be issued to the public. The proposal was to revolutionise the recovery of tin in the East which had been carried on by comparatively primitive means organised by Chinese businessmen.¹⁷

The scheme was presented to the stockbrokers, J.B. Were & Son, whose support was instrumental in presenting shares in the Tongkah Harbour Tin Dredging Company to the Melbourne Stock Exchange as a

sound business investment. 'A comprehensive booklet embracing all the available information regarding the Tongkah Harbour properties' made the share issue an overwhelming success.¹⁸ Further interest in investments in the East was aroused in the following year with booming rubber and copra prices. A number of rubber and coconut plantation companies, planned for Malaya and in the south-west Pacific, were floated on stock exchanges but the lengthy execution of development plans tended to discourage interest in them and it was investment in mining that was to prove more attractive.¹⁹

Rising, though fluctuating, prices for tin through the 1910s sustained interest in the recovery of tin by means of dredging.²⁰ By the end of World War I more than twenty Australian tin-mining companies had issued over £1 million in capital to dredge and hydraulically mine tin-bearing deposits from Malaya, through Siam to Lower Burma. A number of syndicates had emerged to dominate the Australian interest in the East. A.W. Palfreyman, who had been interested in the original Tongkah Harbour Dredging project, was directly or indirectly involved in the formation of at least eight companies to mine in Siam and several states in Malaya.²¹ Captain Miles, after severing links with Tongkah Harbour Dredging Company, explored other possible fields and at the invitation of the Governor of Renong, undertook tin mining in that state, forming the Tongkah Katoo Valley Syndicate in 1911, with Palfreyman and members of the Khaw family, to be followed by three other companies to dredge in the Bangnon Valley and two companies to dredge in the south-east region of Siam.²²

The interest of another jam manufacturer, Herbert Pratten, chairman of Sydney's Stanmore Preserving Company, in opening new markets in east Asia for not only jam but other manufactured goods as well, resulted in a Sydney-based syndicate being formed to obtain and develop tin concessions in Siam and Malaya. Following a visit in 1908 he floated Austral-Malay Tin Ltd. A number of properties were acquired and Austral Malay became the holding company for several tin-dredging concerns.²³ The Pratten syndicate inspected other areas, discovering what promised to be a high-yielding field in the Taiping district at Kota and forming the Larut Tin Dredging Company to dredge this concession. Herbert Pratten and his younger brother withdrew from Austral-Malay which was then managed by W.A. Freeman, Ambrose Freeman and F. Leverrier. Under this management, Austral-Malay floated further companies.²⁴

Another important syndicate formed in Sydney was the Malayan Tin Corporation in 1910. Directed by G.H. Blackmore, E.D. Gray and Charles Kerry, the Corporation registered several subsidiaries to develop concessions in Siam and Malaya.²⁵ A group of Melbourne businessmen formed three companies to dredge in lower Burmah in 1910 and 1911 and other small tin mining concerns were registered to mine in Malaya.²⁶

The practice of these syndicates was to obtain concessions, float a company to develop the field, issue fully-paid shares to the promoting

company and/or its leading shareholders, and then issue shares to the public. In this way the promoters could ensure control of the company and attract funds from a wide range of possible investors. The records of shareholdings in various tin companies that have survived indicate that pastoralists and merchants, profiting from a booming pastoral industry, as well as manufacturers and professionals, including medical practitioners, solicitors and accountants, were the chief occupational categories of shareholders.²⁷ Judging by the number of successful issues of new stock on the exchanges during the period, shares in tin companies were an attractive proposition for those with savings or other funds to invest. The increased importance of the stock exchanges as arenas for the mobilisation of capital for the Australian Eastern tin-mining companies was clearly evidenced by the fact that Australian capital represented almost one-third of the total foreign capital invested in the Eastern tin-mining industry.²⁸

The introduction of dredges to recover tin in south-east Asia coincided with a renewed interest in dredging for other minerals, especially gold, in other parts of the world. A Melbourne company, The Mynpachts Gold Dredging Company, was formed to mine an alluvial concession secured on the Thabina River in the Transvaal. However, the company was unsuccessful and abandoned its leases in 1911.²⁹ Some Sydney attempts to develop dredging in New Zealand were mostly unsuccessful.³⁰ Moves were made to develop dredging concessions in the Celebes.³¹ Another Melbourne company proved to have a more profitable future mining in the Philippines. Some £50 000 was invested in Philippine Dredging Pty Ltd in a dredging project in the Paracale Valley.³²

Dredging, it was argued by the Administrator of Papua, Lieutenant-Governor Murray, was the key to the development of gold-mining in the territory and a number of prospectors, including J. Malcolm Newman who was associated with the Pratten companies, were offered assistance by the administration. But these did not result in the establishment of any dredging companies in Papua although some experiments were conducted.³³ There were some Australian companies already engaged in mining for gold in Papua and the installation of an Australian administration had been crucial in encouraging the entry of companies to undertake mining in these fields. A number of individual miners and some companies had prospected for gold with varying degrees of success. The most promising signs that gold mining would take off were in the late 1890s when, enthused by the Western Australian gold-rushes, several companies were formed to prospect and mine. Like their predecessors they had limited financial backing and their development work was correspondingly limited and mostly unsuccessful.³⁴ Appreciating the importance of more-soundly funded ventures, the Administrator made a point of advising prospective miners that they should not consider prospecting in the territory of Papua unless they had adequate supplies and financial backing.³⁵ To encourage the interest of Australian miners, the Director of Mines, Agriculture and Works undertook

geological surveys and offered rewards for the discovery of payable goldfields.³⁶ A copper field was proclaimed and the mining industry in Papua seemed set for a promising future with the leading Australian copper miner, The Great Fitzroy Mines Ltd, securing a concession over the deposits in 1912 with the object of utilizing the ore as a flux in the smelting of ores mined in Queensland.³⁷ The entry of the Broken Hill Proprietary Block 10 Company, after buying the New Guinea Options Syndicate's interest in the auriferous blocks on Misima Island and its registering of the Misima Gold Mines Company with an authorized capital of £200000, was a further sign of the importance Australian capital might play in building up mining in Papua.³⁸

There was a great deal of interest in the possibility of discovering oil-fields in Papua. The first tangible evidence that there would be oil was in 1911. The Papua Administration's geologist prepared a report on oil deposits and the Administrator visited Australia seeking Commonwealth financial assistance to hasten the development of oil reserves in Papua.³⁹ Still considering that private capital should undertake the exploitation of oil in Papua, the Government engaged a geologist to assess more carefully how the orderly tapping of oil might best proceed. By the time this report was completed the British Admiralty was recommending that, in view of the growing strategic and industrial importance of oil, the Australian Government should retain control over the Papua oil fields. An agreement was subsequently made between the British and Commonwealth Governments to give exclusive drilling rights in Papua to the British Government-controlled Anglo-Persian Oil Company.⁴⁰

But while Australian miners were excluded from the search for oil in Papua, there was some interest in exploring for oil in New Caledonia and the attractions of the highly profitable fields being exploited in south-east Asia promoted moves to acquire concessions in Portuguese Timor and the Dutch East Indies.⁴¹ However, examination and test-drilling of these did not proceed until after the war. Nevertheless, this still did not detract from the significance of investment in overseas mining ventures which, by World War I, was equivalent to one-fifth of new capital formation in mining within Australia.⁴²

II

World War I temporarily interrupted this expansionary drive of Australian capital but the Allied victory and the Australian part in this contributed to expressions of the desirability of achieving some degree of political independence from Britain and to a more aggressive expansionary endeavour by Australian capital. With war, the value of local sources of fuel supplies heightened the importance of discovering oil in Papua and made the Commonwealth Government all the more determined to continue to retain control over the development of possible fields, thus closing off one area that would have been attractive

to Australian capital. The markets for some commodities were thrown into a state of uncertainty and not the least affected was tin. Until prices of tin were stabilised, plans to develop new concessions waned. Some Eastern tin companies were formed by syndicates during the last years of the war but the formation of companies to operate overseas was being frustrated by restrictions imposed on the export of capital by the Commonwealth Finance Council. These restrictions continued to be applied in the years immediately after the war.⁴³ By the time they were lifted, the stage had been set for a period of renewed vigour in exploring opportunities for the expansion of markets and investigation of fields for investment overseas.

The Australian economy, during the latter years of World War I and the two immediately following it, was characterised by unprecedented prosperity, one feature of which was the rapid expansion of manufacturing industry.⁴⁴ This expansion coincided with the first serious moves by the Commonwealth Government to assert a political presence and ambition, independent of Britain, in the international arena. Dominating this ambition were imperial designs manifested in the demand to place under Australian control the German territories of German New Guinea and Nauru.⁴⁵ There had already been some moves to secure the trade of these territories and the south-west Pacific area generally, for Australian merchants and producers.⁴⁶ Ambitions were not restricted to viewing only the south-west Pacific as a sphere of Australian dominance. Commercial supremacy in south-east Asia was also placed on the agenda—and the state played a much more important role in attempts to build up this trade. An inquiry was conducted on how best Australian commerce might be promoted; the Government agreed to conduct a service between Australia and the East with Commonwealth Line vessels; the Board of Trade considered subsidising exports of Australian manufacturers; and a Commonwealth Trade Commissioner for the East was appointed.⁴⁷ Manufacturers were eager to develop overseas markets and south-east Asia was held to offer the most attractive prospects.⁴⁸ A number of manufacturers formed companies for the express purpose of developing the Eastern markets.⁴⁹ This expansionist outlook was also evident in moves by several Australian manufacturers to establish overseas subsidiaries. The Hume Pipe Company set up a plant in Malaya to capture the Eastern market, and a furniture manufacturer sought Government approval to build a factory in Hong Kong.⁵⁰ Henry Jones & Company, having built up an overseas trade of some £500 000, moved to expand its presence in the United States market with the construction of a modern factory in California to produce jams and canned fruits.⁵¹

Australian manufacturers were particularly successful in getting a hold of business that was directly associated with overseas ventures by Australian mining companies, particularly in the tin-mining industry. Three machinery and transport equipment manufacturers, the Castlemaine-based Thompson & Company, Wangaratta's Charles

Ruwolt Pty Ltd and the Sydney company Poole & Steel competed actively to secure contracts for the construction and supply of dredges. Thompson & Company had also managed to develop a sizeable market supplying equipment to the more labour-intensive Chinese-dominated tin-miners in Siam and Malaya.⁵² Manufacturers' associations were informed on the importance of this market. One of the stated aims of Herbert Pratten upon his return to Australia from a tour of the Eastern tinfields in search of concessions, was to see that Australian manufacturers would benefit from his involvement in tin-mining: 'I am hopeful of assisting Australian industries by procuring Australian built dredges for this work . . .' declared the president of Sydney's Chamber of Manufacturers.⁵³ Rex Thompson, the manager of Thompson & Company, hoped to capture a greater share of the overseas market for dredges by concentrating on the development of more modern and efficient dredges and supervising their introduction and operation. As a result, he was to become directly engaged in companies mining in the East.⁵⁴

The basis for these plans to expand the sales of Australian-built dredges to the East lay in the rapid post-war revival of interest by Australians in the promotion of tin-mining companies. With the economy in a buoyant state, companies seeking to raise funds by the issue of stock in newly floated companies do not appear to have faced any difficulties. Moreover, the confidence of investors must have been strengthened by the assertiveness of the established Australian mining companies in demanding a better deal from the two Malayan smelters. The companies had formed the Malayan Tin Producers of Australia to demand higher prices for tin ore and, failing that, announced that they would proceed to erect an independent smelter. The terms of their demands appear to have been met, for the association did not implement its scheme.⁵⁵ Another association of Australian miners sought to cheapen the cost of fuel by establishing its own supply company.⁵⁶

In 1920, several tin prospecting companies were formed and quickly attracted the attention of traders on the stock exchange. Some of these were merely speculative concerns trading on the highly-exaggerated assay by a geologist reporting on one concession. The result was a rapid inflation in the price at which shares in the Badak group of companies were traded until warnings were made and finally legal action taken against the promoters because of misrepresentation.⁵⁷ None of the funds placed with these companies was put to productive use. The fortunes of some of the other companies formed at this time, such as those by Sir Alexander Peacock, appear to have foundered with the dramatic downturn in metal prices in 1920 and the consequent instability in the tin industry.⁵⁸ However, there were a number of serious ventures which were floated by Australians, most of which were registered in Malaya.⁵⁹ In addition, several of the tin-mining companies registered in Australia were liquidated and re-registered in Malaya in order to escape the possibility of paying a higher proportion of profits in taxation as a result of changes in Commonwealth taxation schedules.⁶⁰

By the end of 1920 it was apparent that the post-war boom had run its course, and the Australian economy was thrown into crisis. The recession was a direct product of a downturn in the international economy. This took effect through declining prices for primary products and metals and, consequently, a deterioration in Australia's terms of trade with deflationary consequences which were exacerbated by a tightening in Australia's international borrowing position.⁶¹ The downturn in metal prices carried an already depressed mining industry in Australia further into recession. Mining in Papua was similarly affected. The Collins House Laloki Copper Mines Ltd was floated as a public company in 1920 with a view to raising funds for development work, and issued capital increased to almost £250 000 by 1920. But with a more conservative estimate of the ore deposits, followed by the slump in prices, the development work was curtailed. Attempts to finance further work to enable mining to continue were unsuccessful and the company appealed to the Commonwealth Government for support. This was forthcoming for, upon the Treasury's pointing to the merits of state assistance in the construction of infrastructure, the Government agreed to compensate the company for its construction of transport facilities and a water supply and, later, agreed to act as guarantor for a loan to the company.⁶² The other major Australian mining venture in Papua, Misima Gold Mines N.L., also won the support of Treasury when its future was thrown into doubt as a result of the downturn in the prices of metals.⁶³ However, this assistance was withdrawn in 1926 following a rethinking of Government policy.

In one respect the depressed state of the Australian mining industry was fortuitous for the companies interested in promoting tin-mining concerns in the East. As domestic mining was placed in an even more parlous state because of intense struggles between labour and capital, overseas tin-mining was proving more attractive with moves to stabilise and lift tin prices by the Malayan and Netherlands East Indies governments in an agreement to withhold stocks. Moves were made to reorganise existing Australian Eastern tin-mining companies and to form new ones.⁶⁴ Herbert Pratten's appointment as Minister for Trade and Customs in the Bruce-Page Government and his departure from active involvement in Eastern tin companies led to the organisation of a new syndicate comprising Frederick Pratten and J. Malcolm Newman in Alluvial Tin (Malaya) Ltd in early 1923. Prospecting uncovered rich fields previously assessed as being barren and Alluvial Tin floated some seven companies in the space of two years, with issued capital being paid-up to just under £1 million, making it the largest Australian syndicate working in Malaya.⁶⁵ Miles & Palfreyman and Ambrose Pratt & Palfreyman formed several new companies in Siam.⁶⁶ Rex Thompson was also interested in the floating of two companies.⁶⁷ The chairman of the Malaya Tin Corporation foreshadowed even further interest in the formation of tin-mining companies, assuring the Australian public that tin had a promising future.⁶⁸

By 1925, it was becoming evident that a boom in investment in tin-mining companies was imminent. With tin prices continuing to rise, the leading mining journal, the *Australian Mining Standard*, edited by Ambrose Pratt, began to devote considerable attention to Australian tin-mining companies in the East, carrying a feature article on different companies in nearly every issue. Investors eagerly sought shares in new companies and, with over-subscribing of shares in newly floated Australian Eastern tin-mining concerns, some non-Australian-controlled companies floated shares on the Australian exchanges.⁶⁹ When the *A.M.S.* reported in early 1926 that few of the tin-miners were paying less than 20% of issued capital in dividends, which were tax-free, the opportunities for gain by investing in overseas mining seemed endless. The journal advised investors to follow the market and secure shares in whatever soundly-promoted dredging companies were floated. Within a short space of time interest was overwhelming. It soon reported that, 'Probably there is more investment business done on the Melbourne Stock Exchange in Eastern alluvial tin companies than in any cognate combination of mining or industrial concerns . . .'⁷⁰

Syndicates already established with subsidiaries working concessions in the East were well placed to take advantage of this interest. Miles, Palfreyman and Pratt, for instance, were associated with the floating of over ten companies during 1926, issuing shares with a face value of almost three-quarters of a million pounds which were received enthusiastically by the stock exchanges.⁷¹ Alluvial Tin floated several new subsidiaries.⁷² The Malay-Siamese Prospecting Company, controlled by Sydney's King-Munro group which had emerged in the early 1920s, expanded its interests⁷³, and the Austral-Malay group floated new companies.⁷⁴ Some existing companies made new share issues to raise funds for further development or exploratory work.⁷⁵ New consortia of promoters appeared, presenting different schemes to the market.⁷⁶ Some of the more ill-conceived ventures invited respected figures associated with tin-mining to accept seats on their boards to establish an air of legitimacy to their plans.⁷⁷

By August 1927 the *Australian Mining Standard* observed that there were fifty-seven Australian-owned tin-mining companies producing or prospecting in Malaya and Siam. Some two-thirds of these companies were based in Malaya, of which the Sydney-controlled companies had issued capital totalling £3 million while Melbourne companies had issued capital of £1.75 million. In all, then, the capital issued by Melbourne and Sydney-controlled Eastern tin-mining companies totalled some £5.7 million.⁷⁸ Of course, not all of this capital had been raised on the Melbourne and Sydney stock exchanges. A proportion of the capital had been issued as fully-paid shares to promoters and vendors, or as bonus shares, and an increasing proportion of shares were taken up in the East.⁷⁹ However, other Australian Eastern tin-mining companies were floated on exchanges other than the Melbourne and Sydney stock exchanges and seem to have escaped the attention of Eastern stock-

brokers.⁸⁰ As well, as noted earlier, a number of non-Australian Eastern tin-mining companies issued stock on the Australian exchanges.

The excitement generated on the stock exchanges by the prospects of the Eastern tin companies prompted searches further afield. An Adelaide group obtained a concession from the Netherlands East Indies Government to explore in Sumatra.⁸¹ A Tasmanian syndicate formed the Tasmanian Niger Mining Company N.L. to prospect in northern Algeria.⁸² Australian involvement in tin-mining, and particularly dredging, reached its highest point as the demand for tin on world markets peaked. Australian companies dominated tin-mining in Siam and the dredging companies were foremost in the rapid growth in tin production in Malaya.

Although interest in investment opportunities in mining was spell-bound by the glamour of Eastern tin through the 1920s, the depressed state of mining within Australia turned the attention of prospective speculators and investors to minerals other than tin in areas outside Australia. The apparent ease with which funds could be raised during the buoyant years following the War had led to the forming of a number of exploration syndicates, and the activities of these overseas prospectors had promoted the formation of further gold-mining companies even after the economy was thrown into crisis. Gold was sought by some Melbourne companies in Fiji.⁸³ The possibility of dredging for gold in Papua was considered but those endeavours proved fruitless.⁸⁴ More promising, however, was the possibility of uncovering rich fields in the ex-German territory of New Guinea. Several approaches had been made for Australian companies to explore in the territory, but until the League of Nations settled the question of New Guinea's status the Australian authorities would not permit the entry of any companies.

In 1922, as a mandated territory of Australia, New Guinea attracted a rush of prospectors. Armed with copies of German geological reports, numerous companies were formed to equip parties to prospect, primarily for gold, in New Guinea.⁸⁵ The first companies to be floated generally had little capital. They floated shares with a low par value in the hope of attracting what would be a small investment from a comparatively large number of shareholders to raise a moderate amount of capital. The costs of getting to prospective mineral-bearing fields, because of the rough New Guinea terrain, proved greater than anticipated. Some of the companies issued debentures or were re-formed to raise further funds with which to proceed with their plans, but their efforts were not greatly rewarded.⁸⁶ Then, in late 1925 and 1926, rich deposits were discovered on the Bulolo River and Edie Creek in mountainous country dividing Papua from New Guinea, some sixty kilometres south-west of Lae.⁸⁷

The existence of rich fields received considerable coverage by the Australian press and by the end of 1926 there were over 200 miners working the alluvial deposits. Yet there does not appear to have been a spate of company formations to fund New Guinea gold-mining ventures. This may have been in part due to the difficulties in attempting to carry

on mining on any larger scale than that of the independent alluvial miners. The Edie Creek-Bulolo River area was isolated and the rough terrain made it extremely difficult and costly to introduce machinery. The securing of workable propositions was frustrated because individual miners' claims were given preference over the leasing of larger areas and the smaller miners could not work the river flats. Furthermore, the more valuable area of the field had already been claimed by two groups. One of these was led by Cecil Levien, District Officer, at Morobe who hoped to introduce more-modern mining methods to the field. He secured leases on the Bulolo River flats and requested Adelaide acquaintances to float a company to work the alluvial gold. With further favourable assays the initial capital in the company, Guinea Gold N.L., was increased from £2 000 to £50 000, with shares being issued firstly on the Adelaide Stock Exchange and later the Melbourne and Sydney exchanges. Still the company did not envisage introducing machinery because of transport difficulties, and a year after the value of the field had been acknowledged, mining and treatment remained 'extremely crude'.⁸⁸

Through 1927 more concerted attempts were made to intensify exploitation of the Edie Creek-Bulolo River fields. One Sydney company proposed introducing an air service to carry equipment to the fields and this proposal was taken up by Guinea Gold.⁸⁹ A number of companies were formed with plans to exploit the New Guinea fields along more modern lines; their prospectuses were presented to the local stock exchanges with the desire to win sufficient financial support for their schemes to introduce modern dredges and other advanced mining techniques.⁹⁰ Some figures associated with tin-mining in the East were attracted to the opportunities of mining in New Guinea and joined local miners in some ventures.⁹¹ Guinea Gold, having accepted that it did not have the capital to develop all its concessions, began offering some to other companies to take over.⁹² There were still problems confronting the development of gold-mining in New Guinea, the major difficulty being the transportation of large machinery to the fields. Nevertheless, gold production increased dramatically.

Interest in gold exploration was not confined to New Guinea and Papua. Australian miners searching for tin deposits in the East also endeavoured to arouse support for gold exploration and one or two companies were formed for this purpose, although success evaded them.⁹³ Opportunities appeared to be more promising in New Zealand. Dredging had declined in importance since the gold rushes of the 1870s and 1880s but the success of dredging for tin in the East, and to a lesser extent gold in the Philippines, rekindled interest in New Zealand. Thompson & Company formed a company to examine the suitability of an alluvial field for one of its newly-designed suction-cutter dredges that were being employed in Malaya. Its commencement of dredging was followed with interest on the Melbourne and Sydney stock exchanges, and other New Zealand prospecting companies which followed were well-received by investors.⁹⁴

Exploration carried Australian miners farther afield in their search for profitable mining ventures. Other metals were sought. A Melbourne syndicate, for instance, examined the possibility of discovering chromium or nickel in New Caledonia.⁹⁵ The search for minerals was not restricted to metals, as the activities of groups searching for sulphur testify.⁹⁶ However, it was oil which attracted more attention.

The Government's interest in securing oil in Papua had prevented the entry of private capital into the Australian territory and with the agreement between the Commonwealth and British Governments to fund and give the Anglo-Persian Oil Company exclusive rights to explore and test-drill in Papua, private involvement remained checked. However, the appointment of Anglo-Persian Oil released Dr Wade from duties in Papua, and inexperienced companies exploring for oil elsewhere were able to call upon his expertise to test the merit of their concessions. The Timor concessions held by the Melbourne syndicate could at last be examined and Wade's report that oil could be recovered led to the re-organisation of the syndicate, the formation of Timor Petroleum Company Ltd, with a nominal capital of £200 000, and the issue of £100 000 in shares.⁹⁷ Their favourable reception gave encouragement to other syndicates looking towards the East for oil. Several exploration companies were formed to examine areas in Java and Borneo.⁹⁸

The Anglo-Persian Company's advice to the Commonwealth Government in 1921 that it might be fruitful to explore for oil in New Guinea held out some promise for groups who had earlier considered exploring for oil in Papua: they were not restricted from exploration work when New Guinea was declared a mandate of the Commonwealth.⁹⁹ Some syndicates seized the opportunity and quickly applied for concessions, although they do not appear to have had the necessary financial backing to undertake much work.¹⁰⁰ The Government was confronted with similar problems, particularly as the British Government had withdrawn from the search for oil in Papua in 1921. Wanting to limit the cost of its own involvement in the search, the Commonwealth limited the funds it was providing for Anglo-Persian Oil's endeavours to no more than £2000 per month. As this would confine the amount of exploratory work being undertaken in both Papua and New Guinea, the Government permitted private companies to prospect for oil throughout much of Papua in 1923.¹⁰¹ The Government also appears to have promised some financial assistance for private exploration.¹⁰² A number of ventures were floated over the next two years and probably half a million pounds or more was raised in local share issues to fund exploration and test-drilling during that period.¹⁰³

The search for oil extended to New Zealand where the Collins House group was prominent. The group had formed Taranaki Oilfields Ltd in 1924 to prospect for oil on the east coast of the North Island. By 1927, the company was drilling in several areas on the North Island directly and on behalf of several subsidiaries.¹⁰⁴ With an issued capital of some £460 000, Taranaki Oilfields was by far the largest of the Australian oil

exploration companies. Other Australian companies were floated to explore for oil in New Zealand but they do not appear to have showed any immediate promise.¹⁰⁵

In 1927, then, Australian mining enterprise had established wide interests in, and had played a leading or prominent role in, the development of mining in south-east Asia and, the south-west Pacific. During a decade when 'the river of mining capital dried up' within Australia, investment in overseas mining steadily increased. In fact, Butlin argues that new capital formation in the mining industry within Australia was negligible over the period 1920 to 1927 and what investment took place was merely to replace depreciated equipment; and this investment was no greater than that in new capital formation in Australian overseas mining ventures in the 1920s.¹⁰⁶

III

By the late 1920s, the opportunities for Australian mining enterprise to play a leading role in the development of mining in south-east Asia and in the south-west Pacific were being frustrated by the rapidly growing omnipotence of large mining corporations or international consortia, which with greater access to funds were concentrating more and more mining and related processing functions under the control of single organisations. The sorts of arrangements that had connected the Collins House group with overseas capital were resulting in the demise of the comparatively under-capitalised Australian mining companies. Takeovers, sales of concessions to these larger internationally-financed companies, and agreements of co-operation had, in 1930, dwarfed the importance of Australian-financed and -controlled mining companies overseas.

