THE MEANING OF FRASER'S ECONOMIC STRATEGY

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The Fraser government came to power in December 1975 with an overwhelming majority and hence claimed a strong mandate to implement the policies it had articulated during the preceding campaign. However, it was rather difficult at the time to pinpoint exactly what the new government would do since its campaign had been primarily a negative one. It was based on accusations of Labor mismanagement and corruption, together with promises of competent government and the restoration of business confidence.

Nevertheless, in his policy speech Fraser had claimed that his party did have a "comprehensive strategy" which would, he predicted, produce a return to an annual growth rate of around 6-7 percent.[1] And, in fact, in the immediate period after taking office, the Government articulated a series of economic policies which together seemed to take on some sort of coherent shape. At the forefront of Fraser's programme was the assertion, repeated many times, that the Government's top priority was to bring down inflation — then running at around 13-14 percent. In order to do this, Fraser argued that rises in wages and salaries had to be brought under control. Increases in real wages relative to productivity growth were blamed for the existing levels of inflation and had to be reduced. To achieve this, the Government sought firstly to break down the system of full wage-indexation; and, secondly, to weaken and restrict the power of trade unions through the introduction of tough industrial relations legislation.

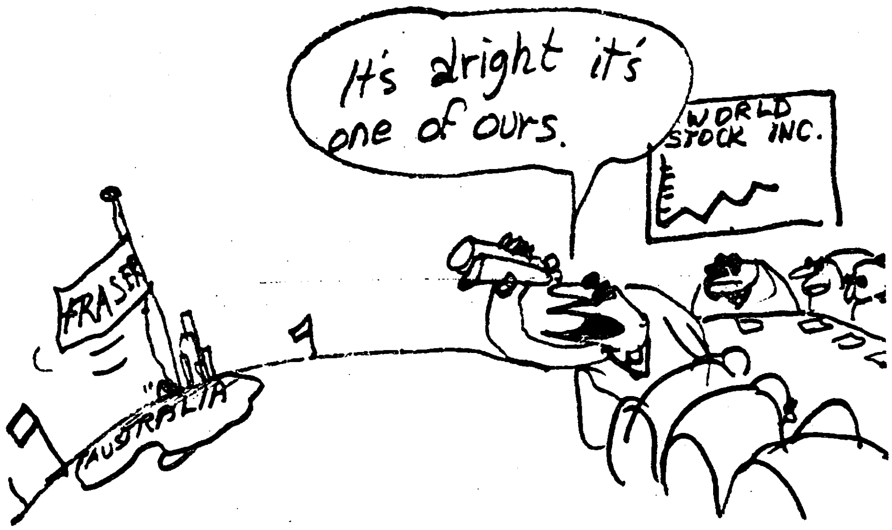
At the same time, the Government claimed that inflation was also caused by too much government spending under Labor. A rapid increase in the money supply was seen as highly inflationary. In fact, Friedmanites argued that it was the sole cause of inflation. Therefore, the Government set out, it claimed, to make drastic cuts in the level of public expenditure. It set up a committee headed by Sir Henry Bland to eliminate waste and duplication within the public service[2], and it significantly reduced the welfare and social budgets of the Whitlam government. A further method used by the Fraser government to reduce the level of public expenditure was to hand back substantial sectors of the Federal government's responsibilities to the States. This policy became known as the New Federalism. While the state governments were at first enthusiastic about this apparent return to "states' rights", they soon lost that enthusiasm when they realised that they were not going to be given the funds necessary to run the programmes.[3] Such a reduction in government spending would release resources for private enterprise. That is, Fraser argued, if government withdrew from certain areas not only would inflation decline, but private capital would be able to move in and so generate a recovery from the private sector. To a large extent this argument can be seen as ideological rhetoric. The real reasons for the cut-backs in certain programmes were quite different and will be examined shortly.

Under the Fraser programme not only did wages have to be restrained and inflation checked, but business had to be positively assisted by government. The Government argued that under Labor, wages had increased at the expense of profits.

What was needed was the restoration of profitability. With increased opportunity for profitability, declining inflation, stable wage rates and stable government, Fraser hoped that business would re-invest and the economy would begin to move again. Over a relatively short period of time an extremely generous series of tax concessions, investment allowances, subsidies and other direct and indirect benefits to business were announced. In particular, the Government removed the restrictions Labor had placed on foreign investment and set about providing substantial incentives to attract foreign capital particularly into the mining sector.[4] The most important of these were contained in the 1976 Budget. It soon became obvious that the "investment-led recovery" strategy was the cornerstone of the Government's whole economic programme for recovery.[5] Furthermore, the Government was relying on the mineral sector to attract sufficient investment to trigger an expansion within the other sectors.

