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CHINA'S OUTWARD FOREIGN DIRECT INVESTMENT IN AUSTRALIA

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Since the introduction of the 'Going Out' (zou chu qu) investment policy (GOIP) in 1999, the growth of China's outward foreign direct investment (OFDI) has accelerated. This rapid growth has prompted concern by numerous policymakers, policy advisers and think-tank analysts, especially in Western countries, regarding the strategic agendas and consequences of Chinese investments. Particular scholarly attention has been given to the role of the Chinese state in influencing and directing OFDI. Research has mainly focused on the support given to Chinese enterprises abroad in the form of funds and preferential policies; and how this assists those enterprises to achieve declared state goals (Wang 2007; Meunier 2014; Andrews-Speed *et al*. 2016; Kamiński 2017). Most of the prior studies on the topic of Chinese investments in Australia are premised on the similar understanding that the investments are part of an orderly effort to achieve some clear goal defined by the Chinese government (Reilly 2013; Cook *et al*. 2010). Some Australian analysts, leading defence and political elites have also expressed concern about Chinese investments in Australia, believing that OFDI is a calculated move by the Chinese state to promote its strategic ambitions in the region (Wade 2015; Barnes and Jennings 2015; James and Hannah 2016). This article seeks to address these concerns by exploring whether Chinese OFDI is government-driven investment for particular strategic purposes.

Existing studies mostly assume that the Chinese state is a rational, unitary actor that influences or directs its OFDI with explicit and predetermined objectives. However, these studies have not closely explored the interests and roles of various state and non-state actors in this process nor the effects

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they have on China's OFDI behaviours. By taking Australia as a case study, this article aims to fill this gap by accounting for the influence of various actors on the outcome of China's OFDI. It argues that, within China's fragmented political system, various state and non-state actors can independently exert some degree of influence over China's OFDI behaviours. With an increasing number of non-state enterprises participating in China's OFDI and pursuing their own interests, the haphazardness of China's OFDI has become more prominent. In addition, although this article focuses on the influence of participants on China's OFDI outcomes, it aims to challenge the existing consensus that there are clear state objectives driving China's OFDI. The analysis proceeds with detailed analyses of the three stages of the development of China's OFDI in Australia since 1978, followed by a short conclusion.

The beginning era: 1978–2005

The first stage of Chinese investment in Australia can be divided into two periods. From 1978 to 1991, China's OFDI in Australia was small in volume and primarily conducted by the Chinese and Australian governments based on their diplomacy. Then, from 1992 to 2005, following the relaxation of China's OFDI policy, China's OFDI in Australia started to grow substantially.

Initial Chinese investments in Australia: 1978–1991

While economic interactions between Australia and China date back to the 1850s, the contemporary development of a bilateral investment relationship commenced only after the two countries established official diplomatic relations in late 1972 (Zhou 2017; Wang 2016: 37). Chinese investors officially started investing in Australia in the 1980s. China's early OFDI was mainly focused on the iron ore and steel industries (Wang 2016: 86-87). To begin with, there was very little Chinese OFDI in Australia, and it almost entirely took the form of government-led, business-to-business cooperation as a way of promoting diplomacy between the two countries (Cui 2016).

Following a wave of high-level political visits between the two countries in the 1980s, China first attempted to invest in Australia in 1984. Prime

Minister Bob Hawke encouraged the official beginning of Chinese–Australian investment cooperation when he visited China and launched the Iron and Steel Initiative (ISI). This initiative was regarded as a form of economic diplomacy (Wang 2016: 77). Later, during a visit to Australia in April 1985, Hawke and the general secretary of the Communist Party of China (CPC), Hu Yaobang, issued a joint communique in which they agreed to continue encouraging commercial arrangements in iron and steel cooperation and further promoted the ISI (Wang 2016: 80-2). The communique highlighted two projects of particular significance: the Mount Channar iron ore mine and the re-activation of idle blast furnaces in Kwinana. These two projects were defined by both governments as essential components of the ISI and paved the way for the beginning development of China's OFDI in Australia (Wang 2016: 80-2).

Efforts to develop the ISI came to fruition in February 1986 when the China International Trust and Investment Corporation (CITIC) took a 10 percent stake in the Portland Aluminium Smelter owned by the Alcoa World Alumina and Chemicals joint venture (The Australian Financial Review Magazine 2013). At the time, this was the first and largest OFDI deal made by China. The ISI continued to be fruitful when State Councillor Gu Mu visited Australia to conclude the Mount Channar deal in November 1987 (Wang 2016: 86-7). In the Mount Channar deal, China's Metallurgical Import and Export Corporation (later renamed to Sinosteel Corporation) and Rio Tinto jointly established the Channar Mining Joint Venture, which owned the Channar mine in the Pilbara region of Western Australia (Callick 2013). Sinosteel Corporation and Rio Tinto had 40 and 60 percent stakes of the joint venture, respectively.[1] This was China's first major OFDI and the first large-scale joint mining initiative undertaken by a Chinese state-owned enterprise (SOE) and an Australian mining corporation at that time.

During this period, China's OFDI in Australia mainly reflected efforts at investment cooperation between the Chinese and Australian governments. Investment in Australia by Chinese SOEs was undertaken in an organised fashion under the direction of the Chinese government, not only to secure

1 See *https://www.acbr.com.au/channar-iron-ore-game-changer*.

supplies of natural resources but also to promote the early development of the China–Australia diplomatic relationship.

Early Developments: 1992–2005

China's OFDI in Australia started to grow after 1992 as the Chinese government relaxed its OFDI policies. This is largely because Deng Xiaoping's trip to southern China in 1992 was a historical turning point in terms of encouraging China's OFDI, which was officially accepted as a way of securing the natural resources needed for China's economic development. Meanwhile, the general secretary of the CPC, Jiang Zemin, also vigorously promoted the development of China's OFDI. As a result, the approval process for Chinese OFDI was gradually relaxed, and it became easier for Chinese enterprises to invest abroad. Further, with the ongoing implementation of the GOIP in 1999, China's OFDI had been encouraged significantly.

Between 1991 and 2005, China's OFDI in Australia increased at an average annual rate of approximately A$180 million (US$124 million) (Huang and Wilkes 2011). [2] According to the Australian Foreign Investment Review Board (FIRB), Chinese OFDI was heavily concentrated in the real estate and mineral resources sectors during the period 1993–2005. There was a very limited amount of investment in other sectors, such as agriculture, forestry and fisheries, manufacturing, and services and tourism. Chinese OFDI in Australia was only slightly more diversified due to the participation of more investors (mainly SOEs): in addition to a certain number of natural resource investments, there was some investment in real estate, an area that was not traditionally encouraged by the Chinese government.

Although the total amount of China's OFDI in Australia increased during this period, it remained insignificant, as China's national economy could not support the substantial growth of its OFDI. In particular, there was a lack of foreign exchange at this time. As a result, Chinese companies were only encouraged to invest overseas in specific areas, like natural resources, that effectively promoted China's economic development (Christiansen 2005). Moreover, at the same time, it was only some particularly capable

[2] Exchange rate conversion based on current year conditions.

Chinese SOEs, backed by Chinese state-owned banks, that were able to invest abroad. China’s initial OFDI in Australia concentrated on natural resources and was financed by large Chinese SOEs. At the end of 1998, Australia was one of the three most important countries for Chinese OFDI, behind the United States and Canada. These three countries accounted for 42.3 percent of China’s total OFDI at this time (Wu and Chen 2001).