The most important area of Australian investment in mining overseas was the first to be affected. The excitement which had characterised share dealings and the floating of new tin companies in 1926 and 1927 was very quickly shadowed by caution. The immediate cause of this was that the speculation associated with rising tin prices had provided the necessary support for a dramatic expansion in production and, consequently, a fall in prices. Attempts were made to engender confidence in the tin-mining companies by their Australian promoters but these were shattered by significant price declines in late 1927 and 1928 and still further in 1929.¹⁰⁷ Thoughts of floating further tin-mining companies were 'deferred' and some companies began to face difficulties in increasing funds for development work for want of responses to further calls and debenture issues.¹⁰⁸ Opportunities for floating further companies were obstructed by the concentration of not only mining companies but also smelting companies in the hands of international consortia.

Australian capital continued to be engaged in tin-mining companies,

although the important place of Australian enterprise in the industry was diminished by the impact of the expansion of production and subsequent decline in prices in hastening concentration of mining and smelting of tin in the hands of a combination of companies. In early 1928 the Chilean tin magnate Simon Patiño, who had secured control of Bolivia's leading tin-mining companies and formed an association with European smelters to become one of the largest tin-producing groups in the world, persuaded the other major tin group, the British Anglo-Oriental Mining Corporation, which owned and managed mining companies in Nigeria and Malaya, to form a cartel to withhold tin from the world market.¹⁰⁹ Further concentration was to the advantage of these companies, and simultaneously with this agreement between the two tin giants, Anglo-Oriental Mining moved to acquire some of the Australian tin-companies dredging in Malaya. In March, a takeover of the largest Australian-owned concern, the Pratten group of companies, was announced. Anglo-Oriental Mining formed a subsidiary to acquire Larut Tin Dredging and its subsidiaries and the Alluvial Tin Group.¹¹⁰ The move precipitated the incorporation of Malayan tin companies into a world-based Tin Producers' Association in 1929 which aimed to restrict production to force up prices. Australian companies in Siam refused to join the Association, not wanting to cut back production, although further concentration, particularly with the Patiño-inspired union with Anglo-Oriental Mining in 1930, forced the Australians to restrict production and join the International Tin Agreement. With the dominance of most stages of the tin industry by the Patiño-led international consortium and with production restrictions, further opportunities for the expansion of Australian capital in the Eastern tin-mining industry were blocked—although representatives of the remaining Australian companies were represented on the Tin Producers' Association.

The position of the smaller mining companies was somewhat more protected in Papua and New Guinea. In the first place, the Commonwealth Government, in assuming control of New Guinea, had wanted to ensure that Germans would not regain control of agricultural industry and had legislated to require that ownership of such enterprises should be predominantly British. The Government extended this requirement to mining companies, legislating for at least a two-thirds British ownership of companies.¹¹¹ Government subsidies also gave support to the locally-formed companies searching for oil. But towards the end of the 1920s Government support for the small Australian-backed ventures in oil and gold in Papua and New Guinea was waning. Increasingly, the Bruce-Page Government saw advantage in accepting the presence of larger companies more able to mobilise funds to hasten development. It approved amendments to the New Guinea mining ordinance permitting large tracts of land to be claimed by individual companies, giving fiat to a trend that had already been established.

Through 1926 and 1927 there had been heated protests by small gold-miners on the Edie Creek-Bulolo River field who were objecting to the

difficulties which confronted them in securing claims of some value when much of the alluvial field had already been leased, in the main, to two groups. A Royal Commission was appointed to investigate the allegations of bias by the Administration in favour of companies. The Commission recommended that small miners be offered some degree of preference in the issue of claims but that where the deposits could not be worked on a small scale every facility should be offered to enable sluicing and dredging to be undertaken by companies.¹¹²

At the same time, other developments brought radical changes to the manner in which gold mining would proceed and how this mining would be funded. The working of the Edie Creek and Bulolo River fields on a modern large-scale basis was obstructed by the difficulties in getting machinery to the field. This problem, however, appeared close to resolution when, rather than await the construction of a road or rail link, Guinea Gold introduced larger aircraft in 1927-28 enabling the carriage of larger machinery from Lae to the fields. Guinea Gold was able to continue with development work. But it had not undertaken much work before realising the immense task ahead if it was to develop the large area over which it had won concessions. It could not contemplate the capital requirements of such large-scale endeavour and along with some other syndicates holding larger leases and insufficient funds, the advantages of disposing of concessions was considered. Several mining companies were floated on the Melbourne and Sydney stock exchanges aiming to raise the funds required to finance development.¹¹³ Some concessions were sold to British syndicates.¹¹⁴ However, these companies were to be overshadowed by the entry of two non-Australian companies, New Guinea Goldfields Ltd, a subsidiary of the British Russo-Asiatic Consolidated Ltd (later re-formed as The Mining Trust Ltd) which was developing Mt Isa Mines, and Bulolo Gold Dredging Ltd, a subsidiary of the Canadian-registered Placer Development Ltd. Both envisaged working the New Guinea fields on a scale much larger than previously anticipated and, therefore, proposed raising funds in excess of any other mining venture in Australia.

In 1928 Leslie Urquhart, who was to form New Guinea Goldfields, and W.A. Freeman, Chairman of Placer Development, began securing leases from different syndicates and companies at Edie Creek and the Bulolo River. Urquhart formed the Ellyou Goldfields Development Corporation to buy properties, with plans to float a company with capital of £3-£5 million.¹¹⁵ By mid-1929, Urquhart had succeeded in buying sufficient concessions to give him virtually complete control of the Edie mountain which was believed to be the source of gold carried down into the Edie Creek and Bulolo River. He proposed to undertake both reef and alluvial mining, funding the project with the formation of the New Guinea Goldfields Ltd in Sydney. Shares were to be issued in both Australia and Britain with Urquhart's parent company, The Mining Trust Ltd, receiving some 20% of the capital, of which £4472 000 had been issued by 1934.¹¹⁶

W.A. Freeman was an Australian lawyer who had been engaged in mining since before the war, one of his earliest interests having been a company floated in Sydney to prospect in the Netherlands East Indies. He was engaged with the Pratten group in tin-mining in Malaya when he succeeded them and, with his brother, expanded mining interests not only in the East but also in South America. His interest in dredging propositions throughout the world led to the formation of the Canadian-registered Placer Development syndicate in 1926, in which he was joined by a New Zealand engineer, an American and a fellow Australian. Australian capital was apparently predominant in Placer Development. With Freeman as president, Placer Development explored mining possibilities in Canada, the United States, South America, New Zealand, Australia and finally New Guinea. In 1926, Freeman obtained an option from Guinea Gold, though examination of the option was not conducted until 1928, partly because Freeman remained concerned with the difficulties of transporting equipment to the field. Further testing removed doubts as to the worth of the field and by the end of 1929 he acquired the greater number of concessions along the Bulolo River, and prepared an ambitious plan to fly in dredges and generating equipment. Bulolo Gold Dredging Company was floated with a capital of Can\$4 million, which was later increased to Can\$6 million. Reflecting the truly international character of the company, shares were issued in Australia, London, Canada and the United States. In each case, there was an over-subscription of the quota allocated.¹¹⁷ With funds secured, Bulolo Gold Dredging Company began to work its concession over the richest section of the Bulolo River.

Both companies began to buy further concessions to consolidate their overwhelming dominance in gold mining in New Guinea. Changes to mining ordinances hastened this process by requiring miners to spend a minimum sum in development work each year. Some Australian syndicates did begin to work their concessions. Day Dawn (N.G.) Ltd was engaged in reef-mining and Koranga Gold Sluicing Ltd of Sydney recovered gold by means of hydraulic sluicing and dredging.¹¹⁸ But most of the syndicates and companies that had acquired claims or leases during the latter 1920s, found the demands of raising funds and importing machinery rather overwhelming and accepted or sought offers from the two giant mining corporations.

This demand for capital presented greater problems for those companies engaged in the search for oil. Some of the Australian companies exploring for oil in Papua and New Guinea had exhausted the comparatively little capital at their disposal and, unable to present their shareholders with confident reports of the future, were unsuccessful in attracting any further interest on the Australian stock exchanges. They were forced to negotiate the sale of their concessions to other interested parties and, given the lack of support within Australia and the restrictions on the entry of non-British capital, this often meant approaching English companies.¹¹⁹ W.A. Freeman was associated with a more enter-

prising endeavour to mobilise funds within Australia to finance exploration in Papua and New Guinea. Freeman was chairman of the holding company Oriomo Oil Ltd which was to be modelled along the lines of the Malayan group of tin companies with which he was associated. Oriomo Oil floated three subsidiaries: Oil Search Ltd, which was to conduct exploration in Papua, New Guinea and New Zealand, and Oriomo Exploration Ltd and the Oil Search subsidiary Kamilaroi Oil Company Ltd which were to be engaged in the search for oil in Papua and New Guinea.¹²⁰ Oriomo Exploration did not engage in any productive activity, while Oil Search soon exhausted its funds, having spread its exploration far too widely.¹²¹ Freeman, having realised that the testing of the company's concessions would require much greater financial and technical resources than had previously been expended, began looking for a means of maintaining the company's interest in Papua and New Guinea. An approach was made to a number of large oil companies, the outcome of which was the union of Oil Search with the D'Arcy Exploration Company Ltd (a subsidiary of Anglo-Persian Oil), and the Vacuum Oil Company, through the formation of the Australasian Petroleum Company Pty Ltd.¹²² Those concessions not included in the arrangement became the subject of subsequent negotiations but Oil Search, responsible for raising one-third of the funds for the Australasian Petroleum Company, was reluctant to commit itself to financing any further project and in 1939 an agreement was reached for the Caltex Oil Company to buy the title to other Oil Search concessions. In the event of oil being discovered, Oil Search would receive a royalty.¹²³

The sale of concessions to, and the amalgamations with, the large oil conglomerates had been permitted following the complete reversal of the policy that had underlined the Government's assumption of initial responsibility and subsequent assistance to Australian enterprise in the search for oil in Papua and New Guinea.¹²⁴ Such a policy had even promoted the suggestion that the Commonwealth Government should colonise Portuguese Timor to protect Australian mining interests in that territory.¹²⁵ But, by the end of the 1920s, with the promise of rapid development of the gold-mining industry by overseas companies and with the lack of success of Government or Australian-owned companies in the search for oil, the Government agreed to the entry of foreign capital into mining in Papua and New Guinea and removed most nationality requirements for majority British ownership. This change in legislation also overcame a cause of embarrassment to the New Guinea Goldfields Company. Its British parent, The Mining Trust Ltd, had sold a controlling share of its equity to an American mining corporation to raise further funds for development, with the result that it no longer complied with the requirement that two-thirds of share capital be British-owned.¹²⁶ Government preparedness to remove these nationality requirements occurred as capital formation in the mining industry rose for the first time in a decade. Yet the Government was prepared to concede that capital mobilised within Australia could not reasonably be

expected to develop a domestic oil industry let alone one in the Australian territories, despite the fact that foreign investment had been relatively unimportant in the main growth sector of the economy, manufacturing industry, where foreign investment was estimated to account for only one-seventh of new capital formation.¹²⁷ It should be noted that this acquiescence in the entry of private foreign capital coincided with the Government's own attempts to raise funds in the United States, thus ending the long tradition of borrowing only in London.¹²⁸ The removal of legislative restrictions on the entry of foreign capital into mining in the territories paved the way for the entry of the non-Australian (non-British) oil conglomerates to undertake exploration in their own right.¹²⁹

It was not only Australian companies operating in Papua and New Guinea that were subject to these pressures. Timor Oil Ltd had tried to prevent the incursion of competition into Portuguese Timor. When it could not secure the colonial administration's support it hoped to raise finance by leasing a section of its concession, and later amalgamated with another small Australian oil prospecting company.¹³⁰ The experience of the Collins House subsidiary is more illuminating. With an issued capital of some £500 000 in 1928, Taranaki Oil Ltd had only one drill in operation. Further exploratory work was beyond its immediate financial resources and, through its subsidiary Waiau (N.Z.) Oilfields Ltd, Taranaki sought the active participation of Anglo-Persian Oil. Unsuccessful, the company approached Vacuum Oil to join it in partnership. When nothing came of this the company was forced to suspend all operations.¹³¹ Taranaki's director, Sir Colin Fraser, then proceeded to the United States to approach various North American concerns to examine the company's options. He attracted some interest and Vacuum Oil entered into agreement with Taranaki and its subsidiary companies to take over exploration of the concessions by forming New Zealand Petroleum Ltd in 1938.¹³² New Zealand Petroleum also acquired concessions held by an Oil Search subsidiary.¹³³

In the depths of the Depression, when the monthly mining journal *Oil and Gold* was presenting the development of the gold-mining industry in New Guinea, and the hopeful discovery of oil reserves in Australia, Papua or New Guinea as the 'Key to Prosperity', an editorial argued that: 'Capital will be forthcoming for the development of this... industry as the people of Australia realise its necessity' as a means of lifting the gloom and creating new wealth.¹³⁴ A month later *Oil and Gold* was to publish its final issue. The important and leading contribution Australian capital had made in its own right to the development of mining in south-east Asia and the Pacific, was brought to an end because of the much greater capital requirements and the rising importance of international mining conglomerates, together with government acquiescence in both those tendencies by removing obstacles to the entry of foreign capital. Australian capital had become interlocked with, or sub-

ordinated to, capital of other countries in the process of internationalisation.

IV

The displacement of Australian enterprise from being directly engaged in wholly-owned overseas mining ventures was not without opposition nor did it mean an end to such ventures. But the protests against the foreign corporate invasion had little success and the activities of Australian-controlled and -financed mining ventures were more limited and confined than they had been in the previous twenty years.

As was noted earlier, small miners in New Guinea had sought some protection from the entry of large mining companies. They occupied leases, seeking a re-distribution of rights over the alluvial fields. A Royal Commission appointed to settle the dispute offered them some concessions, recommending that preference be given to individual miners or small syndicates, although this offered little compensation for those miners on the Edie Creek and Bulolo River fields where the Commission sought to justify the mining of extensive areas by the individual companies.¹³⁵ Within Australia, moves by the Government to hasten the concentration of New Guinea mining leases to favour the larger companies aroused considerable antipathy towards leading figures within the Labor Government of the day. Changes in mining ordinances to make them more appropriate to the 'New Guineas situation' were, according to *Smith's Weekly*, no more than an attempt to permit a company in which Labor Treasurer E.G. Theodore and Labor MHR Frank Ansley were interested, to consolidate its hold on leases and escape its obligations to labour. The company, the Upper Watut Gold Mining Company Pty Ltd, had been floated by John Wren and in a biography of Wren challenging Frank Hardy's *Power Without Glory*, Niall Brennan argued that the attempt to associate Theodore and Ansley was merely a further, and unjustified, attempt to discredit Theodore. The evidence suggests otherwise. Contrary to Brennan's argument, both Labor figures were involved in the company and stood to benefit from changes in the mining ordinance and, no doubt, did when the company sold its leases to the Bulolo Gold Dredging Company.¹³⁶

The fate of small miners on the Edie Creek-Bulolo River having been sealed, further opportunities for the venting of their bitterness towards the two dominant mining companies arose. Many of the miners were absorbed into the employ of the companies as managers and overseers. The possibility of gain through speculative endeavour was replaced by industrial action.¹³⁷

There appears to have been a more concerted defence campaign waged on behalf of Australian oil exploration companies against the incursion of foreign-owned companies. This may well have been a consequence of the dominance of the oil giants, particularly given their rapid acquisition

of world reserves and the dramatic rise of the American oil companies. Calls for state aid had long been a feature of local capital in their search for oil. Companies exploring for oil in Papua, New Guinea and Portuguese Timor had all made appeals for state assistance.¹³⁸ Taranaki Oil Ltd prepared a well-developed document advocating that definite advantages would arise from state financial assistance for private oil exploration and drilling in New Zealand.¹³⁹ The Commonwealth Government had, in fact, been convinced of the desirability of being independent of overseas oil supplies and companies, hence its interest in funding the search for oil in Papua and New Guinea and establishing the Commonwealth Oil Refineries.¹⁴⁰ The Government had also altered oil mining ordinances to discourage private companies from conducting tests over too-wide an area, a practice which was hastening the exhaustion of capital in superficial surveys.¹⁴¹

Some individuals involved in oil exploration were sceptical of the Government's sincerity with respect to Australian control of oil. One observer pointed to the lack of Government supervision over the Anglo-Persian Oil Company's activities in Papua and New Guinea, believing that there would be nothing to prevent the company from holding large oil deposits in reserve to the detriment of Australian companies.¹⁴² Then, when the Queensland Government moved to lift restrictions on the entry of foreign explorers, this was seen to anticipate the removal of restrictions throughout Australia and its territories as well as New Zealand, and the Commonwealth Government's ending of financial assistance to Australian explorers seemed to evidence this.¹⁴³ One response was for oil explorers to advocate the setting up of an Australian or Australasian Oil League to conserve funds and intensify oil exploration.¹⁴⁴ A Queensland Petroleum Institute was set up to fight the changes to legislation in Queensland, and The Petroleum Association of Australia and New Zealand formed to make similar demands.¹⁴⁵ Their pleas were unsuccessful in view of the belief of the different governments that the lifting of restrictions on the entry of foreign capital would provide the necessary funds for successful exploration and the development of local oil industries.¹⁴⁶

In spite of the overwhelming dominance of the New Guinea Goldfields Company and the Bulolo Gold Dredging Company in New Guinea gold-mining some Australian companies had survived to mine in Papua and New Guinea and new companies were formed.¹⁴⁷ The onset of the Depression, by bringing about a rise in the price of gold, had made gold-mining an even more attractive investment. By-mid 1932, with the devaluation of the Australian pound, the passing of a Commonwealth Gold Bounty Act to encourage gold-mining, and Britain's departure from the gold standard, the price of gold had doubled.¹⁴⁸ This brought a rush of company formations to explore for gold in Papua and New Guinea. The majority were small ventures floated by several syndicates; share capital in each was rarely in excess of £10 000 and the par value of shares was generally low, the aim being to attract funds from as many sources

as possible.¹⁴⁹ Several larger mining companies were floated by Australian groups during these years. These companies were to invest over £500 000 in developing reef-mining, sluicing and small dredging ventures.¹⁵⁰ Some groups had previous interests in mining overseas. The Prattens, for example, were interested in the company Gold Mines of Papua Ltd, which acquired Woodlark Gold Mines Ltd in 1937, but this company did not prove to be a profitable concern.¹⁵¹

The Prattens were also to take an interest in gold-mining in New Zealand where possibilities for profit appeared to be much sounder. The Prattens floated the Kanieri Gold Dredging Ltd with an issued capital of over £200 000 in 1936 and, by 1939, it was established as a highly profitable concern.¹⁵² The Pratten holding company, Alluvial Gold Ltd, formed another large dredging company, Barrytown Gold Dredging Ltd.¹⁵³ Yet the activities of these mining ventures were overshadowed by another company with which W.A. Freeman was associated. Austral-Malay Ltd formed the Austral-New Zealand Ltd which introduced the largest dredge ever to New Zealand, employing five times as many workers as dredges operating some twenty years before.¹⁵⁴

Australian mining syndicates also began exploring in Fiji again and in 1934 and 1935 several companies were formed to acquire concessions in Fiji.¹⁵⁵ Most were to disappear or be absorbed by Emperor Mines Ltd which was formed in mid-1935 with an authorised capital of £1 million. This was to prove to be one of the most profitable ventures in which E.G. Theodore and John Wren were involved. They had explored or promoted ventures in Portuguese Timor, Papua and New Guinea as well as Australia but none of these were to yield anything like the returns that Emperor Mines Ltd and its partner company, Loloma (Fiji) Gold Mines Ltd, yielded over the next few years.¹⁵⁶

Interest in exploring for gold extended to the Solomon Islands where several Australian companies were engaged in prospecting, including a company managed by Theodore.¹⁵⁷ There were still two Australian concerns mining for gold in the East, and an invitation from the Governor of Borneo for Theodore's assistance to explore for gold in that country prompted some interest in the formation of companies to follow the ex-Commonwealth Treasurer into the jungles of the East once again.¹⁵⁸ World War II very quickly severed the attraction in the East, bringing to a temporary halt Australian capital's involvement in tin-mining along the Malay peninsula and oil exploitation in Papua and New Guinea. Only in Fiji and New Zealand did Australian capital expand rapidly to reap profit from overseas mining endeavour.

CONCLUSION

Capital accumulation in Australia for much of the period before World War II was accelerated by the inflow of British capital. But this very process of hastening economic development through the import of capital locked the economy into a development path characterised by an

emphasis on production for export. The pace of capital accumulation within Australia, and especially in the dominant industries, was very much geared to the rate of capital inflow and to export earnings. When capital inflow dropped and export earnings were curtailed the economy was thrown into crisis, as was the case in the 1890s. This tendency was dependent upon there being limited opportunities for some degree of autonomous capital accumulation and, as has been argued above, this was a characteristic of the Australian economy for much of the first century of capitalist development. There were few facilities for the mobilisation of capital for investment outside the traditionally dominant industries until stock exchanges were firmly established in the Australian colonies from the 1880s.

The first sign of a weakening in this nexus between capital accumulation within Australia and Australia's situation within the world economy could be evidenced in the latter part of the nineteenth century. In particular, there were increasing endeavours to realise opportunities for mobilising domestic savings through the issue of shares on stock exchanges with the formation of enterprises to engage in production of commodities and services for the domestic market. The growth of such enterprises was impeded by the prolonged crisis following the 1880s. Economic recovery was evident from the mid-1900s and was characterised by the very rapid mobilisation of capital to fund further industrial expansion. The most striking feature of this recovery was the absence of capital inflow for the direct funding of private industrial development. The development of the Australian economy through to World War I was underwritten by the mobilisation of domestic savings and increasing exploitation of Australian workers. Herein lay the roots of a period of quite rapid capital accumulation marked by a much greater degree of autonomy than had previously been evident. The origin of the post-war development of the manufacturing industry may well be located within this period when the funding of capitalist endeavour became much less dependent upon Australia's situation in the world economy. Most certainly, as this essay has suggested, an important feature of the ability to attract domestic support for the formation of companies engaging in new enterprise was the export of Australian capital to develop mining interests, as well as plantation agriculture, in south-east Asia and the south-west Pacific. The accumulation of Australian capital from then on retained an international dimension.

It is far too simple a generalisation to argue that Australian development was wholly dependent upon its location within the British Empire. There was the increasingly real possibility of a more independent or autonomous industrial development. This was evidenced in the internationalisation of Australian capital itself and this, of course, provides the opportunity to view the process of Australian capital accumulation in an international economy from another perspective. What is evident is that the accumulation of Australian mining capital in the international sphere did not proceed smoothly or linearly. Recognising that the inter-

nationalisation of Australian capital was a comparatively recent phenomenon and was, as well, comparatively insignificant in the context of the general internationalisation of capital of more-firmly established origins, the development of Australian capital in the international arena occurred within existing and changing constraints. The tendencies towards the increasing concentration of capital internationally and the process of nationalisation that accompanied this did result in the disappearance of some individual capitals and the subordination of others.¹⁵⁹ Likewise, the much greater requirements for capital with which to establish competitive undertakings, given the international concentration of capital, placed some ventures beyond the reach of Australian capital. The accumulation of Australian capital was, then, constrained by the very fact of its limited development, possibly relegated to what some might refer to as a comprador status. But the very process of internationalisation did not necessarily subject Australian capital to some other national capital. As the French Marxist Christian Palloix has argued: 'the internationalisation of capital of any nation is constantly crossed with the reproduction of other capitals on an international scale'.¹⁶⁰ In fact, the origin of capital could well become obscured in the very process of intermeshing. This might be said of the tin industry, the international concentration of which did lead to the removal of some Australian capital from that industry. Placer Development and the Bulolo Gold Dredging Companies which were heavily supported by Australian capital are more indicative of this process. In such a case, the role of the state in assisting this sphere of capital accumulation was not one that was necessarily subordinate to foreign capital but to the process of international capital accumulation. And, finally, the tendencies towards the internationalisation of capital did not lead to the disappearance of all Australian capital from the international arena. The accumulation of Australian capital internationally continues. The origins of the expansive nature of Australian capital and its subsequent trajectory have to be explained if the place of Australia in the world economy is to be fully understood.