The implication of this commitment by the Government to an investment-led approach to recovery was that it decided to reject completely the notion of any consumer-led economic strategy in spite of the pressure being exerted by sectors of Australian business to have the economy stimulated via consumer spending. According to the Australian Financial Review, this pressure was coming primarily from the major banks and from industry associations, mainly representing medium and small businesses.[6] The Government was able to resist these pressures, however, largely because many major business leaders strongly supported the hard-line economic policies which they recognised provided the conditions for a return to profitability and the opportunity for the rationalisation and restructuring of industry necessary for a long-term recovery. Fraser did at one stage go a certain way towards paying lip service to the desirability of there occurring a consumer-led recovery but this never got beyond making an appeal to the public to go out and spend! Restrictions on lending in particular made the Government very unpopular with the banks who had been amongst the major backers of the Liberals' return to office in 1975.[7]

The Economics editor of the Australian Financial Review, P.P. McGuiness, identified the political motivation behind the Government's policies in terms of gearing for an election in late 1978. He saw the scenario being envisaged by Fraser in the following way. Restrictive monetary and fiscal policies would be applied at least until the middle of 1977. These would bring inflation down to an annual rate of about 7 percent — at the cost of very high unemployment. Over the period 1976-77, a world economic recovery would stimulate an Australian recovery. Australia's relatively low rate of inflation would attract considerable volumes of overseas investment which would in turn produce an upsurge in local investment. The Government would then be in a position to produce an election budget in August 1978. This would lead to consumer demand with falling unemployment over the last months of 1978 leading into the general election in December. In the circumstances the Fraser government would romp home with a large majority and could then consolidate the recovery by some further tough measures in 1979.[8]



Insofar as it goes there is undoubtedly considerable merit in McGuiness' interpretation. The problem with this view is that it does not recognise the importance of class factors in the Government's economic strategy. Inevitably a government's election strategy gets entangled with the class interests that it represents. Parties, and governments, after all are vehicles for the expression of class interests. Even how a "problem" is defined is determined by the perceptions and viewpoints of the classes they represent.[9] Therefore, McGuiness' scenario misses completely one of the most important aspects of the aims and policies of the Fraser government. In order to analyse these policies one has first to understand that they both reflect and are intended to facilitate a massive redistribution of wealth and power within Australian society. The Fraser government did not precipitate this transfer of resources but it certainly reflected it and re-inforced it. Put simply, two major transformations are currently under way in Australia. Firstly, there has been occurring an overall restoration of profits at the expense of wages and social services — a reversal of the trend which developed very briefly between 1972-74. This trend was already discernible under the Labor Government in 1975.[10] Secondly, within the economy there has occurred an enormous transfer of private resources away from manufacturing industry towards the extractive mining industries. Accompanying this movement is a transfer of power within the dominant classes away from the local bourgeoisie to foreign capital and to those comprador sections of the local bourgeoisie who are able to forge an alliance with foreign capital in mining ventures.

Hence, policies which appear to be geared simply towards the restoration of economic stability and prosperity are in fact part of an overall class strategy. For example, the Government insisted that a reduction in the Budget deficit was an important aspect of the struggle against inflation. However, upon examination we find that while cuts in individual areas were substantial, overall the deficit has not been reduced very much from the 1975 Hayden Budget. This is largely because there has occurred an extensive reduction in government income as a result of the introduction of company taxation concessions. It is clear that the Government did not seriously attempt to reduce the budget deficit. What it has done rather is to restrict the pattern of governmental income and expenditure. Where did the money go which wasn't spent on welfare, health, education and Aboriginal programmes? The simple reply is: to certain sectors of big business in the form of massive handouts, subsidies and tax concessions. These concessions amount not to millions of dollars but, in fact, to billions.