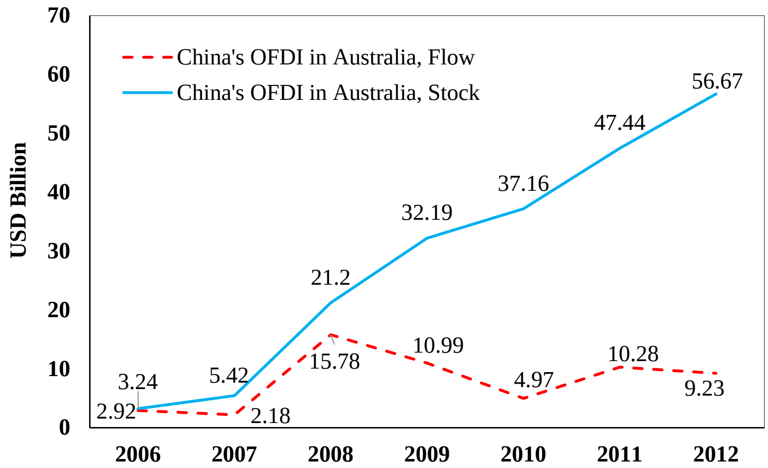
Why did China focus on investment in Australian resources? China had begun to shift from a ‘light’ to ‘heavy’ stage of industrialisation after the economic reforms of 1978. It focused on manufacturing industries, such as those involved in the production of machinery, ships and automobiles (Holmes 2013). China’s largely state-owned steel industry had nearly quadrupled in size to supply the raw materials needed by these consumer industries, but China’s iron ore reserves were far from meeting the requirements of its steel industry’s rapid development (Wilson 2011: 287). Consequently, China’s demand for metals from around the world accelerated after 1999, and it was responsible for two-thirds of the increase in global metal production between 1999 and 2005 (Streifel 2006). China’s need for raw materials was well matched by resource-rich Australia (Australian Government 2019), so investing in Australian minerals was an important way to secure the supply of natural resources for China’s industrial development. Australia was also geographically close to the Chinese market, which resulted in cheaper shipping costs.

Although China’s OFDI in Australia during the period 1978–91 increased somewhat and covered a wide range of fields, China’s OFDI activities can also be said to have become slightly more unorganised. Besides natural resource investment, there were investments in real estate, an area that was not traditionally encouraged by the Chinese government. Moreover, although the amount of Chinese investment in Australia was not particularly large, it accounted for a high proportion of China’s total OFDI. This was because Australia had natural resources needed by China and was an ideal place due to its ideal location for China.

The mining boom investment era: 2006–2012

From 2006 to 2012, China’s OFDI in Australia grew rapidly, increasing from A$3.70 billion (US$2.92 billion) in 2006 to A$8.86 billion (US$9.23 billion) in 2012. During the course of this period, the flow increased by nearly eight times in 2007–2008, from A$2.49 billion (US$2.18 billion) to more than A$23.1 billion (US$15 billion), but then declined in 2009 and 2010. It increased again during 2011, reaching A$10.07 billion (US$10.28 billion). Thus, between 2006 and 2012, the trend of Chinese investment in Australia showed a significant increase and the stock of China's OFDI in Australia reached nearly A$45.4 billion (US$56.67 billion) by the end of 2012 (see Figure 1).

Figure 1: China's Outward Foreign Direct Investment in Australia, 2006–2012



Source: China Global Investment Tracker.

This rapid growth was mainly caused by a surge in China's OFDI in Australia's iron ore industry, as the Chinese government encouraged its SOEs to invest abroad to secure supplies of natural resources. China's further rapid economic development generated significant increases in demand for resources such as iron ore (Wilson 2011: 287) as its steel production rose steadily, growing at average annual rates of 7 percent, 10 percent and close to 20 percent during the 1980s, 1990s and 2000s respectively (Holloway *et al.* 2010). However, while China had abundant iron ore reserves, the quality of most of these was inadequate for producing high-quality steel and required additional expensive processing (Tcha and Wright 1999). The price of iron ore in China rose in the 1990s to about US$35 per wet million ton (WMT), which was above the world trading price of US$25 per WMT, after accounting for the processing of low-quality ore in China and production taxes (Labson *et al.* 1995). By importing high-quality iron ore, China could significantly reduce the cost of steel production. As a result, China became the destination of approximately 60 percent of the world's seaborne iron ore supply, with Australia (its largest supplier) providing more than 45 percent of these imports (Au-Yeung *et al.* 2012).

Even though China was the world's largest importer of iron ore and producer of steel, it lacked bargaining power when negotiating prices with sellers (Hewitt 2009). This helped to drive a surge in metal prices, along with the rising demand, low inventories and a weaker dollar; thus, by mid-2011, the price of iron ore had increased to nine times what it had been in 2000 (Streifel 2006). The three major iron ore companies – Brazil's Companhia Vale do Rio Doce, the British–Australian Rio Tinto and Australia's Broken Hill Proprietary Company – controlled approximately 80 percent of the global iron ore resources. In addition, the price system was very complicated (Wilson 2011: 291). Unlike the prices of other commodities, that of iron ore was usually set by buyers and sellers in annual contract negotiations, with Japanese and European steel manufacturers dominating the three major iron ore companies for a long time (Zhang and Fan 2006). When a pricing agreement was reached between the dominant steel producers and the iron ore majors, the agreed price would become the benchmark price for the rest of that year (Hewitt 2009). In 2003, on behalf of the Chinese steel industry, Baosteel accepted the Nippon Steel Corporation's increase of 18.6 percent and its price of A$12.34 (US$9.07) per ton for shipping (Deng 2009). At the same time, Chinese iron ore producers had become, on average, the most expensive in the world (Hurst 2015).

To help secure supplies of iron ore and overcome the pressure of rising prices, the Chinese government began to encourage Chinese enterprises to invest in the mining industry. In particular, for Chinese policy-makers, OFDI was regarded as a better way to serve China's strategic demand for iron ore and steel than international trade with independent suppliers. This was because it allowed Chinese investors to own the assets and influence the relevant mining companies, which, in turn, helped to secure supplies of energy and resources and to fight against escalating iron and steel prices (Zhou 2017; Tan 2013).

The growth of China's OFDI in Australia during this period was partly a response to Chinese state policies. In particular, *China's Policy on Mineral Resources (zhongguo de kuangchan ziyuan zhengce)* was issued in 2003 by the Information Office of the State Council and notably aimed to encourage Chinese companies to invest overseas in mining to secure the supply of natural resources for the domestic market. The 11th Five-Year Plan (2006–2010) also identified scarcity of resources as an issue and was of great importance over the following five years in the pursuit of the ambitious goal of securing natural resources. It was in 2005 that the National Development and Reform Commission (NDRC) issued *Iron and Steel Industry Development Policy (2005 Steel Policy, gangtie chanye fazhan zhengce)*, the first resource security strategy, as a response to a 71.5 percent increase in the price of iron ore that year.

The *2005 Steel Policy* covered two main points (Wilson 2011: 291; Ma 2005). Firstly, China's state-owned banking system would support the sponsorship of new iron ore suppliers by encouraging steel companies to invest in overseas iron ore projects and would provide loans on concessionary terms to finance steel mills (NDRC 2005: Article 30). Secondly, the China Iron and Steel Association, which had the delegated authority to distribute iron ore import licences, would support the creation of a cartel of Chinese importers – by promoting coordination among Chinese steelmakers – to improve the bargaining position of the industry in annual benchmark price negotiations (NDRC 2005: Article 39).

Encouraged by the Chinese government, the enthusiasm of Chinese companies, especially SOEs, to invest in Australia's mining sector was obvious and they began to invest heavily in Australia's mineral resources. According to FIRB (Annual Reports 2005–2013), Chinese investment proposals related to the mineral exploration and development sector totalled A$6.76 billion (US$4.93 billion) – 93 percent of all Chinese companies' proposals in Australia from 2005 to 2006 – reaching a high point of nearly 99 percent between 2008 and 2009 (see Table 1). Although this percentage fluctuated in the following years, it continued to be more than half of all Chinese investment proposals in Australia from 2006 to 2012 (Zha 2013).

Table 1: China's Outward Foreign Direct Investment in Australia by Industry, 2005–2013 (in A$ million)

Sector	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12
Agriculture forestry and fishing	-	15	-	-	-	4	27
Finance and insurance	-	-	420	43	-	558	60
Manufacture	223	700	-	82	198	416	538
Mineral exploration and development	6758	1203	5311	26,254	12,186	9758	10,505
Real estate	279	712	1491	-	2421	4093	4187
Resource processing			137	162	760	132	240
Service	-	10	101	54	717	16	634
Tourism	-	1	20	5	-	-	#
Total	7259	2640	7479	26,599	16,282	14,976	16,190

Source: FIRB.

Note: Total may not add to rounding. All figures represent investments approved by the FIRB. '#' = a figure of A$10 million or less; '-' = a figure of the zone; '0' = a figure of less than A$0.5 million.