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 - 14 Cochrane, op.cit., p. 34; A.R. Hall, *The London Capital Market*, op.cit., p. 37; R.L. Nash, *Australasian Joint Stock Companies Year Book, 1907*, p. xxiii, *1913-14* p. xxvii.
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- 83 By the Suva Prospecting Syndicate, the Suva Development Mining Company N.L. and Fiji Gold Options N.L. Fiji Exploration Company Pty Ltd. See P.R.O. 567/9146, 567/9183, 567/9188 and 932/7655 respectively.
- 84 Ajura Gold Dredging Company N.L., P.R.O. 567/9258; Brisbane New Guinea Prospecting Co. Ltd, Queensland State Archives A28361, No. 5/1915.
- 85 A.M.S., 18 January 1923, p. 89, Rabaul Prospecting & Exploration Co., Waria River Gold and Platinum Options N.L., Morobe Prospecting Association N.L., Madang Exploration N.L.
- 86 A.M.S., 17 April 1924, p. 591; 5 June 1925, p. 848; 24 July 1924, p. 137.
- 87 See A.M. Healy, 'Bulolo: A History of the Development of the Bulolo Region, New Guinea', *New Guinea Research Bulletin* 15, March 1967, ch. 4; Arthur Dickinson,

- 'New Guinea', *Mining Magazine* XLIII, 5.
- 88 'The Bulolo Goldfield New Guinea', *Chemical Engineering & Mining Review* XX, 233, 6 February 1928.
- 89 Healy, op.cit., pp. 26-7; *A.M.S.*
- 90 Morobe Guinea Gold N.L. was formed with an authorised capital of £200 000, *A.M.S.*, 2 September 1927, p. 323.
- 91 For example, H. Byron Moore and A.W. Palfreyman formed Kaindi Gold N.L. with Charles Levien, P.R.O. 567/9550.
- 92 Healy, op.cit., ch. 5.
- 93 For example, Thomo Gold N.L., Siam, *A.M.S.*, 6 December 1923, p. 877.
- 94 For example, The Shotover Gold Dredging Company N.L., *A.M.S.*, 29 May 1924; 7 August 1924, p. 221; 17 March 1927, p. 294; Kawarah Gold Syndicate, P.R.O. 567/9401; *A.M.S.*, 30 April 1925, p. 378.
- 95 New Caledonia Prospecting Company Pty Ltd, P.R.O. 932/19647.
- 96 Eepango Sulphur Pty Ltd, P.R.O. 932/17824.
- 97 *A.M.S.*, 9 October 1924, p. 554; 25 June 1925, p. 833; 14 January 1926, p. 55; 18 March 1926, p. 316; Timor Petroleum Company Ltd, P.R.O. 932/10560; Stock Exchange of Melbourne, *Official Record*, 31 January 1927.
- 98 These included: Bux Tin N.L. Netherland, Eastern Oilfields Ltd, Burix Plantations and Oil Company Ltd, The Borneo Exploration Company N.L. See *A.M.S.*, 22 June 1922, p. 1146; 27 September 1923, p. 487; 27 March 1924, p. 477; 17 July 1924, p. 106; 14 January 1926, p. 55; 18 March 1926, p. 316; 27 May 1926, p. 615; P.R.O. 932/8425.
- 99 Anglo-Persian Oil Company, *The Oil Exploration Work in Papua and New Guinea Conducted by the Anglo-Persian Company on behalf of the Government of the Commonwealth of Australia*, Government Printer, 1930; *A.M.S.*, 19 July 1923.
- 100 *A.M.S.*, 12 May 1921, p. 825; 13 March 1924, p. 408; 24 April 1924, p. 633.
- 101 Anglo-Persian Oil Company, loc.cit., Australia-Joint Committee of Public Accounts.
- 102 *News and Views*, February 1928; The Commonwealth Petroleum Prospecting Act, *A.M.S.*, 31 March 1927, p. 354.
- 103 *A.M.S.*, 4 September 1924, p. 372; 25 September 1924, p. 479; 6 November 1924, p. 685; 1 January 1925, p. 18; 16 July 1925, p. 85; 27 August 1925, p. 397; 29 October 1925, p. 593; 17 December 1925, p. 796; 21 October 1926, p. 461. Some of these companies included: Mandated Development Company Ltd, Matapau Oil Corporation Ltd, New Guinea Oil Company Ltd, Ormildah Oil Development Company Ltd, Nabo Oil Development N.L., Ramu River Oil Development Company, Oriomo Oil Company, Vogel (Papua) Petroleum Company, Waitrau Oil Company Ltd.
- 104 Taranaki Oilfields Ltd. The subsidiary companies included Waiapu Oilfields Ltd, Gisborne (N.Z.) Oilfield Ltd.
- 105 Waipatiki Petroleum Products Ltd, *A.M.S.*, 1 July 1926, p. 17.
- 106 Geoffrey Blainey, *The Rush That Never Ended*, op.cit., p. 289; N.G. Butlin, *Australian Domestic Product—Investment and Foreign Borrowing 1861-1938/39*, loc.cit. The Butlin estimates indicate that over the period 1920-27 gross capital formation totalled only some £10.6 million. This compares with some £7 million invested in Eastern tin companies, at least as much as £500 000 invested in gold-mining in Papua, New Guinea and New Zealand, probably over £1.25 million in oil exploration and drilling in Papua, New Guinea, New Zealand and the East and some £250 000 in copper mining in Papua, a total indicating that new capital information in overseas mining ventures by Australian capital was not much less than gross capital formation in the mining industry within Australia.
- 107 See the reports by Charles Kerry, *A.M.S.*, 9 June 1927, p. 621; 24 November 1927, p. 565; Yip Yat Hoong, op.cit., p. 162.
- 108 *A.M.S.*, 29 March 1928, p. 331; 10 May 1928, p. 451; 7 June 1928, p. 347.
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- 120 Oriomo Oil Ltd, *Annual Reports*—Mitchell Library.
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- 122 Australasian Petroleum Company Pty Ltd, *Geological Results of Petroleum Exploration in Western Papua, 1937-1961*, Adelaide, 1961; *Oil Exploration in Papua and the Mandated Territory of New Guinea*, 1940.
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- 125 E.L. Piesse, The Spheres of Interest of Australian and New Zealand—Future Policy, 1920, enclosed E.L. Piesse Papers, National Library, MS 882, Item 3/26/28.
- 126 Mining and company ordinances were changed to permit the entry of oil companies whose capital was not at least two-thirds British-owned, *Oil News and Views* 15 January 1929. Cabinet Secretariat I: Lyons and Page Ministries, Australian Archives CRS A2694, Vol. 2, Agenda 78, 27 February 1932. The Cabinet agreed to reduce the British nationality requirement to 55%. See also Geoffrey Blainey *Mines in the Spinifex*, Angus & Robertson, 1962, pp. 138, 166, 179. Memo relating to the British Nationality Restrictions in Papua and New Guinea 27 January 1938, enclosed Sir Earle Page papers, National Library, MS 1633, Item 702.
- 127 N.G. Butlin, *Australian Domestic Product*, op.cit., p. 340; Colin Forster, *Industrial Development in Australia, 1920-1930*, A.N.U., Canberra, 1974, p. 21.
- 128 The Australian Government sought to raise £15 million in the U.S.A. in 1925, *A.M.S.*, 23 July 1925, p. 97.
- 129 For example, Caltex Oil began exploring in Papua and New Guinea, *Chemical Engineering and Mining Review*, 10 July 1942, p. 392.
- 130 *A.M.S.*, 24 March 1927, p. 324; 19 July 1928, p. 65; 15 August 1929, p. 137.
- 131 Waiau (N.Z.) Oilfields Ltd, P.R.O. 932/11376, reports dated November 1931, 3 August 1932, February 1933. See also Waitangi (N.Z.) Oilfields Ltd, P.R.O. 932/11286.
- 132 Waiau Oilfields Ltd, op.cit., reports dated 10 June 1936, 28 February 1937; Vacuum Oil Company Pty Ltd, *Our Search for Oil*, n.d.
- 133 Oil Search Ltd, 22 December 1938.
- 134 'Oil and Gold', March, June, July 1930. In fact, there were some quite tangible benefits for the Australian economy arising from overseas mining. In particular, imports of gold bullion from Papua, New Guinea, Fiji and New Zealand offset the deflationary effects of the export of funds, of loan capital and interest payments to Britain during the 1930s.
- 135 James Griffin, Hank Nelson, Stewart Firth, *Papua New Guinea: A Political History*, Heinemann Educational, Victoria, 1979, pp. 33-4.
- 136 Niall Brennan, *John Wren, Gambler: His Life and Times*, Hill of Content, Melbourne, 1971, pp. 166-8. See also John Robertson, *J.M. Scullin: A Political Biography*, University of Western Australia Press, 1971, pp. 249-51; K.H. Kennedy, *The Mungana Affairs*, University of Queensland Press, 1978. Upper Watut Gold Mining Company Pty Ltd was floated in July 1927 by John Wren, Frank Ansley and Richard Lean to acquire dredging leases held by Wren. The capital issued totalled £104 000, almost all of which was issued in return for the leases. Wren subsequently sold shares to E.G. Theodore. See P.R.O. 932/1276.

In 1930, the Labor Government Cabinet met to discuss recommendations for changes in the New Guinea Mining Ordinance. These recommendations had been

- drafted by Theodore, Ansley and Beasley and, in effect, recommended the consolidation of leases in New Guinea to enable large-scale development of mining. (Cabinet Secretariat: Scullin Ministry, Minutes, Australian Archives CRS A3264, 18 March 1930). After these recommendations were implemented the Upper Watut Gold Mining Company sold its concessions to the Bulolo Gold Dredging Company.
- 137 Colin Newbury, 'Colour Bar and Labour Conflict on the New Guinea Goldfields, 1935-41', *Australian Journal of Politics and History*, xxi, 1975.
- 138 *A.M.S.*, 25 November 1926; Stock Exchange of Melbourne, *Official Record*, 29 February 1928, p. 71.
- 139 *A.M.S.*, 27 January 1927, p. 101.
- 140 D.J. Amos, 'The Story of the Commonwealth Oil Refineries and the Search for Oil', E.J. McAlister and Company 1935; *News and Views*, February 1928.
- 141 *Oil News and Views*, June 1928.
- 142 *ibid.*, 15 May 1929.
- 143 *A.M.S.*, 14 November 1929, p. 403; 21 November 1929, p. 410.
- 144 *Oil News and Views*, 15 May 1929.
- 145 *Oil News and Views*, 15 September 1929, November 1929.
- 146 On the Queensland Government's acceptance of such an argument, see *Oil News and Views*, December 1929.
- 147 See *A.M.S.*, 22 August 1929, p. 155; 17 October 1929, p. 315; 24 October 1929, p. 335.
- 148 F.R. Lee, 'Australian Gold Mining Revival', Stock Exchange of Melbourne, *Official Record* 25, 6, June 1932.
- 149 For example, there were some dozen or so companies registered in Victoria during the 1932-1934 period.
- 150 *Chemical Engineering and Mining Review*, 5 June 1934, p. 369.
- 151 Some of the larger companies included Day Dawn (New Guinea) Ltd, Sunshine Gold Development Ltd, Cuthbert's Misima Gold Mine Ltd, Koranga Gold Sluicing Ltd, Sandy Creek Gold Sluicing Ltd. These companies had an operating capital of over £500000. J.B. Braithwaite, 'Gold Mining in New Guinea', *Chemical Engineering and Mining Review*, 15 February 1938, pp. 169-70; Taylor & Morley, op.cit., pp. 54-9. Gold Mines of Papua Ltd, Annual Reports, 1937. Pratten also formed the New Guinea prospecting companies: Alluvial Gold (Oceanic) Ltd, and New Guinea Gold Alluvials Ltd, *Chemical Engineering and Mining Review*, 5 November 1932, p. 53; 5 April 1933, pp. 230-1.
- 152 Kanieri Gold Dredging Ltd, *Annual Reports*, 1937 ff.
- 153 *Chemical Engineering and Mining Review*, 5 December 1934. It is probable that the initial funds employed in floating Gold Mines of Papua and Alluvial Gold Ltd and its subsidiaries, Alluvial Gold (Oceanic) Ltd, New Guinea Alluvials Ltd, Barrytown Gold Dredging, Arahura Gold Dredging Ltd, were derived from the final receipts of the sale of Pratten's tin-mining interests—*Chemical Engineering and Mining Review*, 5 June 1934, p. 332; 8 July 1936, p. 345.
- 154 J.H.M. Salmon, *A History of Gold-Mining in New Zealand*, Government Printer, Wellington, 1963, pp. 176-7.
- 155 These included Mt Kasi Mines Ltd, Fiji Mining Corporation N.L., Gold Mines of Fiji N.L., Loloma Gold Mines N.L., Emperor Mines Ltd, Aloha Central Gold Mines N.L., *Chemical Engineering and Mining Review*, 5 January 1934, p. 169; 8 March 1935, p. 199; 8 May 1935, p. 269; 8 August 1935, pp. 414; 8 June 1936, p. 345; V.S. Whitelaw, 'Gold Production and the Mining Community in Fiji', *New Zealand Geographer* 23, 1, 1967.
- 156 Irvin Young, *Theodore, His Life and Times*, Alpha Books, Sydney, 1971, ch. 29. Wren was the largest shareholder in Timor Oil in 1926.
- 157 Solomon Island Gold Sluicing Ltd, South Kiki Gold Ltd, Australian Gold Development N.L., Solomon Gold Mines N.L., *Chemical Engineering and Mining Review*, 8 March 1937, p. 254; 8 April 1937, p. 290; 8 June 1937, p. 332; 10 May 1939, p. 347; Young, op.cit., p. 167; Colonial Reports—Annual No. 1820, *British Solomon Islands Protectorate*, p. 21.
- 158 Young, op.cit., p. 168; Borneo Gold Explorations N.L., Borneo options, Borneo Concessions, P.R.O. 567/10206, 567/10237, and 567/10268 respectively.
- 159 Mandel concentrates on this process: Ernest Mandel, *Late Capitalism*, N.L.B., 1975, pp. 313-17.
- 160 Christian Palloix, 'The Internationalisation of Capital and the Circuit of Social Capital', in Hugo Radice, *International Firms and Modern Imperialism*, Penguin, Harmondsworth, 1975, p. 76. See also Nicos Poulantzas, *Classes in Contemporary Capitalism*, N.L.B., pp. 59-60.

9

THE PUBLIC POLICY OF INEQUALITY: FRASER'S LIBERALISM

BRIAN HEAD

Introduction

IN MID-1981 THE Liberal-NCP Federal Government gave a further demonstration that its neo-conservative support for a smaller public sector was not mere rhetoric.¹ The 'razor gang'—the Federal Cabinet committee reviewing Commonwealth functions—reported on 30 April 1981. It recommended wide-ranging cuts in federal spending programmes, staff redundancies, abolition of some agencies and services, reintroduction of some tertiary education fees, mergers of some tertiary institutions, and the sale of certain assets and business undertakings.² On 4 May 1981, the Premiers' Conference was informed that Commonwealth payments to the States would be reduced in real terms for 1981-2. New public health policies were also announced at this time, including the abolition of the 50-50 hospital cost-sharing arrangement between the Commonwealth and the States, and the destruction of the last vestiges of Medibank. On 19 June 1981, the Loan Council substantially cut the level of public loan monies available for State works and infrastructure programmes.³

These and similar measures warmed the hearts of the monetarists and anti-welfare business lobbies, whose only complaint was that the razor-gang cuts had only scratched the surface of 'bloated' government bureaucracies (the net savings were estimated at \$560 million). By contrast, the hard-line monetarists in the Tory Cabinet in Britain enforced massive cuts in spending (while unemployment figures climb beyond 11% of the workforce). Thatcherism in Britain is opposed inside the Tory party by a vocal minority adhering to a more expansionary Keynesian and welfarist perspective (the so-called 'wets' in the Tory leadership). In Australia, Fraser's critics and rivals in the Liberal party (including Andrew Peacock, usually seen as a soft-line Liberal) cannot afford to be seen as 'wet' on economic and social issues, so strong has

become the orthodoxy on cutting the public sector.⁴ In non-Labor circles, there is now a stock assumption that the health of the private sector is in inverse relation to the growth of public revenues and expenditure; and that 'individual liberty' is increasingly threatened by such centralisation of power in public bureaucracies. Public sector activities are coming under more exacting scrutiny to eliminate duplication, streamline decision-making, and maximise efficiency and accountability.⁵

Liberals and the public sector: an overview

Although the Liberal party is solidly in favour of public sector cuts and a rationalisation of function, it would be wrong to exaggerate the extent to which 'market-liberal' fundamentalism has taken hold. There are no Liberal leaders urging a wholesale dismantling of government activities; and their NCP coalition partners are even more determined to retain the extensive systems of subsidies, guaranteed markets, and statutory bodies catering for the interests of primary producers. Thus the attack on the public sector and the attempted deregulation of some industries under close federal controls (e.g. communications, defence supplies, civil aviation, and perhaps banking) will be restrained by conservative vested interests almost as much as by opposition from the labour movement. In the same way, moves towards deregulation of trade by slashing protective tariffs would be strongly opposed by many corporations, trade unions and even by State governments.

The significance of Fraser's Liberalism does not lie simply in the fact that it has managed to prune substantial (but not huge) amounts from federal spending and activities. It is true that certain areas of spending have been severely cut or even abolished (e.g. funds for women's refuges) and that these cuts have usually been against the interests of the poor. But the *overall* reduction in federal spending as a proportion of GDP (gross domestic product) has been modest. From a peak of 30% in the last Labor budget of 1975-76, it gradually fell to about 28% in 1980-1 under the Fraser regime.⁶ More significant are the *shifts* in spending priorities within this reduced level of federal activity. The character of the Fraser government is revealed by examining its activities in four areas: welfare-related spending, taxation policies, industry assistance, and regional (or Federal-State) policies. While these do not cover all the main areas of government activities, they provide a useful introduction to understanding the role of the capitalist state in Australia since 1975, and the brand of Liberalism espoused by Mr Fraser.

Neo-conservative Liberalism in Australia is clearly not directed towards a 'classical' low-taxation/low-expenditure pattern, typified by laissez-faire. Fraser Liberalism, on the contrary, has involved an anti-inflationary regime of increasingly high taxation; and a relatively high but contracting level of spending with important shifts in priorities. Federal tax revenue as a proportion of GDP rose from 22% in the Liberal budget of 1972-3 to 25% under Labor in 1975-6; under Fraser,

however, this has continued to edge upwards, reaching 26.7% in 1980-1.⁷ With outlays now increasing at a slower rate than revenue, it has become possible for the Treasurer, John Howard, to reduce the budget deficit and Commonwealth demand for loan monies. It also allows him to offer attractive tax cuts before the 1983 Federal election, after having abolished full indexation of income-tax in 1980.

Growth in the major areas of federal outlays has been reversed under the Fraser government, with three important exceptions. *First*, and somewhat surprising for a government taking a tough line on welfare claimants, is the category of social security payments. 'Social security and welfare' spending (consisting mainly of income-maintenance benefits and pensions) accounted for between 21% and 23% of the Whitlam government's budgets. This proportion has continued to rise during the Fraser years, exceeding 27% in 1977-8 and remaining around that level in the next three budgets.⁸ There has been a tightening of eligibility criteria, a pruning of welfare rolls, and the erosion of the value of some benefits (especially family allowances). Despite all such cost-cutting, the social security bill has remained high. Cabinet has been unable and unwilling to make drastic cuts in this area. There are four main reasons for the large outlays on income-maintenance programmes. The economic crisis worsened after 1975, swelling the numbers of unemployed; increasing numbers are becoming eligible for old-age pensions owing to an ageing population structure; most other types of pensions (e.g. widows, supporting parents, sick and invalid) involve fixed or expanding numbers; and finally, the government wants to project a paternal image of caring for those who cannot earn a living, and it fears electoral unpopularity if this image is shattered.

The *second* area of federal spending which has moved against the tide of cost-cutting is defence (a priority Fraser shares with the Thatcher and Reagan régimes). Defence spending had drifted downwards in the period after the Vietnam war, and averaged about 9% in the years after 1974, after having peaked at 19% in 1967-8. To some extent, the revival in defence spending to nearly 10% in 1980-1 (with further increases foreshadowed) is merely a return to the long-term norm.⁹ But the current upturn has been provoked by Fraser's anti-Soviet preoccupations and a perceived need for expensive new equipment. (By placing most of these orders overseas, the policy might be construed as an indirect contribution to the deflationary programme of the government.)

The *third* area of increased spending is assistance to industry, discussed in more detail below. Other changes in policy have generally been marked by a shift of resources away from what the neo-conservatives see as 'unproductive' areas (such as public housing, health services, urban renewal, and state education—which usually benefit the poorer groups), towards policies favouring an expansion of business activity and private investment. In other words, there has been a transfer of resources in favour of the corporate rich. Taken together with the changes in 1977 to the personal income-tax scales (mostly benefiting

those on higher incomes), and the government's strong opposition to the growth of real wages and to shorter working hours, it is clear that Fraser's Liberalism is essentially a matter of redistributing resources to the already rich.

Industry assistance policies and attempts to facilitate economic restructuring have involved continuous state intervention in the interests of various sections of capital. The direct and indirect forms of industry assistance provided by the Fraser government have been estimated by the Labor party at around \$10 billion for 1980-1.¹⁰ An important mediating role in industrial policy is played by statutory bodies (e.g. Industries Assistance Commission) and by Committees of Inquiry (e.g. on structural adjustment, taxation, banking, and technological change). The economic growth which is expected from stimulating private investment will be especially encouraged in three areas: minerals and energy raw materials, energy-intensive processing of minerals, and selected types of high-technology manufacture. These are the specialisations in which Australia is thought by the Fraser government (and the IAC) to have a 'natural' or comparative advantage in world markets. Unfortunately these industries are also notable for their reliance on foreign capital and techniques; and their capital-intensity suggests they will not create large numbers of new jobs.

Finally, it is necessary to note the role of regionalism and Federal-State finances in Fraser's Liberalism. The 'new federalism' policies of the coalition since 1976 have not proved to be the fiscal bonanza anticipated by the non-Labor Premiers who helped formulate the policy in September 1975.¹¹ Commonwealth payments to the States reached 32.4% of the last Labor budget in 1975-6, but were no greater after five years of Fraser 'new federalism'. In fact, grants and loan monies for the States became increasingly subject to the Fraser government's deflationary approach to public sector finance. Expansion of State spending, borrowing and employment was seen as incompatible with austerity and retrenchment at the federal level. Consequently there have been real cuts in State funding in recent years, and strict curbs on the States' borrowing programmes for capital works and development infrastructure. The federal component of total public loan-raising has been cut over a five-year period from 78% in 1975-6 to around 43% in 1980-1. State and local authorities have correspondingly found their share increasing to more than half of total public borrowings for the first time since 1973.¹² The Fraser view is that lower public borrowing is necessary to allow the private sector better access to loan funds, and also to reduce pressure on interest rates and the money supply. The States have found that Fraser's centralist control of fiscal matters is less generous and just as firm as in the Whitlam period.

Liberalism and inequality

This overview of Fraser Liberalism in operation suggests that the government since 1976 has intentionally pursued a public policy of

inequality. In discussing why this link exists between Liberalism and inequality, attention will be focused on two main explanations. The first is that the Fraser government's particular view of the causes of the current economic crisis suggests that the only remedy requires a transitional phase of increased inequality until economic recovery has been achieved. In other words, a transfer of resources towards investors, employers and corporations is an essential pre-condition for generating a return to fuller employment and a wider distribution of wealth through rising real wages. With high interest rates, tight credit, and reduced consumer demand, some of the burden also falls on marginal businesses which cannot retain their market share or cannot borrow while awaiting an increase in demand for their goods and services. For wage-earners, the scenario is also pessimistic: falling real wages and fewer jobs. For the unemployed and welfare dependants, the outlook is even bleaker: a downward drift in the purchasing power of pensions and benefits, and tighter criteria for obtaining such entitlements. The special problems of youth, women and minority groups are exacerbated by the economic crisis.

The Fraser strategy assumes that cuts in public sector activity will 'make room' for private investment and employment. However, the interdependence of the private and public sectors is such that reduced activity in one sector will probably encourage a similar effect in the other.¹³ The associated strategy is to offer corporations larger investment allowances, export expansion grants, and other forms of industry assistance to encourage a higher level of private sector activity. The fact that this is funded by ordinary taxpayers is justified by the long-term objective of restoring economic growth. In the short term, however, it is necessary to provoke a rationalisation of capital, increased profitability of those enterprises which survive, and a labour force disciplined by a decline in the social wage.¹⁴ So the first explanation for the link between Fraser's Liberalism and inequality is that the latter is a necessary short-term phase facilitating a concentration of resources in the hands of the prime movers of the economic cycle—the capitalists.

The second explanation for Fraser's public policy of inequality is philosophical. Liberalism, for Fraser, is premised on the natural right to private accumulation of property and income. The rich have a right to possess and enjoy; the poor have the right to be poor and to better themselves. It is in the interests of the poor to support the existing arrangements because: (a) social stability is always desirable; (b) the poor have the opportunity to become rich themselves; and (c) no-one is really poor in advanced capitalism because of a high standard of material life and a system of income-maintenance. Liberalism is a philosophy of economic and political freedom, according to this orthodox view.¹⁵ Economic freedom means that the individual can choose how to gain an income, what proportion of that income will be consumed or invested, and how to dispose of acquired wealth. Political freedom is claimed to be indissolubly linked to a free (or market) economy: there is a parallel

between free trade in political opinions and beliefs and a free movement of the factors of production. Freedom, then, is basically a matter of exchange relations in the realm of politics and economics. There is nothing undesirable about economic inequality, or extremes of wealth and poverty, so long as the least fortunate citizens do not live in such squalor that the Liberal conscience is moved to invoke a standard of human dignity as an 'individual right'. This is the second reason for the link between Liberalism and inequality: there is nothing in the 'freedom' of market relations to justify significant controls over the massive accumulation of economic resources by a minority or exclusion from control of these resources by the majority.

What is the role of government in this philosophy of Liberalism? How is it possible for Liberalism to develop a social policy on the basis of this defence of the self-interested individual? Market liberalism can justify only a minimal role for government, consisting of preserving public order and maintaining the conditions which make possible a free market in commodities and beliefs. The latter objective *could* in principle justify a broad range of interventions into economic and political life, including anti-monopoly legislation, consumer protection, bans on price-fixing arrangements, rights of access to information, etc. but it could equally be used to justify deregulation of minimum wages, bans on strikes and boycotts, and the reintroduction of child labour. The principle is thus open to many interpretations. Common to all forms of liberalism, however, is a wide gap between their recognition of the evils of concentrated *political* power in a centralised state, and their relative blindness to the effects of concentrated *economic* power in the private sector. If concentrated power becomes irresponsible and autocratic in politics, why not so in the economy? Fraser's Liberalism sits on the fence: concentrations of economic power in large corporations are necessary, even desirable, because they can mobilise the investment and technical expertise required for huge development projects. On the other hand, collusion between oligopolistic firms or restrictive trade practices are not in the 'public interest', i.e. for consumers and small enterprises.

Fraser, like Menzies in 1944, insists that Liberalism has left behind its somewhat callous and indifferent phase of laissez-faire. State interventions in economic and social life are defended in several areas, e.g. economic management, industry assistance, and social policy expenditures. Policies designed to facilitate private enterprise and economic growth have always played some part in Liberalism, with the proviso that the state 'supports' rather than directly 'controls' private enterprise. However, the connection between Liberalism and social policy is more tenuous.

Historically, most liberals have also been humanitarian reformers, philanthropists, and advocates of a paternalistic concern for the 'less fortunate' members of society. However, this concern for the dispossessed does not flow directly from the central liberal principle of individual self-interest; it is more akin to the traditional *noblesse oblige*

principle of giving alms to the deserving poor. In so far as Liberalism can be said to have a social policy, it owes much more to electoral politics and community values than to an autonomous liberal principle of social welfare.¹⁶

Fraser's social policy may be summed up as follows:

- (a) The best remedy for poverty is economic growth.
- (b) The next best approach is a combination of contributory insurance and private charities.
- (c) A 'safety net' of frugal income-maintenance may be provided for those genuinely unable to earn a living wage.
- (d) A more comprehensive scheme of welfare entitlements would not only be too costly and bureaucratic, but is not the proper responsibility of the state.
- (e) In a period of economic recession, social expenditure must be curbed along with other outlays, and 'user pays' principles must be re-established in all spheres.

The Liberal concern with inequality does not lead to a concern for redistribution of wealth or democratic control of resources. It leads only to relieving some of the distress of the poor (pensions and benefits), and providing education and job-training for individual self-improvement. Thus, while dire poverty is no longer acceptable, there is nothing held to be undesirable about inequality as such. The Liberal theory of human nature assumes that leaders and elites are necessary; since only a few can gain these top positions, the important thing is to make competition for elite entry more open and equitable. Equality of opportunity thus emerges as a social principle of Liberalism. It is applied mainly to the field of education, which has been regarded as the key meritocratic avenue of upward social mobility. For Fraser, however, education funding had reached saturation levels; and so funds are now increasingly diverted into traditional elite schooling and into the skilled manpower requirements of industry, a more clearly defined class-based system of educational priorities, after more than a decade of expansion of educational opportunities.