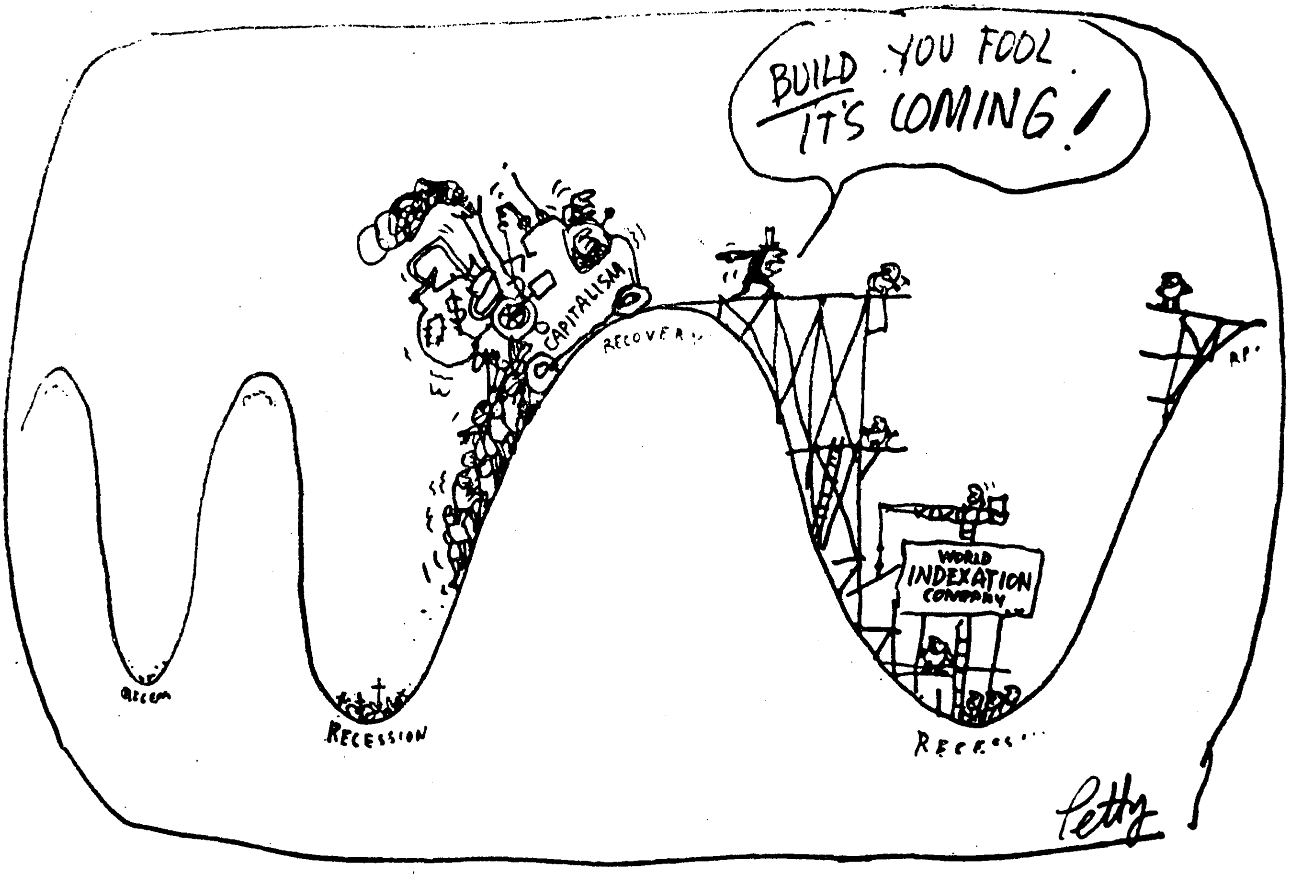
Let's take the 1976 Budget as an example. This came to be known as the Miners' Budget — for good reason. The leading financial journalist Robert Gottliebsen effectively captured the response of the mining companies to the Budget when he wrote "most of their dreams have come true at once".[11] In the first place, the Budget contained a couple of lucrative tax concessions to general businesses. For example, there was the introduction of stock valuation indexation which alone was estimated to reduce company taxation overall by about one-quarter and reduce government income by an estimated $700 million. Since in the depressed economic circumstances many manufacturing firms were building up enormous stocks of goods waiting to be sold, individual companies would probably have saved more than 25 percent through this single taxation concession.[12]