Given ready access to state financing, Chinese companies did not hesitate to invest in Australian mineral resources, as reflected in the large size of each transaction. The ten largest Chinese corporate investors in Australia from 2006 to 2012 were all SOEs (see Table 2). These SOEs' investments accounted for US$39.8 billion (A$41.79 billion) of a total accumulated direct investment of US$50 billion (A$52.5 billion), which was equivalent to 80 percent of accumulated Chinese OFDI in Australia over the previous seven years. Notably, the ten largest Chinese investments in Australia were concentrated in the energy and resource sectors which were then the primary focus for Chinese investments.

Table 2: Largest Chinese Investors to Australia and their Australian Projects, 2006–2012

Rank	Investor	Managing owner	Investment sector and sub-sector	Australian projects	Accumulated value (US$ million)
1	Chinalco (Shining Prospect Pte. Ltd)	Chinalco	Metals (aluminium)	2008 Rio Tinto	14,300
2	Yanzhou Coal	Yankuang Group	Energy (coal)	2009 Felix Resources 2011 Yancoal 2011 Syntech 2011Wesfarmers 2011 Gloucester	6,590
3	PetroChina Company Ltd	China National Petroleum Crop.	Energy (gas)	2009 Arrow Energy 2012 Bow Energy 2012 BHP	3,480
4	Sinopec Corp	Sinopec Group	Metals (steel)	2008 AED 2011 Original Energy–ConocoPhillips 2011 Australia Pacific Liquefied Natural Gas	3,070
5	CITIC	CITIC Group Corporation		2006 Mineralogy 2007 Macarthur Coal	3,020

6	Taurus	Guangdong Nuclear Power Group	Metals	2012 Extract Resources	2,380
7	CNOOC	CNOOC Group	Energy (gas)	2010 BG 2012 BG	2,200
8	Datang Power and China SOE South Industries	China Datang Corp.	Energy (alternative)	2011 CBD Energy	2,030
9	Minmetals Resource Ltd	China Minmetals Corp.	Metals	2009 Oz Minerals	1,390
10	Sinosteel	Sinosteel Corp.	Metals (steel)	2008 Midwest	1,320
				Total	39,780

Source: Heritage Foundation and the University of Sydney/Klynveld Peat Marwick Goerdeler database.

Note: All investors are state-owned enterprises. Further, the accumulated value for 'CITIC' is an aggregated total of investments by different subsidiaries of the CITIC group, namely CITIC Pacific, CITIC Resources, CITIC Construction, and CITIC Group.

Massive investments made by SOEs in the Australian mining sector did little to curb the rise in iron ore prices. From 2002 to 2010, Chinese companies made 49 investments in overseas iron ore and coking coal-related projects, valued in total at A$40 billion (US$33.2 billion) (Wilson 2011: 291). 36 of these investments, worth a combined A$27 billion (US$22.41 billion), were in Australia. However, these projects were still in their infancy in early 2010: only seven of them were in production, with the combined development plans for the rest envisaging the installation of capacity for 230 million tonnes of iron ore through to 2015 (Wilson 2011: 295). As a result, the Chinese government's incentives for its companies to invest in Australia could do little to arrest increases in the iron ore price during the boom era of mining investment. By mid-2011, prices had increased nine-fold compared with iron ore prices in 2000 (Wilson 2012).

By this time, China's strategic investment in Australia had prompted strong opposition from the Australian Government to Chinese investors, especially those looking to invest in the natural resources sector (Larum 2011). Given the wave of Chinese OFDI to 2012 and its state-backed, strategic nature, the Australian Government tightened its approval of OFDI projects proposed by SOEs (Drysdale and Findlay 2009; Wilson 2011: 287-9). In February 2008, the Treasurer unveiled a set of additional guidelines concerning foreign government investment proposals consisting of more stringent rules for Chinese OFDI applications (Swan 2008).

Australian opposition to Chinese investors, especially SOEs, was largely based on the notion that Chinese investment in Australia was planned by the Chinese government for a strategic purpose: the securing of natural resources (Wilson 2011: 289). However, in practice, the course of Chinese investment in Australia was not centrally planned. To begin with, the large number of Chinese SOEs flooding into the Australian mining sector led to excessive competition, overlap and divergence among them. For example, during the 2008–2009 period, Chinese SOEs made six significant proposals for investing in the Australian resources sector – Chinalco and Rio Tinto in 2008, Sinosteel and Murchison Metals in 2008, Minmetals and OZ Minerals in 2009, Hunan Valin and Fortescue in 2009, China Non-Ferous Metals and Lynas in 2009 and Yanzhou and Felix in 2009 (Golding 2010). This resulted in fierce competition during the Australian Government's approval process. Additionally, after the Australian Government approved these projects, each enterprise had to compete vigorously to ensure their long-term survival.

Further, the investment behaviours of SOEs in Australia did not comply with Chinese government regulations. To control the reckless expansion of SOEs, Chinese OFDI-related government agencies issued a series of regulations. In particular, State-owned Assets Supervision and Administration Commission of the State Council (SASAC) issued the *Interim Measures for the Investigation of Liability for Loss of Assets of Central Enterprises (zhongyang qiye zichan sunshi zeren zhuijiu zhanxing banfa)* in August 2008 and *Interim Measures for Supervision and Administration of Overseas State-Owned Assets of Central Enterprises (zhongyang qiye jingwai guoyou zichan jiandu guanli zhanxing banfa)* in

June 2011 (Wang 2011; Li 2008). The main purpose of these regulations was to prevent SOEs from investing heavily in overseas projects with high risks by strengthening SASAC's oversight and holding them accountable for directly or indirectly causing the loss of state-owned assets (Xinhuanet 2018). The degree of asset loss was graded and the penalty to be suffered by a culprit varied according to the degree of asset loss and the nature of problems leading to the loss. According to the concept of *zhidu mianqian yilu pingdeng, yi ba chi zi liang daodi* ('all equal in front of the system and measuring all with the same ruler'), the degree of asset loss of central SOEs was classified as follows: less than ¥5 million (US$0.75 million) for general asset losses; ¥5 million (US$0.75 million) or more but less than ¥50 million (US$7.5 million) for large assets losses; and ¥50 million (US$7.5million) or more for major assets losses (Xinhuanet 2018). The classification and penalty were largely aimed at preventing SOEs from investing overseas with insufficient consideration of high risks, especially in large-scale overseas investments.

In practice, these regulations had relatively little effect on the total amount of Chinese OFDI in Australia. As some Chinese companies with little experience and ability still tried to invest in Australia, the frequency of rejection by the Australian Government increased, often leading to the failure of entire projects and substantial financial losses (Wilson 2011: 297-9). The Ministry of Commerce of China reported in November 2010 that 65 percent of failed deals since 2005 had been due to failure to comply with foreign regulations, although that figure was not for Australia alone. In one 2009 instance of this phenomenon, China Nonferrous Metal Mining Group Company Ltd (CNMC) planned to acquire a A$0.7 billion (US$0.47 billion) shareholding in Lynas Corporation Ltd, Australia's largest miner of rare-earth metals, seeking to obtain a 51.6 percent stake for A$0.25 billion (US$0.17 billion) at A$0.36 (US$0.24) per share. The additional undertakings required by the FIRB would have required CNMC to reduce its proposed ownership to less than 50 percent and its number of board positions to less than half the board. This requirement indicated that the Australian Government preferred China's OFDI not to take a controlling interest in companies (Drysdale 2011). However, as CNMC refused to follow the FIRB's requests, its proposed acquisition failed (Huang and Austin 2011). If it could have flexibly dealt with this situation and better understood the aim of the Australian Government, it would have been able to take a 49 percent stake first and then affect resource flows in other ways, such as through long-term supply agreements internally influencing Lynas Corporation Ltd (Fu and Zha 2014).