The final defence of these policy assumptions by Liberalism is to claim that 'the people' are themselves opposed to economic equality. This is the position of Professor David Kemp, a policy adviser to Prime Minister Fraser. Kemp argued in 1977 that Australians are strong supporters of *social-egalitarian* values (such as sharing a common lifestyle, not being snobbish, and believing in non-discrimination on the basis of nationality, sex or religion), but that they are overwhelmingly opposed to *economic-egalitarianism* (such as severe restrictions on private accumulation of wealth, significant levelling of incomes, and public ownership of industry). Liberals champion social equality and oppose economic equality, according to Kemp, whereas Labor is seen by the voters as supporting both the economic and social dimensions of egalitarianism. This difference is said to explain in part the electoral superiority of the Liberals over the Labor party.¹⁷

Kemp's claims might be queried on a number of grounds, including the questions used in the opinion surveys and his view of the motivations of voters. But even if Kemp's argument is completely true, all it demonstrates is that Liberal campaign tactics are likely to portray Labor as confiscatory (as happened in the 1980 election), and that the Liberal party is not serious about equality. In other words, the Liberals are happy to pursue the public policy of inequality, disguised in a more palatable form as the policy of individual freedom and private enterprise. The link between the Liberal party and business interests has always been a subject of coy denial by party spokesmen. Kemp notes the mutuality of outlook, adding however, that any government is bound to deal sympathetically with the interests of business because the alternative would be economic and electoral disaster.¹⁸ The need to ensure business confidence and profitability is certainly a constraint on social democratic reform, as the Whitlam government found; and public ownership of particular sectors of industry would provoke fierce resistance from business interests, as the Chifley government found. The economic equality urged by the Labor party in the 1980s is not radical, but this will not prevent the Labor policies on mineral resource-rents and property taxes from being attacked as destroying incentive, the pillar of the Liberal mind.

The philosophical difference between the parties is that Labor seeks a modest redistribution of income (via the tax system and social security) from those who can most afford to pay towards those who are most 'in need', plus more democratic (or 'public') control over the use and benefits of resources; the Liberals believe that the state has a very small role to play in redressing the inequalities produced by market forces, and a large role to play in ensuring that the conditions for profitable investment are protected. There is an economic-class dimension to this difference, though the parties as they developed historically are not solely class parties. But the claim of Fraser Liberalism to govern in the interests of 'all Australians' has the same status as the claim that what is good for BHP is good for Australia. The public policy of inequality benefits business and the professions more than wage-earners and welfare-dependants.

The foregoing interpretation of Fraser's Liberalism will now be illustrated by a closer examination of welfare spending, taxation, industry assistance, and fiscal federalism.

Welfare expenditures

The main component of Commonwealth 'social security and welfare' spending consists of income-maintenance for those who cannot readily earn an adequate living—principally the aged, sick, or invalid pensioners, widows, supporting parents, and the unemployed. As noted above, the Fraser government has been unable to make major cuts in this area, for a variety of economic, political and demographic reasons. The

only way to peg back this area of spending would be to abolish some categories of entitlement, or to abolish cost-of-living increases for *all* pensions and benefits (as happened with family allowances). The political backlash would be too serious if this occurred, as foreshadowed by the outcry against the 1977 proposal to abolish funeral benefits for pensioners. In the current economic crisis, the demand for relief payments will remain high. The Australian Council of Social Service estimated that at the end of 1980 there were nearly two million Australians living below the poverty line, and noted that increasing numbers were being obliged to seek emergency aid from voluntary agencies.¹⁹ While international comparisons are somewhat unreliable, it is worth noting that Australian public expenditure on income-maintenance and other welfare programmes is below the average of similar wealthy nations.²⁰

Other sections of the Commonwealth budget which have a major impact on the welfare and life-chances of the poor in society include health, housing, and education. A brief examination of spending in these areas will throw some light on the priorities of the Fraser government.

Health spending in 1969-70 accounted for only 5.8% of the Federal budget. By the time the Labor government managed to get its Medibank scheme operating in 1975-6, health outlays had reached 13.7% of the budget. Fraser's Cabinet has restructured (or emasculated) Medibank several times with a view to reducing the fiscal burden on the Federal Government and increasing the role of private expenditure and insurance. Hospital costs have been more closely controlled, and the States have been increasingly forced to pick up a higher proportion of hospital and community-health funding. Federal spending on health services has thereby fallen to around 10% of budget outlays throughout the period of the Fraser regime. The States have not been able to find revenues to plug the gaps left by the gradual withdrawal of the Commonwealth. The health component of State and local authority budgets has been stable since 1975-6 at around 15% of their outlays, but with significant cuts in capital spending.²¹

Housing is the most important welfare component of budget outlays in the category of 'housing, community amenities and environment'. Spending in this category was greatly increased by the Whitlam government, rising from under 1% of the last Liberal budget in 1972-3 to a high point of 6% in 1974-5. Much of this spending was channelled through the new Department of Urban and Regional Development (DURD), the establishment of Land Commissions in conjunction with the States, and use of specific-purpose grants for urban renewal, regional growth centres, public housing, and sewerage programmes. Most of these projects and administrative structures were abolished or severely cut after the election of the Fraser government. Funding slumped to 3% of the 1976-7 budget, and to an estimated 1.3% by 1980-1. Taking the figures for public housing separately, spending in 1972-3 under the coalition had been 0.5% of federal outlays. This rose under Labor to a

peak of 3.8% in 1974-5. The downward slide was accelerated under Fraser Liberalism: 2% in the 1976-7 budget, falling even further in the following years to about 1% in 1980-1.

This area of expenditure, as with health and education, was marked out as suitable for displacement on to the States as far as practicable. This would not only help to reduce the federal deficit, but would force the States to slow their rate of public sector expansion and thereby conform to Fraser's contractionary philosophy. Again we find that the States have been unable to find sufficient extra funds to cover the decline in federal spending. State and local authority outlays on housing, community amenities and environment were 6.9% in 1971-2. This proportion rose to 9.6% in 1974-5 under the influence of specific-purpose grants from the Whitlam government. State and local spending on these items subsequently fell to 7.3% in 1976-7 and two years later slipped to only 5.7%. Capital outlays suffered the largest reductions, in accordance with the Fraser pattern of allowing public investment to deteriorate. Taking the housing component separately, State and local authorities spent 2.9% on this item in 1971-2, rising to a high point of 4.4% in 1974-5. This proportion fell to 3.1% by 1976-7 under the influence of Fraser's public sector cuts and reductions in specific-purpose grants; by 1978-9 the figure was only 2.3%, or less than the spending priority for housing had been in 1971-2.²²

A similar pattern of arrested development can be shown in the field of education. In the Liberal-CP budget of 1970-1 only 3.8% was spent on education. Labor dramatically increased federal priorities in this area, with special attention to schools funding on a scale of 'needs' (or resources available in each school); the private élite schools fared relatively badly in this redistributive exercise. Education spending reached 9.6% of the 1974-5 budget, tapering to 8.9% in the last Labor budget of 1975-6 as the recession deepened. Under Fraser, the education sector has continued to decline very gradually, to less than 8% in 1980-1. More significant are the changing priorities within the expenditure. Universities and Colleges of Advanced Education have been trimmed and some CAEs have been amalgamated or closed. Technical and Further Education has been upgraded substantially, from a fairly low base, mainly because Fraser has been concerned about shortages of skilled workers for industry. Schools funding has been redirected to the advantage of the private schools (especially the wealthy Protestant schools, rather than the Catholic parochial schools). Student living allowances have been deteriorating in value, and tuition fees for some categories of tertiary studies have been announced. A 'school to work transition' programme began in 1980-1 (\$34 million) as part of the education vote—an alternative presumably to further youth unemployment swelling the social security vote.

Education being traditionally a field of State responsibility, it was to be expected that the Fraser government would attempt to oblige the States to shoulder a larger fiscal burden in this area. The Federal Govern-

ment divested itself of some research and administrative bodies in the 'razor gang' cuts of 30 April 1981, and would dearly like the States to take back financial responsibility for tertiary education (a legacy of Labor optimism in 1973). Education has long been the largest item in State budgets, and most States have found it necessary to trim their education commitments (including teacher employment) to cope with their own fiscal problems. The education spending of State and local authorities rose from 23.8% of outlays in 1971-2 to 28.2% in 1974-5 and 27.6% in 1975-6 as a result of increased funding from the Labor government in Canberra. This figure fell marginally to 27.2% by 1978-9. Capital expenditure was again the most noticeable area of neglect, which may have longer-term effects on the quality of education.²³

Study of public expenditures can show a good deal about the priorities of government, especially when there is a change in the party holding office as with the transition from Whitlam to Fraser.²⁴ How the revenues are spent must be complemented, however, by analysis of how the revenues are raised. From the viewpoint of egalitarian objectives, it is essential that the main burden in the raising of tax revenue should be borne by the richer individuals and corporate enterprises. Otherwise we would have the extremely regressive situation of the poorer wage-earners paying for their own pensions and welfare benefits, through a life-cycle redistribution of income from the employed and childless towards the unemployed, aged, and parents of dependent children. The degree to which the Australian tax system is progressive or regressive will be briefly examined in the following section.

Taxation and inequality²⁵

The call for lower taxes has been a hallmark of the neo-conservative economic philosophy. Reduced public spending and a lower public debt would obviously make room for tax cuts. Sections of the media, notably the *Australian* and the financial press, have been trying to stir a 'tax revolt' for several years, especially on the issue of inflation-indexing of personal income-tax scales. Promises to cut the tax bill of the average voter played a prominent part in Liberal campaigning from 1975-80, though the promise has been honoured more often in the breach than the keeping. Tax cuts were also linked to the economic argument that the incentive for hard work and productivity had been eroded by high income-tax; tax cuts would rekindle the desire for hard work, lower the incentive for tax avoidance, and create a higher level of consumer demand, stimulating more investment. There was no conception, however, that one objective of tax policy should be redistribution towards the poor; the argument was mainly about giving more incentive to the self-employed and business executives.²⁶ Similarly, the notorious Proposition 13 referendum in California had the effect of cutting property taxes, and undermined a range of community services—hardly a progressive fiscal outcome.

The Australian tax system has become more regressive over the last twenty years, and most of the current proposals by non-Labor spokesmen would only confirm this trend. Redistribution and equity considerations have become less important than revenue-raising. There is strong electoral resistance to higher rates (or a steeper scale) of income-tax, and taxes on personal wealth such as proposed in 1980 by the Labor party are not on the agenda for change. On the other hand, there has been wide support among industry leaders and economists for a greater usage of sales taxes, or other regressive indirect taxes on commodities.

The most progressive or redistributive taxes are those on incomes and wealth; because of their sliding scale, there is a higher impact on the rich. The highest income-earners certainly pay a far heavier tax bill than do the poorer income-earners. Before assuming that a massive redistribution is thus occurring, it is necessary to note five points about the progressive effects of income-taxation.

First, individual income-tax has been systematically evaded by a large number of high-income earners through the development of sophisticated accountancy practices. Tax evasion of this kind, together with understatement of income by self-employed workers in the 'black' or cash economy, places great pressure on the tax liability of ordinary wage-earners and those on fixed incomes. Whether the annual loss to the Treasury is \$2 billion, or much more, this would represent at least 12% of individual income-tax collections. Secondly, the tax position of the richer taxpayers is improved by their greater ability to benefit from deductible items, to reduce their taxable income and thus their average rate of income-tax. The poorer income-earners generally do not have the opportunity to take advantage of large superannuation deductions, education expenses, or income-earning expenses. Thirdly, there is evidence that progressive income-tax scales do not greatly alter the actual distribution of household incomes. One study, based on 1966-8 data, showed that the share of total disposable income accruing to the richest 20% of households was reduced only a small amount, from 38.9% (pre-tax) to 37.3% (post-tax). Obversely, the share received by the poorest 20% of households increased from 6.4% to only 7% as a result of income-tax, and that of the poorest 40% of households increased from 20.1% to only 21.2% of total disposable income.²⁷

Fourthly, there has been a large rise in the proportion of personal income-tax collected from wage and salary earners (PAYE deductions) as against the self-employed and rentier taxpayers. PAYE collections accounted for 67% of personal income-tax in 1965-6, but rose steadily under both the Whitlam and Fraser governments to 81.2% in 1978-9, stabilising at 80.9% in 1980-1.²⁸ This reflects the growing ability of the richer taxpayers to avoid a high incidence of income-tax, for reasons suggested above. Fifthly, the other type of income-tax, that levied on the net operating profits of *companies*, has also suffered (or enjoyed) a long-term decline in its contribution to federal revenues. From the significant figure of 19.2% in 1970-1, company income-tax fell to only 12.3% of

federal taxes in the Fraser budget of 1979-80, after averaging 16.3% in the three Labor budgets.²⁹ To some extent this decline reflects the reduced profitability of business as the economic recession of the 1970s tightened. It also reflects Fraser's higher investment allowances and other assistance for industry, which will be noted in a later section. It is now necessary to examine the redistributive effects of the other main form of progressive taxation, that on wealth.

Wealth taxes are levied on various forms of property, whose capital value may appreciate without necessarily generating current income (the latter of course is liable to income-tax). The Labor party has supported capital gains tax and some form of tax on personal wealth on an annual basis, as exist in many OECD countries.³⁰ But in Australia there are property taxes only in the form of land rates (tied to specific municipal services), taxes payable on the death of a property-owner (probate, estate and death duties), and taxes on the transfer of wealth (gift duties). Taking the various forms of estate and gift duties as the sole potentially redistributive property taxes in Australia, we find that they have always been a very small proportion of public revenues, and that most are being abolished at both the Federal and State levels of government. Federal duties fell from \$80 million (1.25% of federal taxes) in 1969-70 to about \$23 million (0.0006% of federal taxes) in 1980-1. Similar duties at the State level accounted for 10.2% of total State and local authorities tax revenue in 1969-70, but had fallen to 2.5% by 1979-80.³¹ The State governments have been in virtual competition to attract the rich and retired persons by the abolition of such duties. The progressive element in the Australian tax system is thus confined to income-tax, some of whose limitations have been noted above.

One simple measure of the progressivity of the tax system as a whole is to examine the 'mix' of taxes, especially the balance between direct and indirect taxes. Australia appears to be reasonably progressive alongside other OECD countries if only federal taxes are taken as representative of the Australian tax structure, since personal income-tax has accounted for over half of federal tax revenue in recent years. However, income-tax accounted for only about 44% of *all* public authority taxes in 1979-80 and this figure is falling.³² Since the 'wealth taxes' are also disappearing, the proportion of indirect taxes is rising and thus the tax system is becoming more regressive under Fraser's government. Of special interest in this context are the massive increases in federal excise collections on oil-petrol-gas commodities since 1978, and the government's failure to impose any resource-rent taxes on mineral company profits. Moreover, the neo-conservative position in economic philosophy demands a further shift away from direct taxes (on incomes and profits) towards a heavier reliance on indirect taxes. This approach has strong support within the Liberal party, and may be expected to influence the future direction of tax changes.

Finally, it is useful to measure the incidence of all the various types of taxes at the level of the household. Studies have suggested that the

overall tax system is regressive for the poorer households because a larger proportion of their disposable income is taken by indirect taxes. For the middle ranges of income, the tax burden was roughly proportional, and became progressive in its incidence only on the richest households.³³ If there is any truth, however, in a well-known tax consultant's claim that paying income-tax is a purely voluntary exercise for the rich, then it is clear that the tax burden is not confined to those who complain most vocally about taxes destroying incentive. The real burden seems to be moving down the income scale as tax evasion increases and the 'mix' of taxes becomes more regressive.

Assistance for industry

In his address on the 'philosophical basis of Liberalism', Fraser stated that one of his 'central principles' was that

The government is committed to supporting and strengthening the private enterprise system in Australia—both because it believes that this system is the one that can best develop Australia and ensure its prosperity, and because it is that system and that system alone which is compatible with a free, liberal Australia.³⁴

Such statements are very common in Liberal rhetoric, but the specific forms and costs of government support for private enterprise are seldom put before the electorate. At the most general level of analysis, the government maintains and regulates the system of commercial, civil and criminal law which gives security and stability to private property, commercial contracts and exchange relations. Government also typically takes responsibility for the provision and maintenance of infrastructure (transport and communications networks, energy supplies), and for ensuring adequate provision of land, labour, capital and technology. At a more specific level of analysis, government caters for the needs of various groups, corporations, or sectors of industry which demand particular forms of assistance.³⁵ In the brief discussion below, some of these specific kinds of assistance to industry will be surveyed, focusing on the evidence available in the federal budget documents.

Most of the Federal Government's expenditures on direct forms of assistance to industry are itemised in the 'economic services' section of the budget; some others are itemised as 'taxation expenditures'.³⁶ Direct expenditures fall into five main categories: transport and communication (\$1000 million in 1980-1); water, electricity and gas (\$60 million); industry assistance and development (\$825 million); labour and employment services (\$350 million); and various costs of regulation and administration (\$125 million). The total of these items represented about 6.5% of federal outlays in 1980-1, while the industry assistance category alone represented 2.3% of budget spending. This may not appear to be enormous in itself. But compared with the revenue received from company income-tax, direct spending on 'economic services' for industry by the Federal Government is substantial: *for every dollar received from*

company income-tax in the first five Fraser budgets, about 53 cents was spent on 'economic services'.

Looking more closely at the Fraser government's spending on 'industry assistance and development', the following picture emerges. As part of its cost-cutting approach, the Fraser government reduced its direct spending on subsidies, bounties and grants as much as economic circumstances allowed in 1976-7, facilitated by favourable conditions in most sectors of primary industry. From this low base, spending on direct assistance to industry gathered strength in the next four budgets: the percentage changes from year to year were 57%, 56%, 24% and 31%. Assistance to the primary industries (pastoral, agricultural, forestry and fishing) has fluctuated considerably owing to seasonal and market conditions but the overall trend has been a stable or declining share of industry assistance spending. The mining and manufacturing industries, on the other hand, have benefited considerably in recent budgets. Table I summarizes some of the relevant data since the last Labor budget.³⁷

TABLE I: COMMONWEALTH GOVERNMENT BUDGET OUTLAYS, 1975-6 to 1980-1 (\$ million)
INDUSTRY ASSISTANCE & DEVELOPMENT

Category of industry	1975-6	1976-7	1977-8	1978-9	1979-80	1980-1 (est.)
Primary industries (total)	175	57	201	262	200	173
Mining & manufacturing						
Mining assistance	—17	24	17	34	23	50
Shipbuilding assistance	43	29	15	12	14	32
Industrial R. & D.	19	25	14	24	35	54
Export development	80	25	31	58	215	260
Other	26	23	28	40	64	71
Total mining & manufacturing	151	117	106	168	351	466
Other assistance to industry						
Petroleum products subsidy	—	—	—	48	71	123
Export & trade promotion	15	16	17	21	23	26
Other	10	17	3	9	—15	36
Total other assistance	25	33	20	78	79	185
Grand Total	350	207	326	508	630	825

These figures do not give a complete account of federal spending on areas which could reasonably be termed direct assistance to industry. The latter might include much of the research conducted by the CSIRO and the Atomic Energy Commission (\$247 million in 1980-1), part of the administrative costs of such Departments as Customs & Excise (\$85 million), and a high proportion of the extensive government tenders placed in the private sector for the construction of housing and public works or for supply of goods and services. In examining budget outlays, it is relevant to note that some of the government's infrastructure

activities (especially via public corporations such as Telecom or Australia Post) have been transferred out of the 'budget sector', though remaining within the sphere of public authority transactions. (It is also necessary to bear in mind that the State governments offer an additional range of subsidies, grants and concessions to industry in their particular regions;³⁸ however, State activities are beyond the scope of the present essay.)

Indirect forms of assistance to industry by the Fraser government have been very large. The two main forms noted below are 'taxation expenditure' (i.e. revenue forgone owing to concessional reductions in taxable income), and tariff policy (i.e. duties imposed on certain classes of imported goods to protect local industries from foreign competition). Treasury does not publish a complete list of tax expenditure estimates, but four of the major items in 1979-80 are included in Table II.³⁹ The total of \$832 million is significantly larger than the \$509 million spent on direct assistance for industry in that year. Yet numerous items of tax expenditure are not taken into account, including accelerated depreciation on plant for mining and exploration, and the absence of taxation on the gold mining industry.

TABLE II: MAIN FORMS OF TAX EXPENDITURES TO ASSIST INDUSTRY, 1979-80

Investment allowance (40% for contracts 1.1.76 to 30.6.78, thereafter 20%).	\$414 million
Trading stock valuation adjustment	\$324 million
Capital expenditure of certain mining enterprises and for transport of certain minerals	\$74 million
Double depreciation on certain plant	\$20 million
Total of those items	\$832 million

Mining companies have for many years had very favoured access to tax concessions, which improved their profitability considerably in relation to other industries. Manufacturing industry had the benefit of tariffs, and in compensation it had been 'comparatively debarred from taxation concessions'.⁴⁰ The extent of tax concessions to the mineral industry prompted an inquiry in 1974, which showed that these concessions reduced the tax payments of the major companies to around 12-15% of pre-tax profits, and that the Federal Government was making a net loss in its fiscal dealings with mining companies.⁴¹ The Fraser government has given such companies generous treatment. One example is the windfall gain made by producers of oil from 'new' fields following the introduction of the import-parity pricing of locally produced oil after 1978. This may be contrasted with the failure to implement a resource-rent tax. The level of tariff protection for manufacturing, on the other hand, may be broadly gauged from customs duties on imported goods, which in 1980-1 amounted to an estimated \$1770 million.

The Fraser government, in December 1975, saw itself confronted by a large budget deficit, declining private investment, and problems of

inflation and unemployment. The neo-conservative solution was to reject Keynesian expansionism and to concentrate on cutting the public sector's call on resources and loan funds. The problem then was to encourage private sector expansion without higher government outlays on industry assistance. Direct grants to industry and public spending on infrastructure fell sharply in accordance with these perceptions; encouragement to industry therefore consisted mainly of tax concessions to revive investment and profitability. Fraser preferred to forgo revenue rather than undertake additional spending. The other avenue of industry assistance was to use the Federal Government's influence to hold down real wages. Direct spending on industry assistance increased rapidly, however, once the overall budgetary position improved. The fact that it was often multinational companies which took advantage of the new export expansion grants, was yet another irony in Fraser's public policy of inequality.

Federal-State finance

The devolution of functional responsibilities promised to the States in Fraser's 'new federalism' policies has turned out to be a mixed blessing for the States. They have certainly gained more control over such areas as education, urban and regional development, health care, and some aspects of community and welfare services—but without a matching increase in revenues re-directed from Canberra. This can best be understood as an attempt by the Fraser government to displace its fiscal burden in certain areas, which are: (a) hungry consumers of public revenue, and (b) traditional fields of State responsibility which were previously tackled by Whitlam's use of specific-purpose grants. Having rapidly slashed the latter as examples of Labor centralism, Fraser has not topped up the general-purpose or 'block' grants by equivalent amount. There has consequently been a run-down of community services and public investment since 1976.

The State and local government sector is dependent for over half its revenue on transfer payments from the Commonwealth, which collects the vast majority of public sector revenues. But the States and local government account for over two-thirds of total public sector spending on goods and services; similarly the States and local government account for over 70% of public sector employment, and this proportion has been growing. Moreover, State and local authorities have been requiring an increasing level of public loan funds (as noted earlier). In order to reduce the demands made by the public sector for loan capital, labour, goods and services, the Fraser government felt it was essential to harness the States to the Commonwealth's policy of contraction.

The methods adopted have been little short of coercive—a nice paradox in Liberal 'new federalism', which was supposed to 'restore' a system of co-operation, consultation and devolution of power. The Fraser government has not divested itself of power, only of some

spending responsibilities. Fraser's fiscal and monetary policies have been forced on the States through the Commonwealth's dominance in tax collections, and through its effective control of both the Premiers' Conference (which determines the overall levels of federal funding for the States) and the Loan Council (which determines the allocation of loan funds among the Federal, State and local authorities). Analysis of the first five Fraser budgets shows that funding to the States for capital purposes fell enormously: in money terms, from \$3 billion in 1976-7 to \$2.7 billion in 1980-1, but in real terms the cut was massive considering that federal revenues nearly doubled over the five-year period from mid-1976 to mid-1981. Funds for recurrent purposes kept pace with inflation except for programmes funded from specific-purpose grants. The overall funding to the States for capital and recurrent purposes failed to keep pace with inflation.⁴² This pattern was further confirmed for 1981-2 at the May 1981 Premiers' Conference and June 1981 Loan Council meeting.

The State Premiers have also complained that their economic development programmes are being compromised by restrictions placed on infrastructure borrowing. In 1978 the States had gained an agreement that a new category of loan monies would be made available to finance the large public works associated with resource projects.⁴³ But the Fraser government soon decided that such loans would undermine its attempt to cut the public-sector-borrowing-requirement. Infrastructure loans have thus been rationed along with other categories of public borrowing, and Fraser has suggested that the private sector should be allowed to build a higher proportion of such infrastructure (e.g. for electricity generation). Fraser was happy to take credit for the investment 'boom' tied to resource development during the 1980 election campaign, but he has been unwilling to endorse the fiscal and monetary consequences of State-financed infrastructure and developmentalism.

Conclusions

Fraser's Liberalism is a blend of traditional market-liberal faith in private enterprise and a pragmatic willingness to manipulate the existing apparatus of state intervention and regulation. Defence of profits and private accumulation is the foundation of the public policy of inequality; it is tempered only by a paternalistic concern for the very poor. The deflationary strategy, the attempt to reduce real wages, and the concern to achieve a balanced budget may suggest some similarities to the conservative response to the Depression in 1931. But Fraser believes in a much more active role for government than did Latham and Lyons, in terms of assistance to industry and economic restructuring as well as maintaining an inherited network of social security schemes. Fraser is also concerned to avoid a fiscal crisis for his government by retaining a high flow of tax revenues, and by off-loading some functional responsibilities to the regional level of government. Such policies are legitimated in terms of

fighting inflation and cutting wasteful expansion of the public sector.

Fraser's adoption of monetarist objectives in economic policy should not be taken as evidence that he wants to weaken government in order to strengthen the private sector. In fact, he wants to combine a strong state with a reinvigorated private economy, the first being necessary to ensure the second. Fraser implicitly believes in the interdependence of the state and economy; but the neo-conservative Liberalism of the last decade cannot face some of the implications of this symbiosis. Having rejected Keynesian and social-democratic versions of the reforming interventionist state, Fraser's Liberalism cannot account for its own powerful state apparatus. Ideology and mythology are substituted: the invocation of 'government as the servant not the master of the people', the cuts in 'unproductive' public spending, the claim to be restoring 'liberty', the charade of devolving power to the States, and finally the pretence of governing not for certain sections but 'for all Australians'.