But the major concessions were given to the mining companies. Firstly, the $2 a barrel crude oil levy on all new finds were removed. Secondly, the coal export duty was reduced, with the promise that it would soon be phased out completely. This concession was of enormous benefit to the big exporters of coal such as Utah, CAIL, Howard Smith and others. Thirdly, the Government allowed an acceleration of the rate of depreciation of expenditure on developing a mining site. The period over which such expenditure could be written off was reduced from twenty-five years to just five years. This concession may not appear very significant to the lay person but according to Gottliebsen the effect of this concession introduced by Treasurer Lynch is that most mining companies will not have to pay any tax at all until the greater part of their expenditure costs are recouped in profits.[13] Gottliebsen also points out that on big projects expenditure costs will be able to be written off almost immediately. In effect, therefore, the Government agreed to pay 42.5 percent[14] of the cost of developing mining sites — including the cost of building towns, railways, ports and so on. Finally, the Government also listed a number of mineral exploration incentives. By far the most important single measure was the decision to allow companies to deduct spending on petroleum exploration from any taxable income from any source. This concession was aimed mainly at the North West Shelf project. All capital expenditure on this project will now be deductible against profits made by the developing companies in any of their other activities. Specifically, the main partners to BHP — Shell, BP and Caltex — will be able to deduct their total expenditure on the North West Shelf project from the Australian profits of their oil refining and marketing organisations. It's worth remembering, of course, that the estimated total expenditure of this project is currently somewhere between two and four billion dollars. The Fraser Government, in giving this concession, has agreed to contribute almost half the cost of this bill.

In line with Fraser's policy of support for mining capital in the hope of precipitating an investment-led recovery, the Government decided in November 1976 to devalue the Australian dollar by 17.5 percent. This decision appeared at the time to be an extraordinary one for a government which claimed that fighting inflation was its top priority since most economists, including those in the Treasury, predicted that a devaluation would increase the rate of inflation. As it turned out, the devaluation did not add significantly to inflation in 1977 but it did produce increased unemployment and severely affected wage-earners, consumers, small businesses and manufacturers relying on imported materials. Why then did the Government devalue? McGuiness believed it was because the Government panicked in the face of the country's declining reserves, lost faith in Treasury, a staunch opponent of devaluation, and turned to the advice it was getting from certain sectors of big business.[15] Certainly, it is true that speculation on the exchange rate by overseas investors was putting considerable pressure on the balance of payments. However, an editorial in the Age put forward the view that the decision was taken somewhat more consciously and deliberately than McGuiness suggested. It said:

> A cynical view of the shock decision would be that the government has capitulated to influential interest groups which have been loudly pressing for devaluation and stand to gain directly from it, at least in the short term. These groups also happen to be among the staunchest supporters of the Liberal and National Country parties...Let there be no mistake about the purpose and likely impact of this devaluation. They are to transfer income to export-dependent farmers and mining companies and to import-competing manufacturers by depressing the real living standards of wage-earners and consumers.[16]

While the Government's economic policies were explicitly intended to benefit key sectors of big business, Fraser also believed they would lead to electoral success in 1978. The Liberal and National Country Party coalition came to office with the full backing of finance capital and large sections of manufacturing industry. However, in government, or perhaps before, Fraser personally became persuaded by Canberra's most powerful lobby, the large mining companies, that the answer to the economic recession was an overseas investment-led company. Consequently, the aim of the 1976 Budget, and of the November devaluation, was primarily to attempt