Another example was the case of Sinosteel Corporation's US$1.5 billion loss after its takeover of Western Australian iron ore miner Midwest Corporation in September 2008 (Zhou 2014). Sinosteel Corporation launched a A$1.2 billion (US$0.8 billion) takeover bid for Midwest Corporation, with a controlling stake of 98.52 percent (Sinosteel Corporation 2008). However, when the acquisition was completed, Sinosteel Corporation found that it was not buying a premium iron ore such as hematite, but magnetite, which contains less than 50 percent iron content (compared with more than 60 percent in hematite) and would be low in value but expensive to develop (Jones 2014). Additionally, Sinosteel Corporation did not acquire supporting ports, railways and other ore export channels; as a result, it was difficult to transport the mined ore. Having failed to investigate the specific characteristics of the minerals and to give adequate consideration to the project, Sinosteel Corporation faced a loss of US$1.5 billion (Zhou 2014).

The haphazardness of Chinese OFDI activities in Australia was also indicated by the fact that there had been a significant increase in Chinese OFDI in the Australian real estate sector, which was not encouraged or supported by the Chinese government. Table 1 demonstrates that China's investment proposals regarding real estate increased from A$0.28 billion (US$0.20 billion) in 2005 to US$4.19 billion (US$4.27 billion) in 2012, making it the second-largest investment sector. Meanwhile, China's OFDI in other sectors which had been prioritised by the Chinese government, had also risen between 2005 and 2012. With the relaxation of China's OFDI policy, an increasing number of attempts to invest in Australia have made OFDI even more haphazard.

In sum, even during the mining boom investment era, when investments were largely directed by the overall planning of the Chinese government and enterprises were mostly investing in Australia's mineral resources, haphazardness was evident in China's Australian OFDI behaviours. Although there had been some achievements, the results were the opposite of the Chinese government's expectations and caused heavy financial losses. Chinese enterprises crowding into the Australian mining industry caused serious conflicts within Australia; and the Australian Government imposed restrictions on Chinese companies' investment in Australia. In response, the Chinese government was forced to regulate the reckless trend of mineral OFDI. However, this regulation was ignored by SOEs. Overall, 2006-2012 was a period during which the number and range of investors increased and the processes of Chinese investment in Australia became more haphazard.

The diversified investment era: from 2013 to the present

In contradistinction to the Deng Xiaoping era, the Chinese government has become more centralised through reforms under Xi Jinping's leadership, while only partially reducing the fragmentation of power (Cabestan 2017). Particularly, Xi Jinping has created new bureaucracies, resulting in new bureaucratic overlaps and tensions – in other words, a new form of power fragmentation. Consequently, within China's political system, Chinese investments in Australia have also tended to be disorderly – or even more so – in the period from 2013 to the present.

Since 2013, the nature of China's OFDI in Australia has changed significantly: the mix has become yet more diverse. Chinese state-led investments in minerals have declined because of a comparative slowdown in the growth rate of China's economy (Kent 2013). Investment now extends to the real estate, healthcare, agribusiness, and infrastructure sectors. Additionally, encouraged by the GOIP and supported by sufficient foreign exchange reserves, an increasing number of Chinese enterprises, including both SOEs and privately-owned enterprises (POEs), have been involved in OFDI in Australia (KPMG and University of Sydney 2017).

With the increasing diversification of Chinese investments in Australia, OFDI has seemed to lack any obvious developmental or strategic purpose. This is reflected especially in the large-scale expansion of real estate investment (Li 2017). Since 2013, much more real estate investment has taken place than before. From 2013 to 2016, Chinese investment in mineral resources fell considerably, while investment in real estate showed strong growth.

In 2013, for the first time, nearly half of China's OFDI was focused on the commercial real estate sector. According to FIRB (Annual Report 2013–2014), Chinese investment proposals for real estate in 2013–14 totalled A$12.4 billion (US$11.0 billion) and accounted for 44.9 percent of all proposals in Australia – surpassing the total amount of A$5.7 billion (US$5.1 billion) in the mineral exploration and development sector and representing 20.5 percent of proposals (see Table 3). In 2016, commercial real estate remained the largest sector for China's OFDI in Australia at 36 percent of all proposals, followed by infrastructure with a record 28 percent worth A$4.3 billion (US$3.2 billion), and healthcare with nine percent.

2016 was also a breakthrough year for agribusiness, which rose from seventh to fourth place as an investment sector, with an increase from A$0.38 billion (US$0.29 billion) in 2015 to more than A$1.2 billion (US$0.8 billion), while mining fell to the sixth position, declining by 35 percent from 2015 (KPMG and University of Sydney 2017).

Table 3: China's Outward Foreign Direct Investment in Australia by Industry, 2013–2016 (in A$ million)

Sector	**2012–13**	**2013–14**	**2014–15**	**2015–16**
Agriculture, forestry and fishing	328	32	2494	996
Finance and insurance	23	51	1730	#
Manufacturing	957	3298	5317	10,056
Mineral exploration and development	8273	5656	9845	1596
Real estate	5932	12,406	24,349	31,912
Resource processing	#	43		
Service	291	6163	2822	2737
Tourism	#	#	#	#
Total	**15,803**	**27,650**	**46,563**	**47,302**

Source: FIRB.

Note: Total may not add to rounding. All figures represent investments approved by the FIRB. '#' = a figure of A$10 million or less.

The main reason for such diversification is that more and more POEs have made large-scale investments in Australia. From 2005 to 2012, there were only two real estate deals worth more than US$100 million (A$147.6 million), one by an SOE and one by a POE. Conversely, there were 21 real estate deals worth more than US$100 million between 2013 and 2016, two of which were – by SOEs and 19 were by POEs (American Enterprise Institute and the Heritage Foundation 2019). The number of POEs investing in real estate increased by 19 times from the previous period.

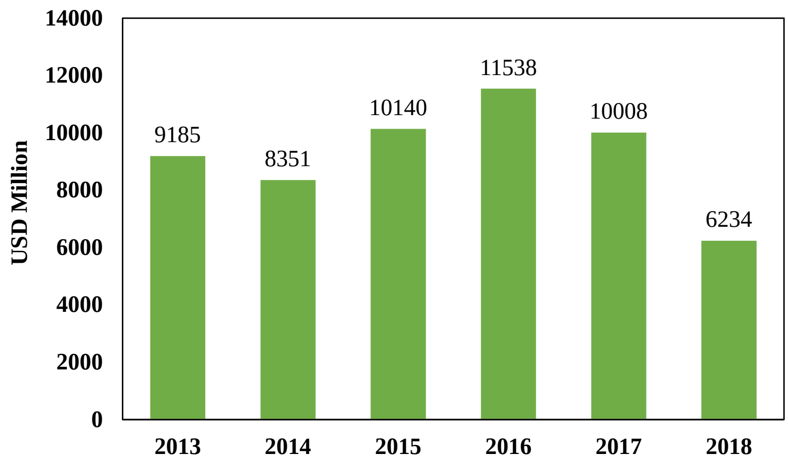
The overall growth rate of POEs investing in Australia was also significant. In 2013, the number of Chinese POE deals (25) exceeded the number of SOE deals (15) for the first time. The former accounted for 65 percent of all Chinese investment in Australia (KPMG and University of Sydney 2014). By the following year the number had grown to 51 deals with a value of A$6.2 billion (US$4.2 billion). These numbers exceeding the investments by SOEs – 9 deals and A$3.2 billion (US$2.1 billion) – and accounted for 66 percent of all Chinese OFDI in Australia (KPMG and University of Sydney 2015). In 2016, POEs signed 78 deals with a total value of A$7.6 billion, representing 49 percent of China's total OFDI – only slightly less than the A$7.8 billion (US$5.2 billion), or 51 percent, invested by Chinese SOEs (KPMG and University of Sydney 2017).

In late 2016, the Chinese government tightened its enforcement of capital controls, primarily because of the marked increase in the pace of China's OFDI between 2015 and 2016. These changes focused mainly on multibillion-dollar overseas deals, such as those in the real estate sector (Korporaal 2017). Specifically, the Chinese government set formal guidelines for OFDI, restricting investment in real estate, tourism and entertainment but encouraging it in other sectors (*e.g.*, oil, mining and infrastructure). The restricted sectors are listed as 'irrational' OFDI in China's current national economic plan, the 13th Five-Year Plan (2016–2020) (Sue 2017). Since then, investments are also likely to come under increased scrutiny if they have not undergone due diligence, are highly leveraged or not aligned with investors' core competencies. Although these changes did not explicitly target Chinese real estate investments in Australia, the number of these investments declined under the recently established controls.