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- 4 See, e.g. Peacock's speech to the Queensland Liberal party on 'Liberalism, Federalism and Finance', 3 June 1981, where the Treasury line on reducing public spending and borrowing is combined with the paradoxical suggestion that public borrowing should be more decentralised.
- 5 See the *Reports* on the Statutory Authorities of the Commonwealth, conducted in recent years by the Senate Standing Committee on Finance and Government Operations (Chairman, Sen. Peter Rae, Lib.).
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THE LABOR GOVERNMENTS OF SOUTH AUSTRALIA 1966–79

CHRIS NYLAND

THE AUSTRALIAN ECONOMY over the last two decades has been radically transformed. The development of manufacturing industry that characterised the immediate post-war years has gradually been replaced by the mining industry and associated infrastructural development as the major growth areas within the economy. Through the 1960s and 1970s this shift was most obvious in Queensland and West Australia though all the other States have been affected to varying degrees. One manifestation of this economic restructuring has been a demand by the Australian business community that governments, both state and federal, produce development strategies that protect the traditional interests of established capital, while at the same time ensuring that the indigenous bourgeoisie receive what it considers a 'fair share' of the profits to be won from the new industries. Where governments have been unable to satisfy these demands (made more urgent by the global economic crisis), there appears to be an increased willingness on the part of large investors to undertake a more co-ordinated and public involvement in the determination of which party is in government, and which faction within that party is dominant. While the removal of the Whitlam Labor government stands out as the major example of this phenomenon during the 1970s this activity has not been limited to A.L.P. administrations. Writing in mid-1981, the latest example is the open intervention of such institutions as the A.M.P. Society and National Mutual in the removal of Dick Hamer as Premier of Victoria. The *Australian Financial Review* described Hamer's removal as '... a classic case of what happens in an administration which muddles the management of basic resource projects'.¹ When announcing his resignation Hamer claimed he did not believe he was a victim of a conspiracy by big business and sections of the Liberal Party. 'But then I'm charitable, aren't I?', he said. That this was, in fact, the case was acknowledged even by the *Age* which almost certainly took part in the Premier's removal.² In South Australia the downturn in the State's economic fortunes became manifest a good deal earlier than in the eastern States, with the result that the development of this public interventionist tendency can be seen as early as the beginning of the 1960s.

The South Australian economy, prior to the influx of post-war manufacturing capital, was dominated by what Don Dunstan has described as a 'financial Royal Family' known generally within the literature as the 'Adelaide Establishment'.³ These families through interlocking investments and directorships, reinforced by intermarriage, became, in the late nineteenth century, an economic and cultural ruling class which was able, as Reid has put it, to claim and more often than not successfully assert, a 'natural leadership' within the state.⁴ Blewett & Jaensch have described the Establishment as

A provincial haute bourgeoisie, with some justified pretensions to squatocratic lineage, it exercised, prior to the post-war economic transformation, a degree of financial influence and control probably unparalleled by any group in any Australian state.⁵

The undermining of the Establishment's dominant position and the subsequent election of Labor to office was the result of a combination of factors. The most important of these involved changes in the inter- and intra-class relations that emerged as a result of the post-war industrialisation process. The major investment source for this development was national and international capital and the growth of this sector resulted in a re-division of class power within the State. The Establishment, with few exceptions, chose not to diversify into large-scale manufacturing. Rather they elected to remain in their traditional industries and either developed by supplying the manufacturing sector with components, infrastructural provisions and raw materials, or by catering for the Adelaide market greatly expanded by the growth of industry.⁶ This process enabled external and, in particular, foreign, manufacturing capital to become dominant within certain industries and eventually within the economy as a whole. By 1972, while directly controlling only 167 of the State's 2914 manufacturing establishments, foreign-owned enterprises employed 32.7% of the State's manufacturing workforce and produced 35.5% of value added.⁷ This situation placed the Establishment in a subservient and insecure position in that their businesses had little independent growth potential. The expansion of their markets was primarily dependent on population growth within the State and on the continued prosperity of the foreign-owned manufacturing sector. Adding to this insecurity was the fact that the external corporations were concentrated in the motor vehicle and white goods industries, commodities which were extremely susceptible to economic fluctuations and 80% of which were exported from the State.⁸

The re-division of economic power that was the result of industrialisation did not mean that the Establishment became irrelevant in shaping the politics of the State. This section of the ruling class, despite losing its dominant position did manage to retain a great deal of power within South Australia. In 1976, for example, the fifteen men who sat on the boards of the Bank of Adelaide, the S.A. Brewing Company and the *Advertiser* had between them ninety-eight directorships spread over almost every major South Australian company.⁹

That the *Advertiser* was one of the three major companies at the centre of Establishment power is of particular importance for understanding South Australian politics. The paper, Reid has argued, has always been a major ideological tool for this sector, defending and advancing their interests to an almost uncritical degree.¹⁰ Its editorial position therefore can be accepted as the opinion of this elite. Connell has suggested that the paper generally plays its role of influencing elections and governments in a covert manner through the normal functioning of news services, reporting of speeches and public editorial support. He argues, however, that at times of crisis its owners have shown themselves more than willing to utilise both their equipment and staff in open and active support of Establishment interests.¹¹

The Establishment's ability to shape the parliamentary politics of the State was enhanced by its economic and organisational control of the Liberal and Country League (L.C.L.), personal involvement in the Legislative Council and the assistance of a gerrymander which heavily favoured a conservative rural electorate.¹² Large manufacturing capital, given that both major political parties were eager to court its favours, chose in general not to become openly involved in state parliamentary politics. The dominant economic position enjoyed by this sector, therefore, was not well reflected in the personnel of the State Parliament which, till the early 1960s, continued to be dominated by representatives of the Establishment.

The policy of non-involvement by external capital meant that elections were not a contest between supporters of the A.L.P. on the one hand and a united ruling class, determined to see a continuance of L.C.L. government, on the other. The opposition to Labor came primarily from local interests, from that sector which could be markedly affected by the state legislature through state awards, building codes, etc.

The weakness in the class forces opposed to a Labor Government was enhanced by disunity within the ranks of the L.C.L. The economic expansion experienced in the immediate post-war years began, during the 1950s, to slow down as foreign capital found the eastern States a more profitable area of investment. During the ten years 1952 to 1962 economic expansion within South Australia fell to the lowest of any State in the Commonwealth.¹³ This decline was reflected in the L.C.L., an organisation traditionally based on an anti-Labor alliance of Establishment capital, rural interests and sections of the urban middle class. Jaensch & Bullock have correctly described the League as '... an organisation of latent instability, a party composed of groups of different backgrounds and with different interests, which were potentially in a state of internal conflict and even fission'.¹⁴ With the slowing of economic growth this inherent disunity was intensified and began to manifest itself in intra-party struggle between the various factions. Accompanying this development was a growing tendency within both the rural sector and the urban middle class for traditional L.C.L. voters to seek alternatives to a party which was finding it increasingly difficult to

maintain prosperity. In the rural areas this tendency manifested itself in an increased vote for the A.L.P. and the re-emergence, in 1963, of a separate Country Party. For urban voters the disenchantment was manifest in a swing to the A.L.P. and in a questioning of the policies, structure and rural-dominated image of the L.C.L.¹⁵

It was a combination of the disunity in the forces traditionally opposed to Labor, together with the undermining of the class power of the Establishment by external capital, that produced a situation in which the L.C.L. had insufficient political power to prevent Labor coming to office. With the numerical and geographic expansion of Adelaide, the gerrymander, from the mid 1950s, was steadily eroded as the urban boundaries spread into former rural electorates—often, in the process, converting these areas into marginal then safe Labor seats. Finally, in 1965, the economic and political problems of the L.C.L. reached a point where they outweighed the electoral advantage of the gerrymander. Winning 55% of the vote and twenty-one of the thirty-nine seats in the House of Assembly in the March elections the A.L.P., after thirty-two years in opposition, was able to form a government.

The wooing of the Establishment 1965-1970

The election of an A.L.P. government produced a marked change in the style and tempo of South Australian politics. The legislative activity of the new administration, under the leadership of Frank Walsh, was prodigious if compared with the L.C.L.'s last years in office.¹⁶ Most of the legislation successfully introduced at this time was of a social nature and was primarily aimed merely to bring the State into line with conditions existing nationally. The new government found itself largely confined to this type of legislation primarily because of the hostility of the Establishment-controlled Legislative Council to any reforms of an industrial nature that might raise the production costs of local industry.

Despite the activity of Walsh's government, dissatisfaction with his leadership within the A.L.P. emerged from an early period. His ineffectiveness in dealing with the L.C.L. and the Federal Government, combined with the fact that party rules precluded him, because of age, from standing for re-election soon produced calls for his resignation. These demands rose to a crescendo following the 1966 federal elections in which the swing against the A.L.P. in South Australia was twice the national average.

The unusually high anti-Labor vote was the result of an acceleration in the downturn of the State's economy in 1965, for which the A.L.P. government was blamed.¹⁷ Their coming to office coincided with the beginning of a national recession. In April the local unemployment rate was 0.79% compared to a national average of 1.6%. By November, however, the State had caught up with the rest of the nation and from then on unemployment rose faster than anywhere else in the country.¹⁸ Except for two relatively short periods, of a month or two in the early

1960s, this higher-than-average unemployment had not been experienced since the Great Depression or, as many saw it, not since the last Labor government.

The recession was the result of a national drought and the introduction, by the Federal Government, of anti-inflationary fiscal and monetary policies. The combination of these factors produced a national fall in demand for consumer durables, precisely those commodities crucial to the health of the South Australian economy.¹⁹ In 1966 these facts were far from obvious to a great number of people within South Australia. The L.C.L., the *Advertiser* and employer organisations mounted a campaign against the State Government claiming the A.L.P. was the major source of the State's woes. This campaign was sufficiently damaging to compel Dunstan, shortly after his promotion to the party leadership, in May 1967, to travel interstate to reassure external investors of Labor's good intentions.²⁰ It would appear that this trip was a success for in the next year a number of companies announced plans to invest in the State. The most notable of these were a \$2.3 million expansion by General Motors Holden and a \$9 million dollar investment by Chrysler Australia.²¹

Despite his intellectual arrogance, blatant at times, Dunstan's ability to combine support from both the middle-class parliamentarians and sections of the union movement, together with his mass urban popularity, ensured his election to party leader upon Walsh's retirement.²² In essence, Dunstan obtained this position because it was believed he could win elections. The results of the 1966 Federal poll threw panic into the ranks of the A.L.P. parliamentarians and they wanted a winner.

In the election campaign of 1968 the A.L.P. attempted to capitalise on the social reforms introduced under Walsh. This tactic was somewhat neutralised, however, by a shift in the L.C.L.'s attitude to this type of legislation following the retirement of the former Premier, T. Playford, in 1966.²³ Some L.C.L. parliamentarians, notably those from urban areas, tended to sympathise with this popular and low-cost type of reform. This shift reflected the growing numbers within the League who were coming to realise the necessity of building an urban base for the party. Given the breakdown of the gerrymander, these people argued, it was no longer possible for the organisation to remain so heavily dependent on the rural electorate. The party, in other words, had to be given a more urban image. By 1968 the bulk of the urban membership had come to accept this view. Moreover they were encouraged by some important members of the Establishment, who publicly urged the need for change in the electoral system through the *Advertiser*.²⁴ The problem for the L.C.L., though, was to find a way to introduce the necessary changes without alienating the League's rural support which the Country party was more than willing to enlist.

Though Labor was unsuccessful in the election it did manage to win back much of the support which appears to have been lost in 1966. This

comeback was assisted by the lifting of the worst of the recession as the national economy revived, and by strong media support from the Murdoch press.²⁵ The election resulted in the A.L.P. and the L.C.L. winning nineteen seats each, even though Labor won 53% of the vote and the League 43%. The balance within the House of Assembly was held by an independent who opted to support the League.

The election was held on 2 March 1968 but the final results were not known for six weeks because of the closeness of the poll in some seats. Dunstan, though knowing he could not hope to form a government, refused to resign during this period and used the time to agitate for electoral reform.²⁶ This strategy was undoubtedly important in providing a spur to ensure that the new Premier, Steele Hall, pushed forward with reforms in this area. It is important to note, though, that these tactics fitted in with the stated objectives of important members of the Establishment and with Hall's faction of the party, both of which had made their commitment to electoral reform public before the election.²⁷

On becoming Premier, Hall instituted steps to implement the reforms he saw as necessary for the long-term salvation of conservative government in South Australia. In August 1968, in the face of staunch opposition from the rural sector of the party, he introduced the Constitution Act Amendment Bill. This Act enlarged the membership of the House of Assembly to forty-seven seats, only twenty of which covered rural areas. Though meeting with hostility and attempted amendments in the Legislative Council the Act was passed intact, much to the delight of the A.L.P.

Divisions within the L.C.L. were further widened during Hall's period as Premier by the inability of his government to overcome the long-term economic problems confronting the State. The 1965-67 recession had revealed to the A.L.P. leadership the existence of major structural problems in the South Australian economy. They became convinced that the State Government would have to increase both the level and quality of its intervention in this area if economic prosperity was to be assured.²⁸ To achieve this objective, the Labor government argued, it was necessary to diversify the economy by utilising the State's highly skilled workforce to manufacture new commodities that had a high labour content and a low transport ingredient.²⁹ It also attempted to place industrial development on a sounder footing by the establishment of a state administrative structure with a more 'scientific' approach. In July 1967, D.R. Currie was appointed Director of the newly formed Industrial Development Branch. This initiative was later supplemented by the establishment of an Industrial Advisory Council and the commissioning of an economic survey to discover the 'gaps' in the State's industrial structure.³⁰

This interventionist approach was resented at that time by local business. Hall, echoing their complaints, argued that government interference in the economy would only disturb business confidence and that what the State needed was a salesman not a planner. On becoming Premier, his government reverted to the traditional L.C.L. policy of placing major emphasis on the promotion of the State as an attractive

place for external capital to invest. However this reversion was not successful in attracting major new inflows of external capital and did nothing to assist the restructuring of the economy, the necessity for which was becoming increasingly obvious.

Hall's difficulty in holding the L.C.L. together as an effective governing party and his failure to produce any solution for the State's economic difficulties appears to have led some members of the Establishment to reassess their analysis of the South Australian political and economic situation. In May 1969 the *Advertiser*, in a reversal of its earlier analysis of the 1965-67 recession, argued that the A.L.P. government had not been the cause of the slump. Rather, it was suggested, it was the result of drought, Federal Government deflationary policies and the excessive vulnerability of the State's economy due to over-specialisation in consumer durables. The paper suggested that what was needed to ensure no repetition of the recession was for the State Government to become more active in promoting the development of new industries.³¹ In essence, this was the same policy as that advocated by the A.L.P.

The switch in the *Advertiser's* economic analysis was followed, later in 1969, by a decided shift in the paper's editorial policy towards the two major political parties.³² On the surface the new policy was one of impartiality, yet this should not be interpreted as meaning that the *Advertiser's* owners did not care which party was in government. It was widely acknowledged that the L.C.L., under the new electoral system, would have to generate an unprecedented swing to their organisation at the next election, if they were to remain in office. What they could not afford to happen was for the public to see the election as not particularly important and thus continue to vote as they traditionally had.

On 30 April 1970, following the defeat of his government in the House of Assembly over the siting of a new dam, Hall announced new elections would be held on 30 May. In the next month the L.C.L. mounted an extremely active campaign but failed to arouse any enthusiasm within the electorate.

In the campaign the *Advertiser* maintained an apparently even-handed approach, equally reporting the policies of each party which was hardly what the L.C.L. needed. Moreover, as the campaign drew to a close the paper argued the election did not warrant much excitement, describing it as 'a stifled yawn' and playing down the importance of the Chowilla Dam, the one issue Hall hoped would generate enthusiasm.³³

To understand the events of the Dunstan era it is important that the existence of this support by the Establishment for Labor be understood. The A.L.P. liked to claim that Dunstan was hated by this sector because he was supposedly a 'traitor to his class'. This claim, however, is hard to sustain, failing as it does to explain the lack of any organised attack on the Premier by the Establishment until 1978. That Dunstan had this support was revealed in a poll conducted by management consultants W.D. Scott & Co. in 1975. The study, limited to leading business

executives, found Dunstan to be the most popular premier in the country and, amongst South Australian businessmen, equal first with Charles Court of Western Australia.³⁴ Certainly there may have been members of the Establishment who did not go along with this support for the A.L.P. Yet this attitude was certainly not dominant. Thus, in 1970, the A.L.P. finally achieved the primary prerequisite for a successful social-democratic government: it had the support of the bourgeoisie.

The years of reform 1970-5

The 1970 election won the A.L.P. twenty-seven of the forty-seven seats in the House of Assembly. Dunstan's policy speech, during the campaign, had been wide-sweeping. It was a package aimed to appeal to all sectors of society. He argued that

With Labor South Australia will become the technology, the design, the social reform and the artistic centre of Australia. It will be the state with the most highly developed and diversified economy. The state which provides the complete range of human and community services. We'll set a standard of social advancement that the whole of Australia will envy.³⁵

This offer of dramatic social change was to prove, over the next five years, to be not merely election rhetoric. Under Dunstan's leadership the A.L.P. instigated a massive expansion of legislative activity. These reforms, though numerous, tended to be of a 'non-class' nature, or were concerned with issues over which the Establishment was divided. Particular emphasis was concentrated in areas of personal freedom such as censorship, sexual discrimination, consumer protection, and electoral reform.

Labor was able to introduce its reforms without eliciting the open hostility of the bourgeoisie. The reasons for this are diverse but fall basically into four categories. First the L.C.L., in this period, was forced to go through a major internal restructuring in an attempt to expand its popular base. The conflict this remodelling generated within the party meant that it could not offer itself as a viable alternative government. Indeed by 1973 it had difficulty even functioning as an effective opposition. Second, the government, in its plans to restructure the state's economy, offered something positive to the Establishment which helped to ameliorate the traditional hostility of this sector. Third, the existence of a Federal Labor Government from December 1972 to November 1974 provided a source of funds with which to finance reforms. Finally, Labor's legislation was always confined within parameters acceptable to, even if not totally supported by, the bourgeoisie. The A.L.P., with rare exception, attempted to maintain a consensual relationship ensuring that both organised labour and capital were not too alienated from the administration. Dunstan developed a reputation as a consensual politician, being determined, he has claimed, to ensure that a repetition of the 1965-67 anti-Labor campaign by the Establishment was not repeated.³⁶

The Labor government's desire to shape its reforms in a manner that

made them acceptable to both the bourgeoisie and labour was a major factor limiting its achievements to non-class issues. This tactic enabled a number of important social reforms to be introduced. However, its limitations were soon reached when questions of class power were forced into the parliamentary arena. One example of this situation was the way the A.L.P. attempted to handle the question of industrial relations. In this sphere the Government was a good deal less successful in achieving reform. The main reason for this was that whereas the Establishment in general accepted the need for social and political change, they remained united in their opposition to any legislation which affected the division of the state's wealth or which weakened their ability to control labour.

The difficulty of achieving consensus in this area can be seen, for example, in the manner in which the Government handled the Industrial Conciliation and Arbitration Act of 1972. Following the undermining of the arbitration system's penal provisions in late 1969, the bourgeoisie became less enthusiastic about using the Arbitration Court as a means to settle disputes. The industrial reporter for the *Advertiser* commented on this in 1973:

Employers collectively are obviously far from happy with the role of the Commonwealth and State Industrial Tribunals, illustrated best by their reluctance to take disputes into the arbitration system compared with the situation while the use of the penal provisions was in vogue until the close of the sixties.³⁷

The response of South Australian employers was to turn to the civil courts and to a utilisation of the law of tort.³⁸ Under this law it is an offence for unions or individual workers to interfere with the private contractual rights of employers. Any industrial action which prevents a business fulfilling its contracts with other enterprises is thus made illegal. The success of this move prompted the Trades and Labour Council to demand that the State Government pass legislation that would prevent capitalists using the civil courts. Cabinet responded by suggesting to the unions that they assist the government in drafting new legislation to cover industrial disputes. The T.L.C. agreed and appointed five officials to act with government representatives on an Industrial Code Revision Committee. The purpose of this body was to consider the problems involved and offer suggestions for inclusion in the legislation.³⁹ However, Dunstan and David McKee, the Minister for Labor, after setting up the committee, proceeded to ignore its existence and secretly formulated their own modifications to the existing legislation. In essence what they proposed was a Bill which would remove industrial disputes from the civil court but would, at the same time, toughen existing penal provisions within the arbitration system, add further legal barriers to militant union activity and ban all political strikes. It was not until the seventh draft of the Bill was being secretly discussed that the unions became aware of what was happening and following the publication of this draft by the Communist Party, uproar erupted within the T.L.C.⁴⁰

The reaction of the unions forced McKee to claim that the draft had

been withdrawn and a revised version formulated. Still, when the Bill was finally presented to parliament, it included nearly all the features to which objections had been raised. Upon reaching the Legislative Council the Bill was further amended, with the L.C.L. accepting the strengthened penal provisions but insisting that the employers' right to utilise the law of tort be retained. The ability of the employers to continue using this law had to be halted by the direct action of the unions themselves who announced their intention to 'black ban' any employer who attempted to utilise the civil courts against one of their members.⁴¹ Dunstan was still claiming, as late as 1977, his intention to confine industrial conflicts to the industrial courts but it was not till 1979 that a Bill to achieve this aim was produced and, even then, it was decided to lay it aside for further consideration which never eventuated.⁴²

The stance taken by the Government on the torts issue, of avowing impotence, urging restraint on the part of the workers, the establishment of ineffective committees and support for continued dialogue even when discussions were plainly useless became the standard model adopted by the Dunstan government. This administration, during its time in office, managed to introduce extensive increases in penalties for industrial action, to assist the crushing of militant rank and file union activity, and continued the L.C.L.'s policy of providing the most docile labour force in the country.⁴³

Despite these impressive 'achievements' in the industrial relations field the Labor Government was not able to deliver the most important of the promises it had held out to the Establishment at the 1970 election, that is, the development and diversification of the state's economy. Labor's development strategy had four distinct though overlapping elements. First, incentives were provided to encourage both local and external investors. Throughout the 1970s these offers of assistance were progressively made more attractive, this tendency culminating, in 1978, in the South Australian Payments Scheme by which cash grants or ninety-nine-year interest-free loans, of up to \$375 000, could be obtained by any company establishing or expanding within the state.⁴⁴ Second, a restructuring of the state bureaucracy was implemented in order to strengthen and expand the formal bonds between private industry and the state. The centre of this restructuring was the Premier's Department and around this organisation a proliferation of other government and semi-government departments flourished. These included a mining research institute, an industrial research institute and a government insurance office, the purpose of this last being to mobilise development finance.⁴⁵ Third, it pursued the protection of local industry. In response to the Federal Government's attempts, in the early 1970s, to decrease tariff protection the State administration committed significant resources to the presenting of submissions to the Industries Assistance Commission on behalf of industries considered vital to the state's economy.⁴⁶ Fourth, through the maintenance and strengthening of the price control mechanisms, introduced by the L.C.L., attempts were made to maintain wages

at a lower level than in the eastern States. Despite the effort put into the development programme the strategy failed. Rather than expanding industry, manufacturing employment fell from 36% of non-agricultural employment in 1965 to 20.8% in 1976.⁴⁷ Labor's diversification proposals were equally unsuccessful, with little overall change occurring in the range of commodities produced within the state. The 'motor vehicles and parts' and 'appliances and electrical equipment' groups, for example, only slightly reduced their combined share of the state's manufacturing workforce from 29% in 1969-70 to 27% in 1976-77.⁴⁸

Why, it needs to be asked, did the A.L.P.'s development strategy fail? There would appear to be two major contributing factors. First it was soon found that the Establishment could not be counted on to lead any industrial expansion into new and therefore high-risk areas. A conservative entrepreneurial tendency in this sector had been manifest through most of the twentieth century and this had been a problem for the L.C.L. in the immediate post-war years.⁴⁹ Playford had overcome this problem by encouraging foreign investment. The Labor government was more than willing to continue this policy, but unlike the 1940s they found that foreign capital was equally uninterested in investing within South Australia. The restructuring of the international division of labour which became manifest in the 1960s slowed the flow of manufacturing capital into Australia. As a result, State Governments found that they had to compete for the multinationals' favours, not only with the other states but also with the countries of the Third World.

The second major factor preventing an upsurge of economic expansion was the government's inability to develop the state's vast reserves of natural gas. Dunstan, in 1967, had argued that this resource would greatly offset the state's numerous disadvantages vis-a-vis its competitors. He claimed that

Natural gas ... would ensure a rapid upsurge in industrialisation. Apart from providing a local source of fuel for electric power production, natural gas would provide the raw materials for additional industry which without the gas South Australia would not have contemplated.⁵⁰

By 1973 negotiations for the development of this resource had reached a stage where Dow Chemical, the most promising prospective investor, had spent \$1.4 million on feasibility studies and seemed almost certain to go ahead with the project.⁵¹ Things began to go wrong, however, when Rex Connor, A.L.P. Federal Minister for Minerals and Energy, decided to take an active interest in the negotiations and insisted that the scheme have 51% Australian equity.⁵² Connor's intervention proved disastrous for the project. A number of Australian and Australian-based companies formed a consortium which had the necessary equity but which did not include Dow Chemical. Hugh Hudson, later State Minister for Mines and Energy, claimed, after the Federal A.L.P. had been removed from office, that the formation of the consortium had been a ploy designed merely to keep Dow from the Australian market.⁵³

Hudson's claim would appear valid, for after forcing Dow out of the

project the consortium vacillated for two years before acknowledging, in July 1975, that it did not intend to go ahead with development of the resource. Following this admission the State Government, once again, turned to Dow but by 1980 development had not progressed beyond the design and planning stage.