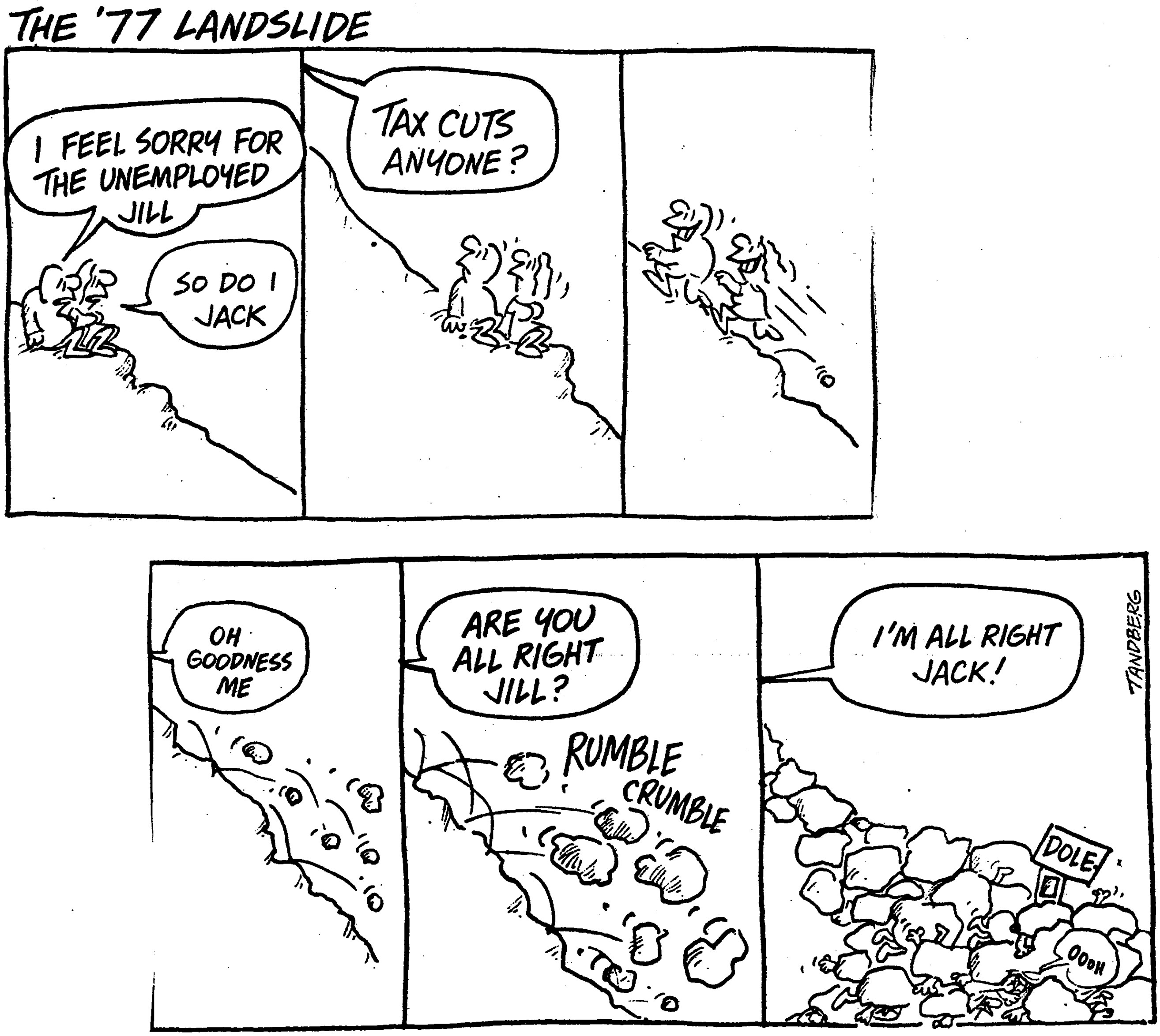


to bring on a mining boom before 1978. Gottliebsen believed that the Government's aim was to have over $4 billion in capital expenditure on mining projects in operation by then.[17] This expenditure presumably would transform the economy. Of course, for the strategy to work in time for the 1978 election, the projects had to take off immediately. The Government naturally realised that this was a difficult task to achieve. Consequently, in its anxiety to get the projects working, it was prepared firstly to give the mining companies everything they asked for, and secondly to completely abandon all restrictions and limitations on the levels of foreign investment in each project. Sir William Pettingel, a member of the Foreign Investment Review Board, was quoted as saying, "barriers to foreign investment no longer exist for all practical purposes".[18]

Why then did Fraser call an election in December 1977 — a full twelve months before the time that this strategy set for it? Basically, the answer is that the Government's strategy has failed disastrously in its aim to bring on a full recovery throughout the economy as a whole. It is true that the trend towards the restoration of profitability, which began under Labor in 1975-76, has been continued. Overall, profits rose by 23.5 percent in 1976-77.[19] Similarly, the Government's policies have to some extent facilitated a restructuring of capital. However, this restructuring has not been successful in solving the deep structural problems facing manufacturing industry and the recession itself continues. There have not yet appeared any real signs that a strong overall recovery is in sight. In fact, it is clear that the recession will continue into 1978. The Reserve Bank forecast for the coming year, which was leaked to the press in September, provides a very gloomy picture of the short-term future. While profits will continue to grow by about 23 percent, unemployment will rise above 6 percent, inflation will drop only marginally, the dollar will continue to be unsteady necessitating further large government borrowings, credit will be even tighter and economic growth will be less than 2 percent.[20] The ANZ Bank's prediction in November was, if anything, even less hopeful of a recovery.[21]