These tightened restrictions on capital outflows may have affected China's Australian OFDI in 2017 and 2018, which declined from US$11.5 billion (A$15.4 billion) in 2016 to US$10 billion (A$13.3 billion) in 2017 and

US$6.2 billion (A$9 billion) in 2018 (see Figure 2). Notably, commercial real estate slipped into second position in 2017, at A$4.4 billion (US$2.9 billion), representing 33 percent of the total (KPMG and University of Sydney 2018). Conversely, in 2017, mining became the largest sector for Chinese investment for the first time in the diversified investment era, representing 35 percent of the total and valued at A$4.6 billion (US$3.1 billion) – an almost five-fold increase over that in 2016.

Figure 2: China's Outward Foreign Direct Investment Flows in Australia, 2013–2018



Source: The University of Sydney / Klynveld Peat Marwick Goerdeler database.

Beijing's restrictions have had a limited effect on OFDI in Australia, and investment has continued to be inconsistent with Chinese regulations. In particular, in terms of the total proportion of investment in Australia since 2018, real estate investment (discouraged by the Chinese government) has increased, while the share of mineral investment (encouraged) has decreased. Although the total amount of real estate investment declined between 2017 and 2018, it was nevertheless the largest sector of Chinese investment in 2017: it increased from 33 percent of total OFDI in 2017 to

36.7 percent in 2018 (KPMG and University of Sydney 2018). While Chinese investments in Australian real estate (excluding residential dwellings) were A$3 billion (US$2.01 billion) in 2018, down from 2017 levels, it was still the second-largest investment sector for Chinese investors (KPMG and University of Sydney 2019). Conversely, the mining sector accounted for 5.6 percent of China’s total Australian OFDI in 2018, with five transactions totalling A$0.46 billion (US$0.31 billion) – a decrease of more than 90 percent from 2017 (KPMG and University of Sydney 2019). As a result, Chinese mining investment in Australia fell from first place in 2016 to fourth place in 2018 (see Table 4). These trends show that Chinese investment in Australia has not followed the prescriptions of the Chinese government but instead has gone in the opposite direction.

Table 4: Chinese Outward Foreign Direct Investment in Australia by Industry, 2018

Ranking	Sector	Percentage of Total
1	Healthcare	41.70%
2	Commercial Real Estate	36.70%
3	Energy (Oil and Gas)	8.80%
4	Mining	5.60%
5	Renewable Energy	4.80%
6	Infrastructure	1.20%
7	Food and Agribusiness	1.00%
8	Services	0.20%

Source: The University of Sydney / Klynveld Peat Marwick Goerdeler database.

Investments that are contrary to the Chinese government’s wishes have also occurred in other sectors (see Table 4). Several enterprises have begun to invest heavily in the healthcare sector since 2017, another area that was not on the list of encouraged investments. While Chinese OFDI in

Australia declined by 37.6 percent in 2018 – from US$10 billion in 2017 (A$13 billion) to US$6.2 billion (A$8.2 billion) – Chinese investment in the healthcare sector increased from A$1.58 billion (US$1.06 billion) in 2017 to A$3.4 billion (US$2.29 billion) in 2018, representing a 111 percent increase over 2017. In 2018, healthcare had become the largest sector of Chinese investment.

Overall, the number of Chinese investors in Australia has increased rapidly, mainly because of the marked increase in the number of POEs investing. With the increase in participating investors, it is more evident than previously that China's investment behaviours in Australia are inconsistent with the expectations of the Chinese government. In particular, this period saw a significant increase in real estate investment, which traditionally has not been encouraged by the Chinese government. This real estate investment has even affected China's economic development because it involved a net loss of foreign exchange, leading the Chinese government to introduce further regulations. Under the control of the Chinese government, there has been a significant dip in real estate investment, but this remains one of the main areas for China's OFDI in Australia. This situation indicates that the Chinese government has reduced diversification to some extent, but not entirely. Another point of interest is the increase in healthcare investment by POEs since 2018: it remains to be seen whether these investments in health will develop in the same way as those in real estate, particularly in terms of whether the Chinese government will exert more control of them later.

Conclusion

Since 1978, Chinese OFDI in Australia has displayed different patterns and has had different targets according to Chinese government policies. Although Chinese investment in Australia is a relatively new phenomenon, it has developed rapidly. Until 2005, China's OFDI was limited; but, by that point, Chinese investors were no longer beginners in the Australian market. They gradually acquired a great deal of experience, becoming a vital investment source for Australia and a critical element of the China–Australia economic relationship (Dong and Collins 2017).

Driven by China's investment policies, the early priorities of China's OFDI in Australia were to make large deals in the minerals and energy sectors. However, the flood of investments made by SOEs in pursuit of their interests in the Australian minerals sector was disorganised and led to significant conflicts of interest. Many high-profile proposals made by Chinese SOEs were either blocked or substantially modified and then rejected by the Australian Government following FIRB advice, which led to serious financial losses (Larum and Qian 2012). Plans to influence iron ore prices through OFDI also failed: as the price of iron ore rose, China's steel mills were forced to pay increasing prices. Overall, China's OFDI in Australia did not achieve the effects expected by the Chinese government. Even with the guidance of the Chinese government, SOE investment was not orderly, but haphazard.

Since 2013, China's OFDI in Australia has shifted away from natural resources towards other sectors (*e.g.*, real estate), and its ownership has diversified as more and more POEs have begun to participate. However, some OFDI projects – especially those undertaken by POEs – were characterised as 'irrational' investments by the Chinese government and restricted at the end of 2016. In particular, real estate investments were considered not to be in the interest of China's economic development. This indicates that Chinese POEs invested in ways that put their commercial interests first, which led to conflicts of interest with the Chinese government. The government has sought to halt these 'irrational' investments, but its own authority was limited to some extent. Simultaneously, another type of investment that is not encouraged by the Chinese government – in healthcare – has been carried out extensively. The growth in the number of Chinese investors has made the haphazardness of China's OFDI activities in Australia more obvious.

This evidence indicates that it would be hasty to assume that the Chinese state is a rational, unitary actor that influences and directs OFDI with predetermined and explicit objectives. Instead, decisions regarding specific OFDI projects are influenced by a range of state and non-state actors with different interests. In other words, although the Chinese government has some influence over Chinese OFDI, Chinese enterprises in most cases enjoy a great deal of autonomy in making decisions regarding their OFDI projects. Not only do Chinese POEs behave differently in their OFDI projects than in local projects, but even SOEs do not always behave in line with China's national preferences as expressed by the national government. With an increasing number of POEs investing abroad over the past few years, an individual POE can increasingly influence China's OFDI rather than being guided by policies. As a result, the haphazardness of China's OFDI has become more prominent. Thus, China's OFDI policies, such as the Belt and Road Initiative, may be understood as guidelines for general development rather than as a mean of controlling investment behaviours for specific strategic purposes.

In summary, the suspicion that the Chinese state uses investment as a vehicle to achieve strategic objectives in Australia is largely unfounded. To continue those unfounded suspicions would be detrimental to Australia's investment environment and undermine long-term cooperation and mutual trust between the Chinese and Australian business communities.

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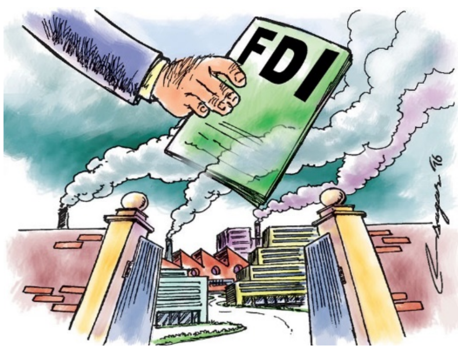

SUPERANNUATION, FINANCIALISATION AND INCOME INEQUALITY

Rod Pickette

One of the ironies of modern capitalism is that superannuation and pension funds, established through working class struggle with the aim of bettering the lives of retired workers and giving workers an indirect say over a large and growing pool of capital investment, have unwittingly contributed to income inequality. The irony is particularly evident in Australia because the labour movement was a driving force in establishing the nationwide compulsory superannuation arrangements. As described in the last issue of this journal (Broomhill *et al*. 2021: 72-5), the policy had its origins in the cooperative arrangements established between the ALP governments led by Hawke and Keating and the leaders of the Australian Council of Trade Unions (ACTU). Many in the labour movement continue to regard the establishment of superannuation and pension funds, and their contribution to the welfare of retired workers, as one of the great social policy achievements of the 20th century. Moreover, many trade union leaders are trustee directors of industry-based superannuation and pension funds and regard their trustee function as entirely positive for the working class and consistent with their industrial functions.