Whether the development of industries based on natural gas will ever come to fruition within South Australia is speculative at the time of writing, but one thing is certain: Dunstan was unable to pull the deal off in sufficient time to save his development programme. In 1975, though, this inability to satisfy the wishes of the Establishment did not earn his government the overt hostility of this sector. It was clear to all concerned that the Premier, despite a half-hearted attempt at pretending support for A.L.P. policy, was not concerned with questions of nationalism and Australian equity. The state administration wished only to develop the economy and were quite happy to go along with and assist in any programme that would achieve this objective. The Establishment therefore still supported the government in 1975 while at the same time launching almost hysterical attacks on the Federal A.L.P. To a large extent these businessmen had little choice in this matter. The State Government while it was plainly failing to implement its promised industrial diversification was at least capable of providing a stable administration, a feat no other party could match. Though the newly titled and restructured Liberal Party (South Australian Branch) was, by this period, beginning to confine its internal conflict to within the organisation, struggle between contending factions was still intense. The lessening, though not elimination, of conflict within the Liberal Party enabled it to begin operating as a more effective opposition even if it could not yet seriously offer itself as an alternative government. Not that this factor was to be important for some time after 1975. Changes of a different and much more important nature were beginning to be felt by the government, changes which would be much more effective in putting an end to what reforming zeal it still had.

Recession, retreat and removal 1975-1979

The state election of 1975 confirmed the popularity of the Dunstan administration both with the urban electorate and with the bourgeoisie. While partaking in the campaign to bring down the Federal A.L.P. neither of Adelaide's daily newspapers supported the L.C.L.'s attempt to link the state party with the Whitlam government. It was suggested by the *Advertiser*, however, that should Dunstan be returned as Premier he should begin reconsidering his administration's priorities. The Labor government, the paper suggested, had taken a lead in experimentation and had a good record in the liberalising of laws governing social behaviour and consumer protection which had won wide acceptance. But now times had changed: what was needed was not experimentation, but a government which would concentrate its efforts on ensuring economic stability and consolidation.⁵⁴

Following its victory at the polls the party appears to have taken this advice to heart. Though not abandoning all attempts at introducing social reform, the government from this time on certainly placed a great deal more emphasis on attempting to sustain economic prosperity. To a large extent it had little choice in this decision. In November 1975 the Federal A.L.P. was removed from office and replaced by a Liberal and National Party coalition with a much less favourable policy on costly, state-initiated, reform programmes. This period also saw the onset of economic recession as the 'long boom' finally came to a close and the capitalist nations throughout the world moved into the deepest slump since the 1930s depression.

Labor's attempt to maintain economic prosperity was, until late 1977, very effective at protecting the state from the worst of the recession, particularly given the limited options open to the government. Unemployment, for example, was consistently better during this period than the national average.⁵⁵ Three factors appear to have combined to bring about this favourable situation, for two of which the State Government deserves some credit. First, it chose to utilise funds received from the sale of the State's railways to the Commonwealth, in 1975, to maintain employment in the public sector and in the creation of work for the unemployed. The State Unemployment Relief Scheme (S.U.R.S.) was established following the axing of a similar Federal A.L.P. programme by the Fraser administration. At its peak in 1977, S.U.R.S. provided employment for almost 2000 workers though it was to be savagely cut, in 1978, once the money from selling the railways ran out. These cuts reduced the number of workers employed to 284 and the scheme was subsequently dropped in the 1979/80 budget, by the then Liberal government.⁵⁶

Stimulation of the state's economy was also achieved by government assistance to the building industry. By utilising its controls over the state's financial institutions the administration was able to expand the availability of finance to prospective home buyers. New loans by the State Bank, for example, jumped 35% from 1973–74 to 1974–75 and this impetus was given a further boost by the entry of S.G.I.C. into the market in 1976.⁵⁷ The result of this stimulation was a dramatic upsurge of speculative home building with some 2000 more houses being constructed in 1975 than in the previous year.⁵⁸ However, a realisation problem emerged as consumers, deterred by high mortgage repayments and an uncertain economic environment, failed to take advantage, in sufficient numbers, of the easier credit facilities. By 1978 the market for new homes was glutted and the bubble burst.⁵⁹

To the problems of lack of funds with which to maintain jobs and the slump in the building industry was added, in 1977, a downturn in the manufacturing sector. This area had stood up well to the first years of the recession with demand for motor vehicles and consumer durables continuing to grow. Yet, with growing national unemployment, it was not possible for this expansion to continue and in 1977 new registrations

of motor vehicles fell and the proportion of household disposable income spent on other consumer durables also decreased. At the same time as these combined afflictions were affecting the state the Federal Government announced its intention not to increase support for Australian ship-building. This resulted in the closure of B.H.P.'s shipyards at Whyalla. Finally a run of poor seasons in the rural sector provided yet one more nail for the coffin.⁶⁰

By early fiscal 1977/78, the South Australian economy was rapidly moving into recession with all economic indicators showing a poorer performance for the state than for the rest of Australia. During the following year the recession, which had deepened slowly over the previous four years for the rest of the country, was compressed, for South Australia, into one. By June 1978, 10 000 jobs had been lost compared with the same period in 1977. Unemployment stood at 6.8% compared to a national average of 6.1% and the job vacancy rate was half the Australian average. This period also saw the number of local companies forced into receivership or liquidation increase by 43% from 152 companies in 1976-77 to 217 in 1977-78.⁶¹

The A.L.P., while its ability to maintain economic prosperity had lasted, had been able to retain the support of sufficient of the Establishment to remain in office. As the economic recession deepened, however, antipathy by all levels of the business community became manifest, with growing demands that the government do something to save the state's economy. *The Australian Financial Review* reported that by April 1978 the administration's inability to maintain economic prosperity was generating increasing hostility from businessmen. The paper reported one major local capitalist as arguing:

Don Dunstan seems to think he can get by with making South Australia the cultural centre of Australia. But poetry readings and festivals aren't going to get us out of our current problems.⁶²

This type of criticism, though common, was, to a large extent unfair. As has been shown the Labor administration had, throughout its time in office, been very active in promoting the economic interests of the Establishment. The problem for Labor was that beyond jockeying with marginal Keynesian monetary and fiscal programmes they had nothing else with which to combat the recession. The policies implemented, through 1974-77, had been short-term solutions designed only to carry the state until the national economy revived, a revival which never came.

One manifestation of the growing antipathy within the business community was a tendency for this sector to see the interventionist nature of the Labor administration as creating straight-jackets which were deepening the crisis by limiting the private sector's ability to manoeuvre.⁶³ This criticism forced the government, in 1978, to begin dismantling some of its own reforms. In April, in response to demands from the building industry, it was announced that controls on the price of land were to be dropped. This was followed by the abandonment of the government's plans for implementation of industrial democracy in the

state's private sector. *The Financial Review* reported that though both retreats were hedged with placebos, designed to placate the left of the A.L.P., they were in fact a reflection of the need for the government to appease the business community.⁶⁴

The Premier's willingness to abandon the party's own reforms in order to appease the Establishment and thus remain in office might, if no other crisis had struck, have enabled him to ensure that the alienation felt by this sector did not become open and active hostility. In early 1978, however, this hope was dashed when Dunstan broke the cardinal rule that had always guided the activities of his administration; that is, of ensuring its activities remained within the parameters acceptable to the bourgeoisie. On 18 January 1978 he ventured outside those parameters. He sacked the Police Commissioner.

In September 1977 Peter Ward, the Adelaide correspondent for the *Australian*, published the first of a series of articles detailing some of the activities of the South Australian Special Branch.⁶⁵ Ward had been a personal assistant to Dunstan for a number of years and his inside knowledge of the Labor administration, gained during this period, together with his access to the media, meant that he was in an excellent position to attack the image of the Premier should he so choose. In his articles Ward claimed that the Police Commissioner, Harold Salisbury, had allowed his department to maintain secret files of a political nature, did not consider security and intelligence matters the business of the government of the day and, as a result, had consistently kept such information from the Labor administration.⁶⁶

As a result of the Government's failure to respond to the first of the *Australian's* articles Ward attacked the Premier, claiming his failure to curtail Special Branch's activities made a sham of Dunstan's claim to be a democrat. These attacks created consternation within the A.L.P., with demands, from senior members of the party, that Dunstan rectify the situation and moreover explain why he had failed to do so in the past.⁶⁷

These combined pressures culminated in the appointment by the government, of Acting Justice White, to conduct an investigation into the activities of Special Branch. The subsequent report found that the number of political files maintained was extensive and, in many cases, grossly inaccurate. Further, White reported that the Commissioner had on a number of occasions seriously misled the Government as to the exact nature of Special Branch's activities.⁶⁸ Dunstan subsequently sacked Salisbury.

Why Dunstan took this dramatic step has been the source of much speculation within and without South Australia. The Premier claimed it was because as a democrat he was shocked and offended at the violation of civil rights involved in the keeping of secret political files and in the refusal of the Police Commissioner to acknowledge the government's right to control the activities of the political police. The validity of this explanation is difficult to accept. The Premier had known of the existence of the files for several years and yet had done nothing to prevent

their continued existence. Still he was a social democrat with a strong commitment to parliamentarianism and the supremacy of the political executive and this may well have played a part in his decision. Yet to these explanations should also be added the danger represented by Ward if nothing was done to satisfy his demands for a curtailment of Special Branch. Immediately following Salisbury's dismissal Ward published a self-congratulatory article, in the *Australian*, claiming the dismissal as a victory for the press.⁶⁹ What he would have done if he had not been given this victory must, at this stage, remain speculative.

While the reasons for Salisbury's dismissal may be unclear the response of the Establishment was not. The Government was viciously attacked for its action, with the *Advertiser* arguing that it was terrifying for a situation to arise in which a government felt free to dismiss the head of the police force.⁷⁰ Following a claim by Ward that Dunstan had lied as to how long he had known of the files' existence the media grabbed on to this issue. Salisbury's failings as a public servant and the role of Special Branch were played down and the Commissioner was painted as a good man who had been wronged. This excuse was used to justify a determined and prolonged media campaign against the government and in particular against Dunstan. The effectiveness of this attack was reflected in the popularity of the Premier whose approval rating slumped from 76% in October 1977, to 57% in May 1978.⁷¹

By the end of 1978 the A.L.P. Government was in dire straits. The factors that had enabled Labor to win and retain office since 1970 had, by this time, been all but totally whittled away. The collapse of the 1972–75 Whitlam Government had removed an important source of funds for social reform, the divisions and inefficiency within the Liberal Party, though not entirely overcome, had healed sufficiently to allow the party to appear as a viable alternative government, in dismissing Salisbury the A.L.P. had misused the powers allowed it by the ruling class, and economic development and diversification had failed.

Given the weight of these combined failures and afflictions Dunstan, by the end of 1978, needed to provide something new and dramatic if he was to remain as Premier. In the beginning of 1979 he grasped at the one option still open, uranium mining. With only four days warning, it was announced on 17 January that the Premier was to travel to the U.S.A. and Europe to study the latest advances in the safe handling of this material.⁷²

Dunstan's involvement with uranium had a history going back several years. Following the withdrawal of the consortium that was to develop the natural gas resource in July 1975, the government had the trade and development division of the Premier's Department begin promoting a new project for the state's mid-north. This was to be a \$1.4 million uranium enrichment plant. Following the defeat of the party's anti-uranium activists in 1976, Hudson was dispatched abroad with plans for the then still-secret project in an attempt to interest foreign capital in the venture.⁷³ The Premier was later to become a staunch campaigner for the

adoption of a strong anti-nuclear policy by the Federal A.L.P. It should be noted, however, that when he adopted this new stance the extent of the state's mineral wealth, of which the uranium deposits at Roxby Downs are an integral part, were not known. Dunstan's later softening on the uranium question, once this had been discovered, suggests that his commitment was certainly less than total. What, it may be asked, would have been the Government's position if Hudson had returned with the \$1.4 million?

The announcement of the Premier's trip in January 1979 threw the A.L.P. into consternation. Phillip McCarthy, of the *National Times*, has argued that the trip represented a considerable victory for the Adelaide business establishment and for Hudson who had been placing considerable pressure on Dunstan to change his stance.⁷⁴ Before leaving, the Premier claimed that he had not already decided to support uranium mining but was maintaining an open mind. This claim, however, was met with scepticism by both A.L.P. party members and by the trade unions who viewed the trip merely as a gimmick by which Dunstan hoped to bring about a change of party policy.⁷⁵

Dunstan's particular difficulty on this question was that whereas the left of the party was solidly anti-uranium, the centre and right trade unions, from which the Premier traditionally drew his support, were split. Further, even if sufficient support could have been obtained from the unions (a difficult task given some cabinet members' strong opposition), there would still have been difficulty with the party branches.

While there was division within the ministry on the uranium issue, Cabinet was determined that this should not be displayed publicly. The consensus was that if a wide and open division appeared to be developing then it would be necessary for the party to close ranks and opt for no change for the moment.⁷⁶ Following the organisation of a public rank and file party meeting opposing uranium on 24 January, with open support from at least one cabinet member, it became obvious that an open split would occur if any modification of policy was attempted. It should have come as no surprise, therefore, that Dunstan did not discover any major breakthroughs in the safe handling of uranium. On his return on 5 February he at first refused to clarify what his policy was, claiming he was still not sure what he was going to advocate within the party.⁷⁷

As things developed, Dunstan's opinions were not to matter a great deal for on 8 February he collapsed in parliament, was hospitalised and then on 15 February announced his intention of resigning. The explanation given for this sudden announcement was that his health was such that he could not continue as Premier or even as a backbench member. It was claimed that the stress of office had become too great and this, together with the recent death of his wife, meant that he would have to resign.⁷⁸

The accolades that followed Dunstan's announcement were grandiose and prolonged. That this man who had spent twenty-six years in parlia-

ment suddenly decided to resign, because of stress, was met with almost total unquestioning public acceptance by his critics and supporters alike. Yet some doubt was raised as to the validity of this explanation when the *Melbourne Truth* on 24 February reported that the Federal Liberal Party at the time was alive with rumours that Dunstan had been pressured into resigning.⁷⁹ The paper suggested that the instrument used to apply this pressure was a forthcoming book which detailed a number of aspects of Dunstan's personal and public life. Unlike many of the slanderous rumours that were a constant problem for Dunstan while in office these claims deserve some hearing. When the book *It's Grossly Improper* was subsequently published it was, in all important details, just as *Truth* had indicated. The book claimed Dunstan was a homosexual⁸⁰, took illegal drugs⁸¹, and had given his lover, later a heroin dealer, a job on his personal staff at the taxpayer's expense.⁸² At least some of these accusations were backed up by proof in the form of private letters written by the premier and this was apparently sufficient to prevent Dunstan from suing the authors for libel. The book also confirmed that the Liberal party had known of the existence of the manuscript at the time of Dunstan's resignation.⁸³ This is not to suggest that the Premier's illness was a facade. There can be no doubt that the man had been working under extremely stressful conditions throughout 1978 and into 1979, to which he may well have succumbed. What is suggested by this report is that Dunstan's political enemies had in their possession a weapon which could be extremely effective in undermining his public position and as a consequence the A.L.P.'s hold on government. Given the nature of the material in the book, it is not difficult to imagine the damage its use in an anti-Labor media campaign could have done to Labor's chances of re-election, if Dunstan remained leader of the party.

That the publication of *It's Grossly Improper* was seen as a danger by the A.L.P. leadership was acknowledged by Des Corcoran following the publication, in 1980, of a shameful report that attempted to place Labor's removal from office on his shoulders. In his refutation of the report the former Premier detailed his reasons for calling an early election, which included fear of how the public would react to the forthcoming publication of Ryan & McEwen's book:

The advice I had was that this scurrilous document could have been sufficient to bring down the government. It was impressed upon me that even though the book was a litany of mis-statements, the publicity it would receive would be disastrous to the government. I accepted the advice and when I cited it in Cabinet as one of the reasons for the early election, Cabinet agreed with only one dissenter.⁸⁴

If Dunstan had not resigned it is not difficult to imagine what an anti-Labor media campaign could have done with material of this nature.

If *Truth*'s reports that Dunstan was pressured into retiring were correct, it needs to be asked why did this happen? The man, after all, was actively working to promote the interests of the Establishment and yet what evidence does exist suggests that it was exactly these people who

were mostly likely to have been involved in his removal. The answer must surely be that it had finally been decided that not only Dunstan but the A.L.P. as a whole had to be removed from office. The dismissal of the Premier, possibly the A.L.P.'s single most important electoral asset, would be a major step forward in achieving this objective.

The suggestion that powerful sections of the capitalist class had decided the A.L.P. was no longer the party they wished in government, is borne out by the campaign against Labor that followed Dunstan's resignation. The *Financial Review* reported that the new Premier, Des Corcoran, faced a situation in which lack of confidence in the A.L.P. within the 'business community' had reached crisis level.⁸⁵ This lack of confidence was made plain by the *Advertiser* which, by early April, was publishing almost daily attacks on the administration. The paper claimed that the government was anti-business, was chasing capital from the state, had created a massive bureaucracy that was strangling the private sector and, most importantly, with its anti-uranium policy was halting a possible one billion dollars worth of investment coming into South Australia.

Support for this campaign was also given by the Establishment's political and industrial wings. In parliament the Liberal Party made its contribution by stepping up pressure in both houses to a level reminiscent of the 1965-67 period.⁸⁶ At the same time the President of the Chamber of Manufacturers, Colin Elkinton, denounced the Government and announced the time had come to fight:

Many problems now facing private enterprise in S.A. are compounded by the apathy of local business to State Government intervention.

The time has come when company directors must decide whether they are prepared to fight for continuation of the free enterprise system or sit back and watch it die.⁸⁷

Then, in late April, even more suddenly than it had begun the campaign ceased. In its editorial of 27 April, the *Advertiser* argued that the Labor Government with its new leader, Corcoran, needed a chance to prove itself. The new Premier, the paper claimed, had shown the business community that he was different from Dunstan and was not anti-business.⁸⁸ In this claim the paper was certainly correct. In his first weeks as party leader Corcoran had managed to greatly speed up the dismantling of those reforms disliked by business and shown that he was willing to do whatever the Establishment wished.⁸⁹ This, though, may not have been the reason for the *Advertiser's* sudden about face. A more viable explanation can be found in the negotiations that took place between Corcoran and Norman Young, a leading South Australian businessman, on the day before the sudden change and out of which, it is suggested, two arrangements were concluded. The first concerned the Bank of Adelaide.

As a result of the crash of Australian Securities Limited in February 1979, there was a loss of business confidence and investment in finance corporations. This situation, together with a fall in profitability due to

unsuccessful property speculation, created problems for the Bank of Adelaide's subsidiary, the Finance Corporation of Australia (F.C.A.).⁹⁰ The Corporation found difficulty maintaining its cash flow with the result that its short-term unsecured deposits of \$100 million began to be called in.⁹¹ These moves led the Reserve Bank to intervene and upon examining F.C.A.'s financial situation it ordered the Bank of Adelaide to cease pouring funds into the corporation and to find an outside source of support.⁹² This move compounded the problems of the Bank of Adelaide for if support could not be found for F.C.A. then the bank itself could collapse.

These problems forced the board of the Bank of Adelaide to retain Norman Young, a former director, as an adviser with specific instructions to investigate the possibility of a merger with the Bank of N.S.W.⁹³ When, on 26 April, the day before the *Advertiser's* change of policy, it was found that this could not be done in a manner acceptable to the board, Arthur Rymill, the board's Chairman, turned to the South Australian government with a proposal that it intervene to prop up the bank.⁹⁴ Corcoran replied favourably to this proposal but on 5 May the Reserve Bank again intervened and ordered the Bank of Adelaide to find another bank with which to merge and to do so immediately. Further, the bank's board was instructed that the State Government had to be excluded from involvement if assistance from the banking community was to be given.⁹⁵ This proposal was subsequently accepted and though some local businessmen attempted to intervene, the bank eventually passed out of the hands of the South Australian Establishment.

The second government decision that coincided with the *Advertiser's* sudden change of policy was the administration's announcement, on 27 April, that legislation would be introduced to limit the shareholdings of Santos Limited. This company was the major investor in the state's gas and hydrocarbon reserves in the Cooper Basin.⁹⁶ The Perth-based Bond Corporation had purchased 37.5% of Santos shares in August 1978. This had been greeted with dismay by members of the Establishment who feared Bond's determination to transport the reserves to Queensland which would prevent the development of this industry in South Australia.⁹⁷ John Bonython, Chairman of Santos and of Advertiser Newspapers Limited, argued that Bond was an outsider whose involvement in the company would not be beneficial to South Australia and should therefore be opposed.⁹⁸ News Limited which subsequently became the main beneficiary of Bond's forced divestment also used its Adelaide newspaper to urge the State Government to intervene against Bond. Again in the interests of South Australia.

The Establishment's sudden about face at the end of April threw the Liberal Party into disarray. Through May and June, while the Santos legislation was being processed, Adelaide's newspapers gave the government very favourable coverage. This led a dismayed David Tonkin, State Leader of the Opposition, to publicly criticise local un-named businessmen who, he claimed, in supporting Corcoran were helping to bring on

disaster for the state.⁹⁹ Tonkin was not forced to lament for long. He was soon to find that though the Premier had temporarily managed to buy the support of the Establishment there were powerful forces centred outside the state which had now become opposed to the Labor government. In July 1979, Tonkin travelled to the United States and Europe and had discussions with Dow Chemicals, the Chase Manhattan Bank and a number of large European corporations. *The National Times* reported that he was surprised at the level of knowledge these companies had about South Australia and further was ecstatic to find they very much disliked the Labor administration.¹⁰⁰ He returned, reports the paper, 'galvanised' by these findings though it was not suggested what positive assistance these corporations may have offered him to bring on this galvanisation. Shortly after his return to Adelaide, Tonkin's enthusiasm was shown to be warranted. Beginning in early August the campaign against the government, which had lain dormant for three months, suddenly revived.

Tonkin personally opened the offensive in a speech he made to parliament on 31 July.¹⁰¹ In this statement he attacked the government's failed economic policies and its continuing ban on uranium mining. He then turned to what he saw as the way out of the malaise into which the state had sunk. While overseas, he claimed, he had learned that the state's mineral resources had attracted a great deal of interest amongst potential investors and customers. These companies wanted to invest in South Australia but would not because of the state A.L.P.'s reputation of being anti-development. All that was needed therefore for the state to receive a vast influx of capital was the removal of the Labor Government.¹⁰²

To support his claim that international investors were opposed to the Labor Administration, Tonkin cited a speech by Robert Norman to the Adelaide Chamber of Industry and Commerce a fortnight earlier. In this speech Norman, a director of the Bank of N.S.W. and Chrysler Australia Limited as well as President of the Australian-Japan Society, castigated the State Government. Norman claimed that the policies followed by the A.L.P. had led to the creation of an unfavourable business climate in South Australia. He stressed, in particular, the importance of the mineral sector which he described as the catalyst for investment elsewhere in the country and the development of which was being halted in South Australia only by the State Government.¹⁰³

Further evidence that large multinational corporations were interested in investing in the development of the state's mineral resources and therefore had reason to be interested in the state's politics was provided by Western Mining Corporation on the day before Tonkin made his speech. On 30 July the Chairman of this company, A. Parbo, announced that his organisation, together with B.P. Australia Limited, was to begin a \$50 million feasibility study at Roxby Downs. When questioned as to how the partners would overcome the state A.L.P.'s ban on uranium mining he replied he did not think this was going to prove a problem.¹⁰⁴

As with the March-April anti-Labor campaign the August offensive appears to have involved a good deal of co-operation and co-ordination. The *News* editorial of 30 July advised the Government that the Liberals were once again in disarray and that the economy was certainly going to get worse in the new year. Given this situation and the state's solid Labor voting majority, it suggested, Corcoran would be wise to call an election in the near future while he was still safe.¹⁰⁵ Representatives of the Establishment also entered the assault: the Manager of the Chamber of Commerce and Industry, on 2 August, attacked the Government for its proposed legislative changes to the Industrial Conciliation and Arbitration Act. He then went on to claim the state's economy was floundering and that the crux of business problems was not economic but political and the problems were the fault of the State Government.¹⁰⁶

Over the next three weeks the campaign intensified with almost daily promotion of the Liberal Party and attacks on the A.L.P. On 22 August, Corcoran, who after the 1978 anti-Dunstan campaign must have been aware of what the media could do to the A.L.P.'s popularity, if given time, announced an election for 15 September. With an August poll showing the Labor Party 21% ahead of the Liberals,¹⁰⁷ no doubt he felt reasonably safe that an election would confirm his party in government no matter what action the media took. What followed though was a beautifully orchestrated campaign by the political, business and media wings of the bourgeoisie.

During the election campaign the *Advertiser* and the *News* savagely attacked the Corcoran administration. Though the A.L.P. only ever officially complained of the *News'* handling of the election, both papers followed the same basic strategy. The only real difference was that the *Advertiser* in accordance with its unjustified pretensions to be a 'thinking man's paper' was not quite so vulgar though certainly as blatant.

The papers painted Corcoran, who until that time had enjoyed a reputation as an efficient and experienced administrator, as a power-hungry buffoon who had forced the South Australian people to the bother and expense of an early election merely to gratify his personal vanity. A scare campaign was unleashed as part of the offensive, designed to convince the electorate that the A.L.P. was responsible for the depressed state of the economy which was claimed to be at crisis level. The link between the A.L.P. and the trade unions was also used as a means to attack the party. With Dunstan gone, it was claimed, the A.L.P. had come under the control of 'extremist' elements in Trades Hall who through uncontrolled industrial activity were leading the state into industrial anarchy. This last claim was substantiated by exploding out of all proportion any industrial disputes which occurred during the run-up to the election.

In the second week of the campaign the crisis environment which the papers were attempting to develop was greatly assisted by the public intervention, for the first time in forty years, of the state's major employer organisations. These bodies in a co-ordinated attack

denounced the Labor government and called for a Liberal Party victory at the polls.¹⁰⁸ The employers claimed that the State Government's 'socialist' policies were ruining the South Australian economy and threatened that if the A.L.P. continued in office many employers would leave the state. More specifically, the Retail Traders Association, on 3 September, openly threatened the state's 80 000 shop assistants with the loss of thousands of jobs if they failed to vote Liberal.¹⁰⁹

The campaign resulted in an 11% swing against the government, with the Liberal Party receiving the largest preferred vote ever recorded in a South Australian election. When the final results were posted the Liberals were in government with twenty-five seats in the House of Assembly, the A.L.P. nineteen, Democrats one, and Country Party one.