Of course, the Government was in part the victim of its own rhetoric prior to the 1975 election. No government could effectively control inflation and produce a recovery within Australia. Fraser's only real hope was the occurrence of worldwide recovery and this has not materialised. Consequently, the "demand management" policy pursued throughout 1976-77 which was intended to set the scene for a recovery in 1978 did not succeed in reducing inflation[22], but rather actually made any possible recovery in the retail and manufacturing sectors much more difficult. All the so-called anti-inflationary policies of the Fraser Government achieved was to sustain the recession, do immense harm to manufacturing industries and encourage the growth of the highest level of unemployment since the Depression. There seems a great deal of doubt anyway about whether the concept of an investment-led recovery is at all viable — even in the best of circumstances.[23] Even so, the fact remains that the miners did not invest and still haven't done so. A detailed analysis of mining industry investment plans published in August 1977 put a dampener on predictions of an early boom in the mining industry.[24] It forecast "steady but unspectacular" growth over the next five years. In fact, in 1978-79, mining investment will amount to only 1.4 percent of real non-farm GDP compared with 2.6 percent in 1971-72. In spite of all the concessions and incentives, the mining companies have been proceeding at their own pace. In general, at the present time, they face low commodity markets and a relatively low worldwide demand for raw materials but, on the other hand, long-term markets are assured and in many cases their existing level of profitability is very satisfactory. Their top priority has been to secure iron-clad leases from a sympathetic Government, the actual process of production is less urgent. In fact, throughout 1977 they were even trying to wring further concessions from the Government — in particular, a guarantee that super-profits will not incur any special resources tax at some later stage.

The Government finally recognised that its "recovery" strategy had totally ollapsed in the middle of 1977. This raised the possibility of an early election



and preparations were begun immediately. The Australian Financial Review reported that Fraser personally intervened four weeks before the budget was delivered to totally transform it for the election.[25] Above all, an election was necessary because any change of strategy is going to be a painful process for the Government. The investment-led recovery approach has firmly locked the Government into a tight corner. It has closed off most of its other options. While sections of the local bourgeoisie are going to be exerting very strong pressure for the introduction of expansionary policies, the Government will be aware that policies designed to stimulate the economy cannot be superimposed on an investment-led strategy without risking the possibility of the re-occurrence of a severe inflationary spiral. With unemployment continuing to climb to between 6-8 percent, the road ahead for the Fraser Government is unlikely to be as smooth as its crushing election victory would suggest.

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Notes

[1]Quoted by Maximilian Walsh, Australian Financial Review, June 23, 1977.

[2]The Bland Committee was largely a charade since the Royal Commission under Dr. H.C. Coombs was well advanced in the preparation of its report on Australian Government Administration. The Bland Committee never published a report.

[3]See "Why the Premiers Don't Like Fraser's New Federalism", National Times, November 1-6, 1976.

[4]Australian Financial Review, October 25, 1976.

[5]Australian Financial Review, June 23, 1977.

[6]Australian Financial Review, February 22, 1977.

[7]Age, November 9, 1976; Australian, February 19, 1977; Age, August 3, 1977; Australian Financial Review, September 16, 1977.

[8]Australian Financial Review, March 18, 1977.

[9]At no stage did the Fraser Government consider unemployment to be a significant "problem". Certainly it wasn't a problem for the classes that the Government represents.

[10]In the year 1975-76 profits jumped overall by 24 percent, but were clearly better in the first half (i.e. under Labor) than in the second half. Age, November 18, 1976.

[11]National Times, August 23-28, 1976.

[12]Age, August 18, 1976.

[13]National Times, August 23-28, 1976.

[14]That is, the going rate of company tax at that time.

[15]Australian Financial Review, March 18, 1977.

[16]Age, November 29, 1976.

[17]National Times, 23-28 August, 1976.

[18]Australian Financial Review, August 5, 1976.

[19]Age, September 29, 1977.

[20]National Times, September 26-October 1, 1977.

[21]Australian Financial Review, November 3, 1978.

[22]The OECD put Australia's inflation rate in the twelve months to October 31, 1977, at 13.1 percent. Advertiser, December 9, 1977.

[23]Australian Financial Review, June 23, 1977.

[24]Age, August 10, 1977.

[25]Australian Financial Review, August 17, 1977.