This article suggests that, notwithstanding the intentions of the architects of the national superannuation policy, the subsequent influence of financialisation has had a major impact on the investment processes and revenue streams associated with superannuation and pension funds. It posits that the financialisation of economic activity that has accelerated during recent decades has been a significant contributor to income inequality – by decreasing the share of national income going to labour – and shows the role played by financial capital. Analytically, it draws on the classical Marxist labour theory of value to help show that the financialisation of economies extracts value rather than creating value.

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'Superannuation, Financialisation and Income Inequality'
Journal Of Australian Political Economy
No. 88, pp. 31-51.

The article explores how the process of extracting value operates through superannuation asset management, before offering strategic responses for consideration by the labour movement.

Pension and superannuation funds: a central and growing component of the financial system

Superannuation and pension fund capital now plays a significant role in the financialisation of global economic activity worldwide. Its total value globally in 2019 was just over USD 50 trillion (OECD, 2019), constituting 9.8 percent of global capital and 11.2 percent of total global institutional capital (Statista 2019). The growth in the global financial stock has far outpaced the growth in underlying GDP. While the global financial stock was similar in size to the world's GDP in 1980, by 2010 it was more than three times larger (McKinsey) and growing. In 2020, global 'assets under management' (AuM) reached $103 trillion, according to Boston Consulting Group (2021). With total global wealth estimated at $431 trillion, that means that the banking and investment sector of funds management accounts for just under a quarter of the world's assets.

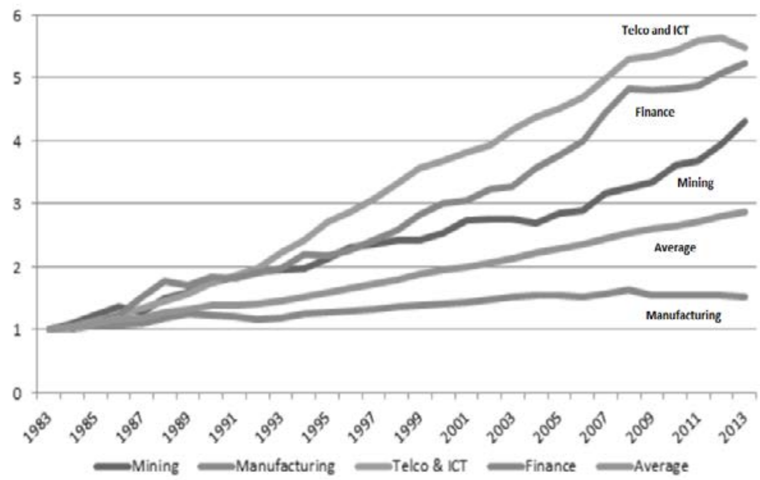
Another way to view this is to compare GDP per capita growth with the rate of return on invested capital over time. The latter has outstripped the former by a considerable margin over the long term in almost all developed nations. This is at the heart of Thomas Piketty's argument that, in an economy where the rate of return on capital outstrips the rate of growth, accumulated wealth will always grow faster than overall increases in prosperity. If this is the future of the world, Piketty argues, then capital-income ratios will continue to rise. In his words: 'when the rate of return on capital exceeds the rate of growth of output and income […] capitalism automatically generates arbitrary and unsustainable inequalities that radically undermine the meritocratic values on which democratic societies are based' (Piketty 2014: 1).

Superannuation and pension fund capital is a significant contributor to the structural shift during the last 30 years from industrial capital to financial capital. It is a shift from direct economic production where surplus value is created, to economic circulation where a significant proportion of that surplus value is extracted in the form of rent. In this context, rent is income from redistributing value, not from creating it. Put in another, perhaps more familiar way, rent is income obtained through transactions associated with financial sector exchanges that do not directly create productive capacity nor productive employment. Examples of this type of income include interest from savings accounts, bond interest, income from securitisations and dividends from shareholdings. This is 'unearned income' in the sense of income not acquired through work (labour power) and not directly associated with production (Mazzucato 2018).

Marx referred to this latter type of activity as a claim on the means of production because he recognised, for example, that rising interest charges on increased debt absorb business and personal income, leaving less available to spend on goods and services. Thus, financial wealth can become antithetical to industrial capital to the extent that it takes the predatory form of usury capital or its kindred outgrowth, financial speculation, rather than funding tangible capital formation (Hudson 2009).

The changing balance between productive sectors and finance in the Australian context is shown in Figure 1. Looking at the 30 years 1983 to 2013, we can see which economic sectors experienced relative expansion and contraction.

Figure 1: Growth in the Australian economy by sector



Source: Industry Super Australia (2014).

Note: 1983: 1ndex=1

Figure 1 shows evidence of significant structural shifts. The least impressive performance has been in the manufacturing sector, comprising the production of consumer staples (*e.g.* food, household and personal products); consumer discretionary items (*e.g.* clothing, whitegoods, vehicles); materials and energy. These are all commodities whose production creates surplus value. The total value of manufacturing output grew by about 50 percent over the three decades. By contrast, the value of mining output grew by about 300 percent, although this was a boom period for mining and its growth rate tapered off significantly after 2013. The communications and IT sector has also featured notably rapid and continuing growth, as the top line in Figure 1 shows. Thus, there was a significant shift in the balance within the productive sectors in the economy. However, an equally striking shift - and yet more important in the context of this article's concerns – is evident in the rapid expansion that occurred, both absolutely and relatively, in the financial sector. Over the three decades, it grew by over 400 percent and continues to grow.

Taking a yet longer-term perspective, income attributable to the financial sector has increased almost six-fold, from 1.1% in the 1960s to 6.5% in 2019 (Hussey 2020).

The way in which the growth of the finance sector impacts on production and wealth creation is complex. Analytically, it depends on what proportion of the surplus value extracted by financial institutions is reinvested in value adding production (and what proportion is in sustainable or transformative production). Indeed, there are avenues through which the returns on investments held by superannuation and pension funds may reinvest extracted surplus value in the productive sector of the economy. This principally occurs where superannuation and pension funds are the direct owners of companies in the productive sector and are managing those companies in ways that ensure investment in productive activity is occurring. It also occurs where they invest in private equity or venture capital firms that explicitly nurture start-ups and companies in the productive sector requiring growth capital. Alternatively, an investment may be made in an initial public offering (IPO) of a company in the productive sector (that underwrites new production). Moreover, some of the investment in debt securities such as government and corporate bonds may find its way into productive investment.

However, there are two other factors that bear more adversely on the likelihood of the funds flowing through into productive investment. One relates to the structural shifts that have taken place in the economy, as illustrated in Figure 1. As the relative size of the productive sector of the economy reduces, and the larger the relative size of the financial or non-productive sector becomes, the capacity of the economy to reproduce itself, increase its productivity and deliver surplus value diminishes. This trending structural feature of contemporary economies increases both public and private debt. It also has an impact on taxation revenues, particularly corporate tax (through which some of the profits of businesses are redirected to public revenue). It was for this latter reason that Ross Garnaut and others have advocated a switch from a conventional company tax system to a tax on cash flow or economic rent, suggesting this will be a necessary reform if Australia wants improved economic performance and improved distribution of income (Garnaut *et al.* 2018).

The second reason for thinking that the growth of the financial sector has adverse effects on productive investment and income inequality has to do with the role that asset managers play in relation to the funds being invested through superannuation and pension funds. This requires a more *micro* political economic perspective, looking at what the asset managers actually do. Such investigation echoes the classic article by political economist Stephen Marglin, titled 'What do Bosses Do?', which showed that the actions of managers of capitalist business enterprises had more to do with class interest than business efficiency (Marglin 1974). To see whether there is a similar phenomenon operating here – in this case, finance capital operating at the expense of both labour and industrial capital - requires consideration of the role and effects of asset managers' activities in superannuation and pension funds.