On the following Monday further evidence that powerful sections of the capitalist class were opposed to the Labor government was provided by the stock exchange. Mining shares in particular reacted very favourably and the *Financial Review* described the results as a 'bonanza' for Western Mining Corporation which saw the value of its shares climb by \$40 million in one day. The market was particularly impressed, the paper reported, by Tonkin's election promise that there would be an early go-ahead for the mining of the gold, copper and uranium deposits at Roxby Downs.¹¹⁰

Immediately following the A.L.P.'s defeat an outcry was raised within the party for internal reforms and scapegoats. Of the latter the most obvious was Des Corcoran who was metaphorically thrown to the reforming wolves. One observer, soon after the election, succinctly and accurately summed up what would come of the demands for reform:

Within Labour, as is usually the case following such a defeat, there have been calls for a total overhaul of everything: policies, personnel, structure. Within a few months that will be forgotten as the 'machine' reasserts its confidence and dominance. 'We will be back in three years'. Pigs arse you will.¹¹¹

The A.L.P.'s removal from office in September 1979 formally brought to a close its period of rapprochement with the Establishment that had been forged a decade earlier. The Labor government in its failure to maintain and strengthen the interests of this sector after 1977 had shown that it could no longer fulfill its part of the 'contract' into which it had entered in 1970. Given the vital role of the bourgeois state in ensuring the continuance of capital accumulation this failure meant that the Establishment had to seek an alternative. In South Australia this inevitably meant the Liberal Party. By 1979 this organisation, though it had not managed to heal all the wounds opened by its forced remodelling, was capable of offering itself as a viable alternative. As a consequence of his July trip to the U.S.A. and Europe, David Tonkin was able to provide the Establishment with added reasons why this alternative should be pushed with increased vigour even to the extent of open intervention by industrial and financial capital. Put simply, the A.L.P. by August 1979 had nothing of substance with which to buy the

support of this sector. Nor, given its anti-uranium policy, could it hope for support from capital external to the state. The Liberal Party on the other hand in its promotion of the interests of the mining industry had much it could offer to both sectors. Against this opposition, the A.L.P. with its lack of any politicised mass base had only a large electoral following. When it came to the crunch, just as Whitlam found in 1975, this is simply not enough.

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MARXIST THEORY AND AUSTRALIAN MONOPOLY LAW

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THE LAW WAS NEVER a major focus of concern for Marx and Engels, and their writings on the subject are scattered and often contradictory (Cain & Hunt, 1979). Many writers since have sought to fill this gap by developing, or at least urging the development by others of, a coherent Marxist theory of law. Attempts to provide a Marxist account have as a common point of departure the assumption that economic interests are the major factors shaping law. Beyond this, however, there is considerable diversity.

A distinction which helps bring order to this diversity is that between *form* and *content*. Sociologically inclined writers have tended to concentrate on the *content* of law—its specific prescriptions and prohibitions—and attempted to show in what way these are shaped by the needs of powerful economic interests, or more generally the needs of the capitalist system. On the other hand legally trained scholars, no doubt because of the broader view of law such a training provides, have concerned themselves with the general *form* of law in capitalist society and sought to show how this form is dictated by the nature of capitalist relations. This latter body of writers will be dealt with briefly first.

The early Soviet legal theorist, Pashukanis (1951), is the best known theorist in this tradition. According to Pashukanis the distinctive feature of law in capitalist societies is its emphasis on the individual as an abstract bearer of rights and duties. For bourgeois law, the individual's particular characteristics are irrelevant. The individual is simply a legal construct with rights to possess and exchange property and to enter into contracts, and the duty to respect the rights of others. In such a conception all men are equal, indeed formally interchangeable, since all are bearers of the same rights and duties. By contrast, equality before the law is not a characteristic of non-capitalist society. Instead, individuals occupy positions in society which confer on them different rights and responsibilities. In feudal times, for instance, the law distinguished between lord and peasant and rights varied accordingly.

The features of bourgeois law just sketched are, according to Pashu-

kanis, an outgrowth of bourgeois economic organization. Capitalist society is constituted of possessors of goods or commodities who enter into exchange relationships with one another. The identity of the goods' possessor is irrelevant. All that matters is that goods are exchanged in such a way as to maximize their utility to possessors.

It is clear, then, says Pashukanis, that 'the logic of juridic concepts corresponds with the logic of a goods-producing society' (1951: 149). The *form*, in other words, of bourgeois law is determined by the nature of capitalist economic organizations.

This argument is reiterated and extended in a recent article by Balbus (1977) in which he argues that there is a necessary 'homology' between the legal forms and exchange relationships of capitalist society. Balbus' essay extends Pashukanis' analysis in that he recognizes that the nature of capitalism is changing. The growth of the welfare state involves the provision of goods and services to certain sections of society, not on the basis of exchange, but of citizen right. Corresponding to this changing basis of distribution has been a change in the form of law. Private law (traditional bourgeois law), concerned with the protection of individual rights and with the adjudication of disputes, is giving way to administrative law, whose function is to facilitate the operation of the welfare state. Thus, as the nature of capitalism changes so too does the form of law, but in such a way as to maintain the 'homology' between legal form and capitalist organization. (A very similar argument is made by Kamenka & Tay [1974] when they speak of a shift from what they call the *Gesellschaft* form of law to the bureaucratic administrative form; see also Fraser [1976].) These brief comments are enough to indicate that the analysis of legal form is an area in which Marxist theory has indeed developed.

The other body of Marxist scholarship, more centrally of interest in this paper, concerns the content of law, that is, its actual prescriptions and prohibitions. In this connection it is frequently asserted that law is simply an instrument by means of which the ruling class in a society pursues its own interests. This instrumental view of law can be found in the writing of various contemporary American Marxist sociologists of law. For instance, for Quinney:

The law is a tool of the ruling class (i.e. that class which owns the means of production and which is able by virtue of the economic power conferred on it to use the state as its instrument of domination. (1975: 194)

Again, Chambliss asserts in somewhat more cautious fashion that

... those who control the economic and political resources of society will inevitably see their interests and ideologies more often represented in law than will others. (1976: 100-1)

It is easy to find apparent support for this instrumental view in the writings of Marx and Engels. We get, for example, in the *Communist Manifesto*:

Your jurisprudence is but the will of your class made into law for all, a will,

whose essential character and direction are determined by the economic conditions of existence of your class.

And in another statement

The jurist imagines he is operating with *a priori* propositions, whereas they are really only economic reflexes. (Marx & Engels, 1965: 423)

This view that law is a manifestation of the interests of the ruling class is sometimes expressed in terms of the base/superstructure metaphor. According to Marx & Engels, economic and technological factors formed a basis for social organization, while legal and political institutions constituted a superstructure erected on and determined by the base. Here for example is a famous passage which occurs in *The Preface to the Critique of Political Economy*:

In the social production of their life men enter into definite relations that are indispensable and independent of their will, relations of production which correspond to a definite stage of development of their material productive forces. The sum total of these relations of production constitutes the economic structure of society, the real foundation, on which rises a legal and political superstructure and to which correspond definite forms of social consciousness. The mode of production of material life conditions the social, political and intellectual life processes in general. (Marx & Engels, 1951: 328-9.)

The view that law is merely a reflection of the interests of the dominant economic class, nothing more than a tool of the ruling class, must, however, be rejected. There are numerous instances of legislation contrary to business interests. Indeed Marx himself was well aware of this as indicated by his discussion of the struggle for and eventual enactment of the 10-hour day in England. Judicial decisions, too, often go against the interests of the ruling class. Indeed, according to the eminent American jurist Roscoe Pound, ruling-class economic interests are largely irrelevant in the determination of particular cases. Here are his words:

The strongest single influence both in determining single decisions and in guiding a course of decisions is a taught tradition of logically interdependent precepts and of referring cases to principles. (1940: 367)

What stands out in the history of Anglo-American law is the resistance of the taught tradition in the hands of the judges drawn from any class you like ... against all manner of economically or politically powerful interests. (1940: 366)

Pound, of course, does not deny the long-term impact of economic interests. But, he argues,

... it is not that economic power has dictated decision of particular cases or judicial promulgation of particular rules, but rather that economic progress has led to new wants, new claims, new demands, new desires ... The pressure of new interests has required that the taught tradition be made to serve new purposes as old doctrines were called on to solve new problems. There has been a gradual shaping of obstinate traditional doctrines through the need of applying them to new economic conditions in

the light of reshaping ideals of the legal order. In this way economic changes have in time a profound effect. (1940: 366-7)

Pound gives a number of examples of the influence of what he calls the 'taught tradition'. One of his most dramatic is a case decided by an English court in 1828. A land-owner who had a garden of exceptionally valuable tulips and who had had a number of plants and bulbs stolen, set a trap, a spring gun, to protect his garden against thieves. A trespasser who subsequently climbed over the wall into the garden to steal tulips was injured when he set off the gun and thereupon sued for damages. Now this was a period when England was dominated by a landed gentry and if there was anything this class was interested in it was the preservation of its property rights against poaching, trespassing and thieving. Moreover, the bench of the day consisted largely of judges who were either big property-owners themselves or connected in some way with the land. If the law were merely a tool of the ruling class one would have no hesitation in predicting that the court would support the right of the property-owner to protect his property. Yet, in fact, in this case the court awarded damages against the property-owner in favour of the trespasser. According to the court there was an intentional aggression in setting a trap for trespassers and such aggression, resulting in wounding, could not be justified even in the defence of property. In deciding in this way the court was relying on the taught tradition of the common law that one may justify wounding to defend his person but not to defend his property, other than his dwelling.

This kind of case is a clear refutation of the simple-minded instrumental Marxist view. There is, as might be expected however, a second and more sophisticated view of the relationship between legal rules and economic interests which can be found in the writings of Marx & Engels. They were in fact quite prepared to accept what Pound so clearly demonstrates, namely that the superstructure of society, in particular its legal system, has a life of its own which is by no means totally determined by economic interests. They asserted merely that the superstructure was determined by the base 'in the final analysis' or 'ultimately'. Here are Engels' words:

According to the materialist conception of history the *ultimately* determining element in history is the production and reproduction in real life (that is, the economic element). More than this neither Marx nor I have ever asserted. Hence if somebody twists this into saying that the economic element is the *only* determining one, he transforms that proposition into a meaningless, abstract senseless phrase. The economic situation is the basis, but the various elements of the superstructure—political forms of the class struggle and its results to wit: constitutions established by the victorious class after a successful battle, etc., juridical forms, and even the reflexes of all these actual struggles in the brains of the participants: political, juristic, philosophical theories, religious views and their further development into systems of dogma—also exercise their influence upon the course of the historical struggles and in many cases preponderate in determining their form. There is an interaction of all these elements in which, amid all the

endless host of accidents (i.e. of things and events whose inner interconnection is so remote or so impossible of proof that we regard it as non-existent, as negligible) the economic movement finally asserts itself as necessary. Otherwise the application of the theory to any period of history would be easier than the solution of a simple equation of the first degree. (Marx & Engels, 1965: 417)

Engels' claim, then, is that the economic base sets certain limits to what goes on in the superstructure, but that within these limits the superstructure operates autonomously. In modern Marxist writing this is known as the *relative autonomy of the superstructure*.

At this point the argument takes an ironic twist. Far from being a limitation on the power of the capitalist class the relative autonomy of superstructural phenomena such as law actually contributes to the maintenance of class power.

In a modern state, law must not only correspond to the general economic condition and be its expression, but must also be an internally coherent expression which does not, owing to inner contradictions, reduce itself to naught. And in order to achieve this, the faithful reflection of economic conditions suffers increasingly ... (Thus), it rarely happens that a code of law is the blunt, unmitigated, unadulterated expression of the domination of a class—this in itself would offend the 'conception of right'. (Marx & Engels, 1965: 422)

Engels' point here is that if the law offended the ordinary man's sense of justice by expressing too blatantly the interests of the ruling class, the ordinary man would lose respect for the law, and the authority of the ruling class would be called into question. The ruling class must therefore allow the law a certain freedom to pursue the ideals of justice and consistency.

The notion that the very autonomy of the law serves the capitalist class by legitimating the system from which this class benefits is prominent in recent historical writing. Hay (1975), for instance, has shown that in 18th century England the law was a particularly important source of legitimization. The religious world view was waning and as a consequence religious arguments were becoming less effective as justifications for the very evident inequalities in English society. Nor had the system of representative democracy developed to the point where inequalities could be seen as democratically sanctioned. In these circumstances the popular belief in the fairness of law was crucial to the maintenance of existing class relationships. As Hay puts it:

the criminal law more than any other social institution made it possible to govern 18th century England without a police force and without a large army. The ideology of the law was crucial in sustaining the hegemony of the English ruling class. (1975: 56)

Another historian of 18th century England, E.P. Thompson (1975), has come to similar conclusions about the legitimization function of the law and the very real constraints which an autonomously operating legal system imposes on the ruling class:

Not only were the rulers (indeed, the ruling class as a whole) inhibited by their own rules of law against the exercise of direct unmediated force (arbitrary imprisonment, the employment of troops against the crowd, torture, and those other conveniences of power with which we are all conversant), but they also believed enough in these rules, and in their accompanying ideological rhetoric, to allow, in certain limited areas, the law itself to be a genuine forum within which certain kinds of class conflict were fought out. There were even occasions (one recalls John Wilkes and several of the trials of the 1790s) when the Government itself retired from the courts defeated. Such occasions served, paradoxically, to consolidate power, to enhance its legitimacy, and to inhibit revolutionary movements . . . The rhetoric and the rules of a society are something a great deal more than sham. In the same moment they may modify, in profound ways, the behaviour of the powerful, and mystify the powerless. They may disguise the true realities of power, but, at the same time, they may curb that power and check its intrusions. (1975: 265)

So far we have seen that, according to Marxist theory, the relative autonomy of the legal system is necessary if the state is to maintain legitimacy in the eyes of its citizens. Structuralist Marxist writers, in particular Poulantzas (1973), have stressed a second reason why the autonomy of law and, more generally, the state, is vital to the survival of the bourgeoisie as the dominant class. The bourgeoisie is not a united group but consists of various 'fractions' (to use Poulantzas' term)—financiers, traders, industrialists, intellectuals and others—whose interests are frequently in conflict and whose antagonisms are surpassed only by the fundamental opposition between capital and labour. The bourgeoisie is normally incapable of united class action and sacrifices constantly its general class interest for narrow private gain:

The state therefore takes charge, as it were, of the bourgeoisie's political interests and realizes the function of political hegemony which the bourgeoisie is unable to achieve. But in order to do this, the capitalist state assumes a relative autonomy with regard to bourgeoisie . . . which allows the state to intervene not only to arrange compromises vis-a-vis the dominated classes or fractions; but also . . . to intervene against the long term interests of one or other fraction of the dominant class for the sake of the bourgeoisie as a whole. (1973: 284-5)

The thesis that the curtailment of the activities of certain fractions of the bourgeoisie is necessary for the survival of the bourgeoisie as a whole has been widely used to account for legislation which appears to run counter to powerful economic interests. O'Malley (1980), for instance, accounts for the passage of anti-monopoly legislation in the United States around the turn of the century in these terms. The predatory practices of the giant monopolies had given rise to popular resentment and it was feared that should this trend continue populist sentiment might lead to an attack on the institutions of private property. To forestall this threat, the argument goes, the activities of the monopolies had to be curtailed. The legislation thus represents action by a relatively autonomous state against one fraction of capital in the long-term interests of American capitalism as a whole.

There is a serious problem with this line of argument. It would seem to be able to account for any and all actions which the state might take. No matter who the state legislates against and no matter how savagely, it can be accounted for in terms of the long-term needs of capitalism. The structuralist argument thus loses nearly all explanatory power. Provided the events to be explained fall within the area of the autonomous operation of the state, then whatever happens can be said to be consistent with the long-term interests of the bourgeoisie. It is only at the limits, 'in the final analysis', that we would expect the interests of the capitalist class to determine outcomes in some predictable way. Given that these limits can be identified, here at least the theory retains some explanatory force.

What then are the limits implied by the phrase 'relatively autonomous'? According to O'Malley

the capitalist state can make laws which run contrary to the economic interests of the bourgeoisie but stops short where these begin to become incompatible with the requirements of capital reproduction. (1980: 59)

And at another point he asserts that 'the state is endowed with a relative autonomy circumscribed by the need to reproduce capitalist production' (1980: 60).

This is a distressingly vague formulation. Moreover, other writers who use the concept of 'relative autonomy' are equally vague on this point. To emphasise the problem, let us ask what this limitation really amounts to in specific situations. Does it preclude the acquisition by the state of a nation's mineral resources by means of the progressive purchase of shares in mineral resource companies? Does it preclude the nationalization of sectors of industry? There are certainly capitalist states in which these things have occurred. Do these limits in fact preclude the possibility of a transition to some form of socialism? At just what point would we expect to see 'the need to reproduce capitalist production' asserting itself?

Critics hostile to Marxism have seized upon this weakness and argued that it is fatal for Marxism:

It needs little working out to see that the theory [of relative autonomy] implies the collapse of the 'one dominant factor' theory of history. Once we grant independence and multiple interaction in social events, there is no way of setting limits to the possible social effects of developments in the superstructure. (Tay & Kamenka, 1959: 22-3)

Even critics more sympathetic to Marxism have reached similar conclusions:

Like the flight of Minerva's owl, the coming of the last instance remains a remarkably elusive event of dubious epistemological status and utility. (Roxborough, 1979: 51)

As presently formulated, then, the theory of relative autonomy is too vague to have any real explanatory value. It does however have considerable heuristic use. It draws attention to the fact that there may well be limits on the extent to which the law can operate against the interests of

the capitalist class, limits which may not be predictable *a priori* from Marxist theory but which can nevertheless be observed in operation in particular contexts. Legislation which explicitly sets out to regulate business interests in favour of other sections of the community is particularly interesting from this point of view. How far can such legislation go in thwarting business interests? What kinds of limits in fact exist? These are the kinds of questions provoked by theorizing about the relative autonomy of law and state.

The remainder of this essay is an empirical investigation designed to answer these questions in the context of Australian anti-trust law or Trade Practices legislation as it is called in Australia. It is, if you will, an empirical investigation into the limits of the autonomy of the legal system in one particular context.

Enactment

In 1972 a Labor government came to power in Australia after twenty-three years of conservative rule. There is considerable evidence to suggest that this was not the expression of increasing working-class consciousness but rather the result of a growing consumer consciousness on the part of both working- and, more particularly, middle-class electors. The new government enacted a series of broadly consumer-oriented reforms among them being, in 1974, a strong Trade Practices Act, largely designed to protect Australian consumers against unfair or misleading practices engaged in by business. The Act contained two major sets of provisions: the so-called consumer protection provisions consisting of a series of prohibitions against false and misleading advertising, and the so-called restrictive practice provisions. These latter were aimed largely at business practices which restricted competition in such a way as to keep prices higher than they would otherwise be. They included prohibitions on monopolization, price agreements among competitors and resale price maintenance, a practice whereby a supplier requires retailers to sell at some uniform fixed price.

Here, then, was legislation apparently contrary to business interests. And this was certainly how business saw it, for the various business pressure groups based in Canberra mounted a concerted and unanimous campaign against the legislation prior to its enactment. Business representations were, however, almost totally ignored (see Hopkins, 1978, for a more extended discussion of the enactment of the legislation).

It might be argued that, as in the case of American anti-trust law, the Australian Trade Practices Act, although apparently anti-business was, in fact, consistent with business interests since it served to mollify those who might otherwise become disaffected with the existing system and demand radical social change. On this view the passage of the Act can be seen as an instance of the state exercising its relative autonomy to manage the affairs of the bourgeoisie in ways which the bourgeoisie itself was incapable of doing. To the extent that the Act has actually had such

an effect, it exemplifies a point often made in Marxist writing about the role of social democratic parties in capitalist societies: intervention in the economy by such parties, regardless of their intentions, tends to weaken the forces of revolution. Those who make this argument claim further that social democratic parties fulfil this function even more effectively than conservative parties because of the latter's general commitment to the principle of *laissez-faire*, which makes them reluctant to intervene more than is immediately necessary (Warren, 1972).

Although it is possible to point to the system-preserving function of the legislation it would be absurd to suggest that this amounts to an explanation of its enactment. Safeguarding the capitalist system was certainly not the government's intention and the possibility that the legislation might have such an effect was never considered. Indeed, had they been aware of and given credence to this potential function of their Act, many Labor parliamentarians would no doubt have been considerably less enthusiastic about supporting it. In short, it would be highly artificial to assert that the legislation was consistent with the long-term interests of the bourgeois class. Realistically, it must be seen as a substantial defeat for business.

What does this tell us about the limits of the law's autonomy from business interests? To start with, it is crucial to make the distinction between enactment and implementation of legislation. Anti-business legislation which is not implemented is not effectively anti-business at all. It represents a symbolic defeat for business only. Business can easily live with such defeats. It is important to recognize that legislation in representative democracies is as much an expression of the mood of the electorate as it is an exercise of social control. And it may be quite impossible for business interests to prevent the legislative expression of such public opinion. Whether that expression of opinion can be translated into effective social control is quite another matter. (On the significance of symbolic legislation see Gusfield, 1963 and Carson, 1975.)

This analysis suggests that there may be few if any limits at the symbolic or legislative level on the extent to which the law can run counter to business interests. Indeed it might be expected that the more powerful business interests become in their market place behaviour, the more likely it is that popular resentment will develop to the point where legislators feel compelled to enact strong anti-business measures. It is at the level of implementation that we would expect to see the emergence of limits on the extent to which business interests are actually over-ridden.

The Enforcement record

Implementation of the Trade Practices Act is the responsibility of the Trade Practices Commission (TPC). It is convenient therefore to begin our examination of the implementation of the Act by looking at the enforcement record of the TPC. In its first six years of operation the

Commission has brought to a conclusion some sixty-five cases (TPC, 1980: 110-26). Of these, more than two-thirds were for violations of the consumer protection provisions, largely misleading advertising; less than one-third were for violations of the restrictive practice provisions, largely price fixing of various types (see Table I). Not only were consumer protection cases more numerous than restrictive practice cases but the Commission also had more success in prosecuting them (83% v. 68% success rates). There is thus a rather striking imbalance in TPC enforcement activity. How are we to account for this difference?

Two general theses can be advanced in this context. First, consumer protection offences are easier to prosecute than restrictive practice cases. Second, the consumer protection provisions are acceptable to business while the restrictive practice provisions are not, with the result that the TPC is subject to frequent political intervention to limit its effectiveness in this area. It is sought to establish these theses in turn.

Difficulty of enforcement

There are a number of reasons why the consumer protection offences are easier to prosecute. The first relates to the nature of the offences themselves. When a corporation makes a false or misleading claim in its advertising, the claim is widely disseminated. It is to be expected that such advertising will reach at least some people who are aware of the true state of affairs and have some vested interest in notifying the authorities of the offence. Misleading advertising, in other words, is very likely to be the subject of complaints. Moreover, it is usually not difficult to establish that the advertisement was in fact misleading.

In contrast to this situation restrictive trade practice offences have a rather low visibility. Consumers may not be aware that they are the victims of a price-fixing conspiracy and certainly none of the conspirators is likely to complain. Even when the authorities become aware of such a conspiracy it may be very difficult to obtain the evidence necessary to convince a court (TPC: 1980: 88-90). In fact, whereas the evidence required to launch a consumer protection prosecution case takes only weeks to gather, the evidence in a large-price fixing case may take years to assemble (TPC: 1979: 91-2). This difference is certainly one of the factors leading to the higher rate of consumer protection prosecutions.

A second such factor is a difference in the nature of the law dealing with these two types of offences. The prohibitions on misleading advertising contained in the Act are plainly worded and allow of no exceptions. Moreover, defendants may not excuse themselves by claiming they were unaware their advertisements were misleading (TPC: 1978: 48). Thus the problem that so often plagues the prosecution of white-collar offences in other contexts, namely the need to prove that a defendant *intended* to commit an offence, does not arise (Hopkins, 1981). The law, in short, contains clear and effective prohibitions against

misleading advertising which has enabled the TPC to mount a long series of successful cases with the minimum of legal or procedural impediment.

The same can not be said for the restrictive trade practice provisions. Anti-competitive agreements and mergers are not absolutely prohibited but may be 'authorised' if, after consideration by the Commission, they are found to be in the public interest. These and other provisions involve the Commission in a great deal of investigatory and adjudicative work to ascertain whether in any specific instance a restrictive practice is sufficiently in the public interest to warrant authorization.

Even where a practice has not been authorized on public interest grounds there may still be considerable doubt as to whether it is in fact illegal. For instance, mergers are prohibited only if, as a result of the merger, a company 'acquires or extends control or dominance of a substantial market in Australia or a state' (TPC, 1978: 44). There is clearly room for considerable argument as to the meaning of 'dominance'. This was the key issue in the single merger case which has come to court so far. In this case a car rental firm with about 45% of the Australian market, its nearest rival holding only a 17% share, was held not to dominate the market (TPC: 1978: 45).

There is yet a further legal complication which arises in restrictive practice cases. Because the evidence to establish contraventions is not readily available in such cases it has been necessary to legislate to compel companies to provide information to the TPC. However, companies under investigation by the Commission have regularly mounted court challenges to the legality of TPC demands for information and in this way delayed matters, sometimes for years. In one case

... a period of over 2 years has passed without it being possible even to make a decision whether to institute proceedings for contravention at all. This is because of the hearings (single Judge, Full Court, single Judge and Full Court again) on challenges to the Commission's statutory demands for information on which it could decide whether to allege contravention of the restrictive trade practices provisions. (TPC: 1980: 7)

In the light of these considerations it is not surprising that there have been relatively few prosecutions for restrictive practice offences.

It is interesting at this point to compare the foregoing analysis with the findings of an American study (Handler, 1978) on the circumstances under which reform legislation is likely to be enacted and, more importantly from the present point of view, effectively implemented. Handler hypothesized that a number of factors would influence effective implementation, among them, the question of whether the costs of enforcement are concentrated or distributed (see later), the types of judicial remedy available and the characteristics of the reform groups lobbying for enactment and/or implementation. The most significant factor was found to be what the author termed the 'bureaucratic contingency' (1978: 192). Where implementation depended on sustained field investigation and information-gathering work by the administering bureaucracy and where discretionary decisions were involved in the field and/or

at the policy level within the bureaucracy, effective implementation was unlikely. On the other hand, implementation was relatively successful where the agency was not required to make discretionary decisions and relatively little administrative input was required. The observations made here on the implementation of the Trade Practices Act are clearly consistent with Handler's findings.

An exception

There is one rather notable restrictive practice, resale price maintenance (RPM), which has given rise to more prosecutions than all other restrictive practices combined (see Table I). RPM occurs when a manufacturer or wholesaler specifies the price which retailers are required to charge. It is a form of price fixing imposed on sellers from above; by contrast the conventional price fixing agreement is an agreement made voluntarily by

TABLE I: TRADE PRACTICES COMMISSION ENFORCEMENT RECORD 1975-8

	No. won	No. in cases won	Average penalty in cases won	Penalty range Low	Penalty range High
<i>Consumer protection</i>					
Prosecutions for:					
misleading representation					
concerning new cars					
and auto accessories	8	7	\$9 700 + costs*	\$500 + c	\$26 000 + c
used cars	7	7	\$7 000 + costs	\$500 + c	\$20 000 + c
other matters	18	14	\$14 167 + costs	\$520 + c	\$100 000 + c
Other consumer protection offences	3	1	\$2 500 + costs		
Sub-total	36	29			
Injunctive proceedings against misleading representations	10	9†			
Total Consumer Protection	46	36			
<i>Restrictive trade practices</i>					
Prosecutions for:					
Resale price maintenance	10	8	\$44 000 + costs	\$5 000 + c	\$120 000 + c
Exclusive dealing	2	1	\$3 000		
Anti-competitive agreements (price-fixing)	6	4	In two cases, injunctions granted, in other two, average penalty \$3 300 per defendant—total of 8 defendants		
Illegal mergers	1	0			
Price discrimination	0	0			
Monopolization	0	0			
Total R.T.P.	19	13			
Grand Total	65	47			

Source: (TPC, 1980:110-126)

* Legal costs incurred by the TPC. These are often comparable with or even in excess of the fine.

† Injunctive proceedings were counted a success where the offence was proved, regardless of whether an injunction was actually issued.

retailers themselves not to undercut one another. RPM has many of the characteristics of consumer protection offences and it is this fact which accounts for the relatively large number of prosecutions.

First, RPM is highly visible. Goods subject to RPM may not be discounted. Should a trader choose to discount goods subject to RPM his supply will be cut off. Discount houses are thus the immediate victims wherever RPM is imposed. Consequently, as in the case of consumer protection offences, RPM gives rise to complainants who are anxious and able to testify to the occurrence of the offence. Second, the law in relation to RPM is clear. There are no exceptions or qualifications written into the legislation and there is no possibility of authorization by the TPC. RPM is unequivocally illegal. As in the case of consumer protection offences, then, prosecutions are relatively straightforward.

Not only are RPM cases relatively common, but the penalties imposed are also much higher than for any other type of offence (see Table I). There are two major reasons for this. For most of the offences under the Act the number of victims is large but each victim suffers only slight inconvenience, so slight in fact that s/he is often not aware of it. RPM however is an offence which focuses frequently on a single victim who may suffer substantial losses in the process. The existence of very tangible and very direct victimization is one reason why the courts have imposed high penalties in RPM cases (TPC: 1979: 93). A second is the degree of deliberate defiance which accompanies these offences. The practice is clearly illegal and known to be so by the companies concerned (TPC: 1979: 92-7; 1980: 80-4). In contrast, consumer protection offences—misleading advertising—often occur not by design but as a result of negligence on the part of the companies concerned—a failure to check the accuracy of promotional material, for instance (Hopkins, 1980). Moreover, other restrictive practices seldom involve such blatant defiance for, since the law in relation to such cases is somewhat unclear, defendants can plausibly argue that there was some doubt as to whether they had actually violated the law. RPM is thus distinctive in two respects: the degree of deliberate defiance it involves and the degree to which the damage it does is focused on a single victim. It is for these reasons that the courts have seen fit to penalize the practice so heavily.

Business resistance to the Act

The second thesis it is desired to establish is somewhat more general than the first and, in fact, goes some way toward explaining the first. It is that the consumer protection provisions are reasonably well accepted by business while the restrictive practice provisions are not, with the result that the TPC is subject to frequent political intervention to limit its effectiveness in this area. Let us deal first with the absence of resistance by business to the consumer protection provisions.

Misleading advertising is not necessary for profitable business operation. Whereas compliance with other forms of regulatory legislation such

as environmental protection law and industrial health and safety Acts often imposes a considerable financial cost on business and is consequently strongly resisted, the requirement that advertising not be misleading imposes almost no additional burden. As a result, business is in general not unhappy about a requirement of honesty in advertising, provided all are subject to the same requirement. Indeed those who take pride in their own integrity and reputation—the self-styled ethical traders—object to misleading advertising by others which they say gives business a bad name and which enables the unscrupulous operator to gain an unfair competitive advantage.

The general acceptance by business of the consumer protection provisions of the Act has been demonstrated by events subsequent to its enactment in 1974. In 1975 a conservative government gained power and soon afterwards set up a committee to review the operation of the Act. Submissions from all interested parties were called for. Business groups took advantage of this invitation to argue in great detail against the restrictive trade provisions but none of these submissions made any significantly adverse comment on the consumer protection provisions. Business was evidently quite happy to live with them (Hopkins, 1978: 97).

Moreover, it is noteworthy that individual businesses have been able to take considerable advantage of the consumer protection provisions. Private actions are possible under the Act and in the period 1975–79 there were some sixty-two private actions based on the consumer protection provisions. Four of these actions were brought by individual consumers but the remaining fifty-eight were brought by corporations against other corporations whose promotional claims were thought to be detrimental to the complainant (TPC: 1979: 175–85). Clearly a considerable number of businesses stand to benefit from the consumer protection provisions of the Act.

In contrast to the consumer protection provisions, the restrictive practice provisions have not gained acceptance by business. Indeed, since the enactment of the legislation in 1974 business has waged a steady campaign to undermine their effectiveness. Business interests have sought both a weakening of the legislative provisions themselves and, in particular cases, government intervention to prevent the TPC from implementing the provisions.

These processes are perhaps best illustrated in the history of the anti-merger provision. The 1974 Act prohibited not all mergers, but only those which were 'likely to substantially lessen competition'. Even then such a merger could be authorized in a particular instance if found by the TPC to be in the public interest (i.e. if it 'results or is likely to result in a substantial benefit to the public being a benefit that would not otherwise be available' [Section 90–5]). A number of companies applied for authorizations on public interest grounds and the Commission granted some but rejected others (TPC: 1975: 27; 1977: 72). In several instances, some following and some anticipating a TPC denial of authorization, the

companies concerned appealed to the government to make use of its statutory power to intervene and direct the Commission to grant authorization. The government heeded these appeals and issued three such directives in the first year of the Commission's operation.

The circumstances of these cases are worth noting. A merger usually involves the takeover by one company of another, the target of the merger. In two of the three cases in which the government directed authorization the target company was failing and, in the absence of a merger, was likely to go out of business with some consequent loss of employment. The TPC's reasoning in one of these cases is on record. It argued that if the takeover were permitted the acquiring company would enhance its already dominant market position in a way which would not occur if the target company were allowed to go out of business. The loss of employment which would result from failure of the target company was minimal and did not outweigh the detrimental effect on competition which would result from the merger (TPC: 1975: 28).

In the third merger case which the Commission was ordered to authorize, the target company was foreign-owned and the government was influenced by the fact that the merger would result in its transfer to Australian ownership (TPC: 1975: 29).

It is clear from these cases that despite its legislation the government had no serious commitment to its anti-merger policy. Where considerations of employment or national ownership were at stake the government was quite prepared to over-ride its own policy, and the agency which it had set up to administer that policy, and to order the authorization of mergers which the TPC itself was not inclined to allow.

The conservative government elected in 1975 showed even less inclination to stand in the way of merger activity. The Review Committee which it set up was asked, among other things, to report on whether it might not be better to exclude certain classes of mergers altogether from the already equivocal prohibitions of the Act. Business lobbied strongly for a reduction in merger control and the resulting Committee recommendation to government was that the merger provisions apply only when the target company was above a certain 'threshold' size. The government felt however that even this was too restrictive, the responsible minister vouchsafing at one point that

In view of the size of the Australian market I am tossing up whether it is responsible to have restrictions on company takeovers. In order to achieve a greater rationality of Australian business, possibly there should be no restriction on mergers. (*Financial Review*, 21 January 1977)

In the event the government decided to retain some control over mergers but in the amending legislation the prohibition applied only where the takeover would lead to one company dominating 'a substantial market for goods or services in Australia or in a State'. This was clearly a major retreat. Previously the prohibition had applied to mergers which resulted in a substantial reduction in competition, say by decreasing the number of firms in a field from four to three. After the amendments

mergers were only prohibited if they resulted in one-company dominance (Hopkins, 1978: 100).

Since the amended legislation came into force in 1977 the TPC has found only one case which appeared to contravene this prohibition. This was the case of Avis, the car rental company mentioned earlier. What was at stake here was a conglomerate type merger in which an airline company, Ansett, sought a takeover of Avis. Although Avis was far and away the largest car rental firm in Australia, the court held that, for various reasons, it could not be said to dominate the car rental market. The merger was thus not in violation of the law. Clearly the merger prohibition now applies only in exceptional cases.

In summary, implementation of the anti-merger provision has been totally ineffective. Initial attempts at implementation by the TPC were thwarted by government directives resulting from special pleading by interested parties. Subsequently the scope of the prohibition was circumscribed so tightly by legislative amendment and judicial interpretation as to be virtually inoperative.

It is noteworthy that this reluctance to prohibit effectively anti-competitive mergers is very widespread in Australian society. *It was demonstrated by both Labor and conservative governments.* Moreover, even consumer groups, who might be thought to have a vested interest in a strong anti-merger policy, have voiced no opposition to the whittling away of the anti-merger provision, although they have had much to say about the specifically consumer protection provisions (Hopkins, 1978: 97). Belief in the value of competition is not strong in Australia and the presumption that anti-competitive mergers are contrary to the public interest simply does not operate. Against such a backdrop anti-merger legislation is bound to be ineffective.

A second area of the Act where attempts at implementation have met with sustained resistance is the set of prohibitions against various kinds of anti-competitive agreements. Such agreements are usually industry-wide (e.g. the newspaper publishing and distribution industry, banking, banana growing) and are designed to protect enterprises within the industry from what they regard as harmful competition. The TPC has tended to focus on industries one at a time, examining their trading arrangements to see whether they comply with the law. If as a result of its investigation the TPC decides to prosecute, or to refuse authorisation if that was the issue, the industry concerned has frequently lobbied intensively to secure government intervention on its behalf. The pattern has been so common that the TPC has seen fit to comment in an annual report on the

... increase in demand by particular groups for special treatment to lessen the impact of the Act—particularly the competition provisions, where the temptation not to comply is greater ... It must be recognized that ultimate responsibility in these matters belongs to elected governments, but at the same time the trend should not go unnoticed. (1979: 2)

The Australian federal system has provided one means of circum-

venting the legislation. The federal Act exempts from its scope any restrictive practice which has legislative approval at the state level, and on several occasions, when faced with pending action by the TPC, vested interests have been able to secure such approval. For instance, one of the first industries to come under TPC scrutiny was liquor retailing, in which price fixing was rife. The Commission was particularly concerned about price fixing in relation to packaged beer (1975: 14; 1976: 18). Some time after the investigation began the government of the State of Victoria legislated to allow price fixing on packaged beer in that State. In this way beer-retailing interests in Victoria were able to put themselves beyond the scope of the federally-legislated prohibition on price fixing (TPC: 1979: 2).

More generally, however, industries have appealed to the Federal Government itself to call off its watchdog. Two examples of this are provided, the first concerning banana growers and the second, newspaper distribution.

The Banana Growers Federation (BGF) in the State of New South Wales requires that its members transport their produce to market on special BGF trains. The matter came to attention when certain banana growers and transport operators complained about this restrictive practice. Despite requests by the TPC the BGF refused to free its members from this requirement. The Commission was preparing to prosecute the BGF when it received a government directive to adjourn the case (TPC: 1978: 33; 1979: 105).

The background to this directive was as follows. Some time after the Commission had begun proceedings against the BGF, and in part in response to lobbying by the BGF, the government set up a special Consultative Committee to advise it on an on-going basis on the practical operation of the Act. The Committee's first task was to consider the operation of the Act in relation to primary producers, and it was the government's view that the case against the banana growers should not proceed until the Consultative Committee report had been received and acted upon.

This sensitivity to primary producer interests, and banana growers in particular, is readily explicable. The conservative side of politics in Australia consists of a two-party coalition, one member of which, the National Country Party, is the political expression of Australian rural interests. Furthermore, the leader of the Country Party and Deputy Prime Minister, Mr Anthony, happens to be the parliamentary representative for the area in which many of the members and officials of the BGF live. For this reason Anthony took a very active part in efforts to obtain special treatment for the banana growers (*National Times*, 7 October 1978, p. 25).

The TPC submission to the Consultative Committee argued that primary producers should not be given special treatment under the Act since, along with other sectors of business, their practices were subject to authorization should they be found to be in the public interest. The

Committee listened, however, to the arguments of the primary producers and recommended special treatment for rural interests. Whereas, in general, the Act prohibited anti-competitive practices but with allowance for authorization in specific cases, for primary producers the situation was to be reversed: their anti-competitive behaviour was to be treated as legal unless the TPC could establish in particular instances that a practice resulted in detriment to the public (see *Trade Practices Consultative Committee*, 1979a). At the time of writing the government has yet to act upon the Committee's recommendations and the banana growers case remains stalled. Here, then, is a very clear case in which a particular sectional interest was successful in persuading the government to call off its watch-dog.

The second example concerns the set of restrictive agreements to which newspaper publishers and their distributors are party. In Australia, newspapers are generally sold only through specified corner-store type newsgencies. The agencies are placed under an obligation by the publisher to provide home-delivery in their geographical area in return for which they have a monopoly on over-the-counter sales in that area. Other retailers, in particular the large food supermarkets, would like to be able to offer papers and magazines for sale and object to the existing system (*Financial Review*, 8 February 1980). The TPC was asked by the publishers to authorize this system and after considering the matter it indicated that it had found the system to be contrary to the public interest and was proposing not to authorize it. The government was thereupon subjected to intensive lobbying by those with an interest in the continuation of the system and it decided to intervene. It did not issue a directive to the Commission but rather made a submission in which it argued that the system was necessary if home delivery of papers was to be guaranteed. It argued, moreover, 'that it is a matter of public benefit to secure that result because of the importance to be attached to the dissemination of news and comment in a democratic society' (TPC: 1980: 66). (The counter argument, that in fact most people in modern democracies get their news and views from radio and TV does not seem to have been considered.) The government's submission was backed up with the threat of special legislation to authorize the agreements if the TPC failed to do so (*Financial Review*, 14 March 1979 p. 1). Faced with this threat the TPC reversed its decision. In its own words, the Commission accepted the submission, 'coming as it did from the elected government speaking as to matters of political and social judgement with regard to the community at large' (1980: 66). Here then is a second very clear case of political pressure being brought to bear to exempt an industry from the competition provisions of the Act.

Five reasons for the success of special-interest pleading

The preceding account poses the following question: Why has special-interest lobbying in relation to the restrictive trade provisions of the Act

been so successful? In the following analysis five factors are identified as responsible for this success.

1. *The diffusion of the consumer interest*

The first factor contributing to the success of special interest group pleading has to do with the difficulty of mobilizing consumers in defence of their own interests. Consumers may be victims of a multi-million dollar price fixing or other anti-competitive agreement but the cost to each consumer may be only a few cents each year. Thus, even if s/he knows about it the individual consumer has little incentive to express his/her concern to government or regulatory agencies about the particular case. By contrast the companies party to the agreement have a very great deal at stake. It may be that in the absence of the agreement ruinous competition would ensue, forcing some companies out of business. Thus, should the agreement be subject to investigation by a regulatory agency the companies concerned have a life-and-death interest in defending their conduct. Should the agency threaten to find against them, the industry can be expected to lobby intensively for government intervention on its behalf arguing that there are good reasons for exemption from regulation in this particular case.

Political scientist, James Q. Wilson, has analyzed this phenomenon in some detail. He argues that public policy can be classified 'on the basis of whether the costs and benefits are widely distributed or narrowly concentrated from the point of view of those who bear the costs or enjoy the benefits' (1973: 332). There are four cells in this classification, the one of relevance here being the case of distributed benefits and concentrated costs. Wherever this configuration of costs and benefits is found, Wilson argues, implementation of public policy is unlikely to be successful.

Competition policy obviously illustrates this principle. So, too, does tariff policy, as has been pointed out by Milton Friedman:

The groups that think they have a special interest in particular tariffs are concentrated groups to whom the issue makes a great deal of difference. The public interest is widely dispersed. In consequence, in the absence of any general arrangements to offset the pressure of special interests, producer groups will invariably have a much stronger influence on legislative action and the powers that be than will the diverse, widely spread consumer interest. (1962: 143, quoted in Trebilcock, 1975: 621)

This argument has been usefully elaborated by Anthony Downs in his book *An Economic Theory of Democracy*. The relatively slight interest which the individual consumer has in any particular consumer issue does not warrant the cost of informing himself about the facts. He may thus be unaware of what his interests are in relation to that issue. It is worth quoting Downs at some length on this point:

Clearly, the cost of acquiring information and communicating opinions to government determines the structure of political influence. Only those who can afford to bear this cost are in a position to be influential.

A striking example of this fact is the failure of consumers-at-large to exercise any cogent influence over government decisions affecting them. For instance, legislators are notorious for writing tariff laws which favor a few producers in each field at the expense of thousands of consumers. On the basis of votes alone, this practice is hardly compatible with our central hypothesis about government behaviour. But once we introduce the cost of information, the explanation springs full-armed from our theory. Each producer can afford to bring great influence to bear upon that section of the tariff law affecting his product. Conversely, few consumers can bring any influence to bear upon any parts of the law, since consumer's interests are spread over so many products. In fact, most consumers cannot even afford to find out whether tariffs are raising the price they pay for any given product. Yet without such knowledge they cannot have policy preferences for the government to pay attention to.

Under these conditions, government is bound to be more attentive to producers than consumers when it creates policy. This is true even though (1) government formulates policy so as to maximize votes and (2) more voting consumers are affected by any given policy than voting producers. Economically speaking, government policy in a democracy almost always exhibits an anti-consumer, pro-producer bias. And this bias in our model exists not because the various agents concerned are irrational, but because they behave rationally. This fact has tremendous implications for economic predictions in almost every field. (1957: 255–6, quoted in Trebilcock, 1975: 621–2)

This discussion has clear implications for the enactment/implementation distinction made earlier in this article. The implementation of specific restrictive practice provisions is obviously bedevilled by this problem of the diffusion of the consumer interest. Who, for instance, is likely to have any strong opinion, let alone vested interest in whether company A should be allowed to merge with company B, other than the companies themselves? However, when the question is, 'Should strong consumer protection legislation be enacted?', the situation is quite different. Since the issue can be so simply stated consumers are likely to be far more aware of where their interests lie. Moreover, since the legislation covers a potentially very large class of transactions in which the individual consumer might be involved, his stake in the passage of such legislation is greater than is the case in any particular implementation issue. Hence the enactment of consumer protection legislation is far more likely than its effective implementation.

2. *Disunity among consumers*

It has been implicitly assumed to this point that there is a single consumer point of view on every issue. In fact consumers may often be divided. The newsagency case provides an illustration. The system of licensed newsagents, each obliged to provide home delivery in its area in addition to selling papers over the counter, in effect subsidizes one class of consumers at the expense of another. The agencies are obliged under their agreements to charge almost the same price for home delivery as for over-the-counter sales, although the former is clearly more expensive

(there is a token delivery charge, but this is quite uneconomic in relation to the costs involved). Therefore, those who buy their papers over the counter are subsidizing those who receive home delivery. There can thus be no agreement among consumers as to where their interest lies in this matter. This fragmentation of the consumer interest is a second reason why on many issues producers get their way.

3. *The absence of intra-business disputes*

Just as the fragmentation of the consumer interest may facilitate business interests, so the fragmentation of business interests may benefit consumers. Take for instance the agreement between major Australian banks to set up identical credit card systems (all known as Bankcard) and to charge identical interest rates—18% per annum on the cardholder's outstanding balance. When the TPC was asked to authorize this agreement it declined to do so. The decision was certainly a victory for consumers, for the anti-competitive nature of the agreement resulted in higher interest rates than would otherwise have been the case. But it was probably not the consumer interest which was most influential in the decision but the interests of another group of financial institutions, the Australian credit unions, who wanted access to the Bankcard system but who were denied it by the parties to the Bankcard agreement. (*Financial Review*, 3 November 1980; TPC: 1980: 59–61.) There was a major conflict of interest between the banks and the credit unions and it was this conflict which opened the way for a TPC decision favourable to the consumer interest.

The bankcard case, then, suggests that an important factor in the success of business group lobbying in other cases was the absence of any major disagreements within the business sector. In the banana growers case, for instance, a few banana growers and transport operators opposed the BGF restrictions on the transport of bananas but they did not constitute an organized, politically influential group. For this reason, among others, BGF lobbying was successful.

4. *Geographical concentration of producer interests*

Consumers are a geographically dispersed group while producers are geographically concentrated. Moreover in any system of representative democracy there is a bias in favour of geographically concentrated interests. Take the banana growers again. Banana growers are concentrated into a few electorates in Australia. The elected representatives in these areas will thus be especially sensitive to growers interests and will represent those interests to the best of their ability in the processes of government. As we saw earlier, this was clearly an important factor making for the success of BGF lobbying.

Banana eaters however are dispersed throughout the country. Banana eating interests are thus of no electoral significance and so are not directly represented in government.

The same factor was at work in the merger cases in which the Labor

government ordered the TPC to authorize the takeover of companies which would otherwise have failed. The unemployment consequent upon such a failure is felt in the particular electorate in which the company is located. The elected representative in this area is thus highly sensitive to the interests of the failing company and is likely to press within the councils of government for merger authorization. Thus, regardless of any detriment which consumers in general might suffer, governments are under pressure to allow such mergers.

Tariff policy provides another illustration of this principle. Lowering tariffs benefits consumers in general, but at the cost of jobs in domestic industries. These jobs are in a specific geographic area. The elected representatives in these areas can thus be expected bitterly to oppose tariff reduction while the geographically spread consumer interest can never be represented with similar fervour.

By way of contrast it may be observed that the banks' party to the Bankcard agreement display no such geographic concentration. As a consequence there is no member of parliament whose presence there depends on his ability to promote the interests of banks. The defeat of banking interests over the Bankcard issue is further evidence of the importance of geographical concentration to the success of interest group lobbying.

5. The orientation of conservative governments in Australia

The final factor facilitating successful interest group lobbying is the ability of certain groups to argue for special treatment on the basis of what, for want of a better word, might be called the 'orientation' of the government of the day. As has already been indicated, the conservative side of Australian politics, in office during most of the period under discussion, consists of two parties, one of which specifically represents the interests of farmers. It will come as no surprise, then, that conservative governments in Australia have always held it as an article of faith that rural interests deserve special treatment. The ability of rural interests to play on this special sensitivity has already been demonstrated in the banana growers case.

A second orientation of conservative governments in Australia is towards small business. Evidence of this concern is provided by the fact that both committees set up by the conservative government to monitor the operation of the Act, first the Review Committee and later the Consultative Committee, were specifically asked to consider whether the Act should be amended to take greater account of the needs and interests of small business. To the government's chagrin, in neither case did these committees recommend substantial changes to the Act in favour of small business. It is not without significance, however, that in many of the cases where government has intervened to override the TPC, organizations of small businessmen have been the beneficiaries.

A third orientation of conservative governments in Australia is towards economic growth. It is a view often expressed by conservative

politicians in Australia that merger activity is part and parcel of economic growth. Merger controls are thus seen as a brake on economic growth and, as such, undesirable. Conservative government concern for economic growth and hostility towards anything which impeded it is the major reason for the almost totally ineffective nature of the anti-merger provisions of the Act.

Conclusion

Let us return now to the concerns with which this essay began. What light does this examination of the Australian Trade Practices Act throw on the question of the relative autonomy of the law in a capitalist state? In particular, what are the limits of this autonomy?

It is evident that where a populist or Labor party is in power the state may very well enact legislation which on the face of it is quite antithetical to a wide range of business interests. There is apparently little if any limitation on such *legislative* activity. The point is however that the mere enactment of strong consumer protection legislation represents a symbolic defeat only for business interests. Whether the legislation actually operates contrary to business interests is quite another matter. It is in relation to implementation that we would expect to find greater evidence of limits. The analysis presented here of the implementation of the Trade Practices Act has revealed three distinct implementation patterns: in relation to the consumer protection provisions (the enforcement of the RPM provisions also conforms to this pattern), the anti-merger provisions, and the remaining competition provisions. Enforcement of the consumer protection provisions has been relatively effective, the anti-merger provisions have been totally without effect, regardless of the party in power, and the competition provisions have had some impact although, as we have seen, the TPC has met with sustained and often effective resistance in its efforts to enforce these provisions. (It should be recognized that although this essay has had much to say about the difficulty of implementation these provisions and although there have been very few prosecutions for restrictive practices, the TPC has, in a considerable number of cases, been able to deny authorization of specific anti-competitive practices, of which the Bank-card agreement was but one [TPC: 1980:102]. These were presumably cases in which not all the previously discussed factors conducive to successful interest group lobbying were operative.)

In other words, it would appear that in relation to implementation, truth in advertising provisions lie well within the limits imposed on the operation of the law by the capitalist state in Australia, the anti-merger provisions lie clearly outside those limits and the competition provisions are located just at the limits, capable of implementation in certain situations but not in others. These limits are not laid down in a conscious way by a capitalist class, nor can they be derived in any *a priori* way

from theory. Rather, they must be discerned by detailed empirical investigation of the kind attempted here.

It should be observed that the limitations on the state's ability to implement anti-business legislation are not invariant—they differ from one society to another. It will be recalled that one of the factors making for successful interest group pleading was the orientation of the parties in government. While Australian governments have generally taken a laissez-faire attitude to merger control this has not been true, or at least not to the same extent, in the United States. In the U.S. it may well be the case that merger control lies just at, rather than beyond, the limit of legal autonomy set by the capitalist state.

In view of the variability and, more importantly, unpredictability of the limits imposed on the autonomy of the state by the capitalist mode of production, one is inevitably left with considerable doubt as to the utility of the notion of 'relative autonomy'. To repeat the earlier conclusion it would seem to be a concept which is incapable of precise formulation and hence devoid of any real explanatory potential. Its value lies, it has been suggested, in the way it draws attention to the fact that any attempt to curtail the interests of significant sections of capitalist enterprise is likely to run foul of such a range of obstacles as to render that attempt futile.

Postscript

After this essay was written a former member of the TPC, V.G. Venturini, published a book in which he draws similar conclusions about the ineffective enforcement of the 1974 Act. Venturini differs, however, in what he sees as the source of this ineffectiveness. Whereas the essay has attributed the ineffectiveness of the TPC to broad structural factors, Venturini attributes it to the spinelessness of the TPC itself, that is, to the lack of any real resolve on the part of his fellow commissioners to enforce the law. There may well be some merit in this contention, but it is clear from the analysis in this essay that the shortcomings of the TPC can only be fully understood in the context of the wider structural constraints in which it operates.

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