What do asset managers do?

Superannuation and pension funds have been, and remain, among the largest clients of asset managers. The former engage the services of the latter to advise, manage and invest allocations of workers' accumulated retirement savings. As of March 2018, 47.4 percent (or A$1,109 billion) of Australian pension fund assets (of A$2,339.2 billion) was invested through asset managers, 46.8 percent (or A$1,195.5 billion) was directly invested in financial markets, and 5.8 percent was invested directly in life insurance corporations (ABS 2018). Asset management has become a self-sustaining feature of finance capital, aggressively marketed, largely unregulated and opaque in algorithm-driven risk methodologies, governance and accountability arrangements.

Asset management businesses extract fees for the function they perform, often unrelated to the actual service provided or quality of performance. Just three asset managers have controllled 70 percent of the global exchange traded funds (ETF) market (Forbes Magazine 2017). Asset managers are heavily marketed, including by asset consultants such as JANA and Frontier (in Australia). The Productivity Commission (PC) estimated (conservatively) that, in total, Australians pay over $30 billion annually in superannuation system fees, excluding insurance premiums (Productivity Commission, 2018: 131). The Australian Prudential Regulation Authority (APRA) reports that about 32 percent of fees are attributable to asset management (APRA 2018a: 14). Significantly, the PC found that by applying data on average international costs to the aggregate asset allocation in Australia, total investment fees should be about 0.4 percent of the total value of the assets being managed, substantially less than the 0.68 percent actually occurring in Australia (Productivity Commission 2018: 17).

Even the fund managers seem to concede that fees have been excessive. IFM Investors, the asset manager wholly owned by 27 industry superannuation funds, with A$111 billon funds under management (FuM) in 2018, announced on 4 September 2018 that it would return to investors a 7.5 percent rebate of management fees paid for the 12 months ending June 2018. IFM Investors also announced that its long-term objective is a gross profit margin of no more than 25 percent, which the then CEO, Brett Himbury, indicated is significantly lower than the post-tax profit margin of over 40 percent being extracted by asset managers globally (Australian Financial Review 2018).

Given that the 27 superannuation funds that own IFM Investors operate on an all-profit-to-member business model, it is notable that IFM Investors 'profits' from the asset management service it provides to these all-profit-to-member superannuation funds. This IFM Investors 'profit' is best regarded as economic rent or extracted value, derived from its agency or intermediary role. Its shareholders, and ultimately the beneficiaries of those shareholder superannuation funds – their members – are providing that extracted/transferred value.

This example is confirmed in the UK Financial Conduct Authority Asset Management Market Study report (FCA 2019) which found high levels of profitability, with average profit margins of 36% for the firms sampled. It also found that bonus payments to fund manager staff make up around a quarter of asset management costs (FCA 2016: Annex 8).

Asset managers come in various forms – passive managers, active managers, private equity, hedge funds, venture capital funds. Most of the superannuation and pension fund allocations invested through these asset managers are invested in listed equities (APRA 2018).

Table 1 provides a snapshot of the overall asset allocation of Australian superannuation funds (in their default MySuper products). It shows that 48 percent is allocated to listed equities and a further 26 percent to fixed income (debt securities like bonds) and cash.

Table 1: Australian industry superannuation funds (MySuper products): Asset class allocation 30 June 2019

Characteristics	Amount ($billion)		%
Cash	29		4
Australian fixed interest	98		13
International fixed interest	70		9
Australian listed shares	157		20
Listed property	17		2
Unlisted property	56		7
International shares	219		28
Infrastructure	59		8
Hedge funds	0		0
Unlisted equity	41		5
Other	26		3
	778		**100**

Source: APRA Statistics, *September quarter 2019.*

International and Australian shares clearly comprise the largest to allocations of the funds. While the shares in listed equities are issued by companies across all sectors of the economy, including the productive sector, trading in those shares, by itself, does not add to nor influence the productive capacity of those companies.

Share trading is a zero-sum game, where for every winner there is a loser. Neither the purchase of shares (unless a new issue), nor trading of shares, influences the capital available to a company to invest in productive activity. Share trading is a secondary market. The only way that it can be positive for the capital available to a company to invest in productive activity is if an improved share price impacts the company's capacity to access capital (and perhaps the price it pays for that capital – the cost of capital). On the whole, share purchase and share trading by a superannuation or pension fund is nothing more than an exercise in money circulation (what may be described as the world's largest casino). The fees extracted by asset managers (or going to the salaries and bonusses of superannuation fund executives for those with in-house asset management) comprise a rent that is ultimately extracted from surplus value created in the productive sector of the economy.

Rent seeking behaviour is further illustrated by company share buy-back strategies (also illustrative of the short-termism of current corporate governance models). It is notable that the Coronavirus Aid, Relief, and Economic Security Act passed by Congress in the USA on 27 March 2020 bans borrowing companies from conducting any share buybacks during the loan's term plus one year after its repayment.

Another large allocation of workers superannuation and pension fund savings is to private equity managers. The prevailing business model there is for those private equity firms to buy and sell unlisted companies (usually over a short cycle of 5-7 years), typically small to medium enterprises (SMEs), or restructuring those businesses to increase dividends and raising the equity value to improve the prospects of making a capital gain at the time of sale. Invariably, a proportion of the debt purchased to raise the equity value is carried with the business to the new owner. This business model, largely funded with superannuation and pension fund allocations, has been hugely successful for the private equity firms and for their superannuation and pension fund investors. However, acquisition churn does not by itself result in an increase in productive activity and creation of surplus value.

The restructuring of business by private equity firms is not primarily aimed at improving the long-term productive performance and sustainability (and hence capacity to create additional surplus value), though this may be a secondary outcome. Rather, the aim is to restructure management to procure a different dividend payout policy for the private equity owner, to improve equity or resale value and where an initial public offering (IPO) is intended, to extract management fees. One popular means by which these sorts of outcomes are achieved is by reducing labour costs in the companies owned by the private equity firm – in the form of reduced employment levels, increased employment insecurity and or reduced remuneration levels. In some cases, it has been achieved through outright theft of wage and superannuation entitlements and tax avoidance.

Wage theft in private equity has been exposed by the US Private Equity Stakeholder Project (2021). Its recent report documented systematic wage theft at fast food companies owned by private equity firm Roark Capital Partners, such as Dunkin' Donuts, Jimmy John's, Sonic Drive-Ins, and others. It reported that, since 2010, there have been more than 450 investigations by the US Department of Labor (DOL), resulting in Dunkin' Donuts being ordered to pay over US$1.5 million in back wages to over 3,600 of its workers for its minimum wage and/or overtime violations. Other companies owned by Roark Capital – Jimmy John's, Sonic Drive-In, Jamba Juice, Buffalo Wild Wings, Arby's, Hardee's, and Carl's Jr – have also paid out millions of dollars for minimum wage and overtime violations.

An example of a private equity firm in which some Australian superannuation funds remain invested is Archer Capital. It previously owned Aerocare, an airline services provider which was the subject of a strong industrial and capital strategies campaign by the Transport Workers Union and Australian Services Union due to its violations of labour standards at Australian airports (also predominantly owned by superannuation funds). Archer Capital also owns Allity, an aged care provider. In a report prepared by the Tax Justice Network for the Australian Nursing and Midwifery Federation (ANMF 2018), Allity was found to be engaged in tax avoidance practices, while at the same time receiving large government subsidies. Archer Capital also previously owned Craveable Brands, the operator of franchise brands Red Rooster, Oporto and Chicken Treat. The franchisees of these brands were among the most vocal in calling out the unfair business practices of Craveable Brands, as franchisor, in the Australian Senate's 2018 inquiry into the Franchising

Code of Conduct. Franchisor business practices are the impetus that leads franchisees to turn to wage theft and other illegal labour and employment practices to maintain small business profitability.

Similarly, superannuation fund allocations to debt securities do not directly help firms to raise capital and grow – to produce goods and services and hence, surplus value. Debt securities function more as an instrument to redistribute taxes across generations than to allocate capital from savers to borrowers (McKinsey 2010). The stock of debt securities increases through issuance of government debt and through increased issuance of private debt by businesses and financial institutions, without a direct link to underlying GDP. For example, if a person buys a house with a mortgage that the bank funds through issuing a mortgage-backed security (MBS), the net result is that an investor who bought the MBS has provided funding to the person who bought a house, without any underlying increase in GDP (McKinsey 2010: 46).

Superannuation and pension funds are further extending the financialisation of economies through the various means discussed above. The method by which they secure 'returns' is through the extraction of economic rent, rather than though creation of surplus value. Furthermore, the investment allocations of superannuation and pension funds are clearly very heavily weighted towards non-productive activities in the economy – such as share ownership/trading, private equity and securities – and not to productive activity in the economy.

Most mainstream economists did not see a problem with the astronomical growth of finance capital (relative to industrial capital) in the immediate period preceding the 2008 financial implosion. Indeed, not long before the market crash, these economists were cheerfully predicting that there would be no more major crisis of capitalism because 'creative financial innovations', usually designed by asset managers, had essentially insured the market against risk, uncertainty and crash (Hossein-Zadeh 2016).

In the wake of the crash, some neoliberal economists blamed the 'irrational behaviour of economic agents' while Keynesian economists blamed 'insufficient government regulations', as Hossein-Zadeh notes, but the Marxian theory of financial instability (and of economic crisis in general) digs deeper. It focusing on the dynamics of the capitalist system that fosters both the behaviour of the market agents and the policies of governments. It helps us to understand the 2008 financial meltdown, for example, as the logical outcome of the over-accumulation of financial capital relative to the aggregate amount of surplus value produced by labour in the process of production.

Marx characterised this subtle transfer of (real/labour) value from productive to unproductive fictitious capital as ‘an extreme form of the fetishism of commodities’ in which the real, but submerged, source of surplus-value is concealed. By ignoring this insight and embracing finance capital, superannuation and pension funds join the host of other forces responsible for contributing to finance market instability, for rising income inequality, for the declining share of national income going to labour and for the acceleration in the pace of change in employment arrangements and work organisation to the detriment of labour. These latter factors are contributors to a weakening of trade union density, organisation and power, and to a declining share of income going to labour.

Financialisation, inequality and social costs

There is growing awareness that the effects of financialisation and the growth of the finance sector may be detrimental from the perspective of inequality. A previous article in this journal (Peetz 2018) has identified the connection between the decline in the labour share of national income and the changing power relations between labour and capital resulting from financialisation. Peetz analysed the rise or fall of the labour share in growing and declining industries and found that the decline in the labour share was most extreme in the financial sector, the fastest-growing industry sector in the Australian economy. Peetz concluded that the widely recognised shift in income from labour to capital is really a net shift in income from labour, and from capital in other industries, to finance capital.

Other macroeconomic implications result partly from the impact of the growing structural economic imbalance in the composition of the economy, to the extent that this adds to the public cost of carrying the rising debt burden (interest, amortization and penalties) as well as regulatory costs[1]. Such effects tend to reduce the demand for commodities by absorbing a growing component of disposable business and household income. This leaves less to be spent on goods and services, causing gluts

[1] Note that the 10 largest investment banks globally paid US$9.79 billion in fines during the first 8 months of 2016 alone (Financial Times 2016).

that lead to crises in which businesses scramble to maintain profitability and, if failing to do so, start laying off workers which causes a downward economic spiral. In this way, finance capital can be antithetical to the expansion of profits and tangible physical capital investment (Hudson 2015). Other costs include the cost to society resulting from lower tax revenues and increases in the cost of capital for production.

A Bank of International Settlements (BIS) working paper also found that the growth of a country's financial system drags down productivity growth and reduces real growth, concluding that this results from the financial sector competing with the rest of the economy for resources (Cecchetti and Kharroubi 2015). These BIS authors also found that credit booms harm those sectors of the economy that are regarded as the engines for growth, like manufacturing that are more research and development (R&D) intensive. Cheap money (credit) is diverted to property and asset accumulation where rent can be extracted.

This journal has also recently published an article that points to structural underpinnings of the problems of inadequacy, inequity and risk in Australia's superannuation system (Broomhill *et al*. 2021). Some of the latter concerns reflect defects in the system's design, but the underlying political economic tensions need consideration too. My argument here is that the deeper explanation lies in the fact that the 'profit' from finance capital derived from the financial exchange facilitated by financial sector service providers, like banks and asset managers, does not come from creation of surplus value but from a rent on the exchange itself, such as an interest rate or a fee for service. In effect, an interest rate is a fee for the service of matching a lender and a borrower – nothing is produced by that exchange itself. While it may aid the return on capital for any one institution, is does not add to the overall productive capacity of the economy.

The differentiation between surplus value creation and rent extraction is at the heart of this issue. Yet it is not readily apparent because of the way national income or GDP is conventionally measured nor in the way that 'economic growth' has come to be regarded as the core measure of economic performance. National income is measured using a different notion of value to that adopted by the classical economists. The national accounts are built on the theory of exchange, which says that value is the market price, which is determined by the behaviour of (allegedly) rational and fully informed consumers interacting with suppliers of products in competitive markets – the higher the price, the greater the value of a product or service. Political economists have often pointed to the absurdity of such forms of valuation that ignore broader social and environmental costs.

The effects of cost-shifting have also to be considered. As the relative size of the value adding (productive) sector of the economy reduces, there is a corresponding pressure on capitalists in the productive sector to find ways to reduce the costs of labour to maintain profit rates, which is particularly important for being able to attract new capital. Hence the shift to labour-replacing technologies, to new forms of work organisation, to non-standard employment models and for lobbying of governments by capitalists to further regulate the labour market.[2] Recent work explaining how finance is increasingly dominating workers and households (Bryan and Rafferty 2018) has posited the transference of risk to workers and households as a key dimension of modern capitalist strategy.

Notwithstanding that this process of value extraction has delivered positive results for superannuation and pension fund beneficiaries by increasing their retirement savings, it has come at a big price for workers generally. The question is this: is such an outcome inevitable, or are there strategies whereby both beneficiaries and workers could simultaneously gain from superannuation and pension funds pursuing different investment approaches?

Response strategies for the labour movement

One immediate challenge for the labour movement is to transfer the investment of workers' capital away from rent-seeking and value extraction to financing the means of production and value creation under a socialised model for economic development and sustainability. Financing a just transition to a more ecologically sustainable economy is an obvious focus (Stilwell 2020). This requires increased pressure on

[2] The popular notion is that capitalists want to deregulate the labour market and trade unions want to regulate it. The reverse may be closer to the mark. What capitalists actually want is stronger regulation – greater restrictions on the right to withdraw labour, restrictions on the right to participate in decisions impacting on work and employment, restrictions on what can be included in collectively bargained agreements, etc. What unions and workers actually want is deregulation – much less limitation on the opportunity for labour to exercise and enjoy their ILO Labour Convention rights.

governments to adopt and implement transformative economic policies of this sort, reducing the influence of finance capital through new approaches to corporations and superannuation law, and promoting productive capital formation.

Pursuing such a transformation is also partly within the power of the trade union nominated trustee directors on superannuation and pension funds, working in partnership with fund members, the working class and its institutions more broadly. There are no technical or legal barriers that prohibit trustees from changing course. Indeed, trustees have a fiduciary duty to change course when facing changed economic conditions or global catastrophe: otherwise, they should incur the wrath of the millions of workers for whose wealth they are collectively responsible. As the COVID-19 crisis unfolded, governments once again provided publicly funded instruments to support bank liquidity, with only light-touch conditionality around corporate governance and executive salaries. However, they did nothing about the directionality of their lending or lending practices, allowing the continuation of rent-extraction to the detriment of surplus value creation. This perpetuates the falling share of wealth going to labour and the further undermining of public sector activity. Change should be an imperative when workers realise that finance capital is impoverishing their economic and social wellbeing.

Trustee directors on superannuation and pension funds have at their disposal a range of investment strategies to make significant change towards the required transformation. These operate on both the demand and supply sides. On the demand side, there is a need for capital to support the start-up, growth (particularly to secure a place in global value chains) and sustainability of the thousands of small enterprises that play a role in the supply chains contributing to the production and distribution of goods and services (broadly, advanced manufacturing) to meet societal needs. These firms will need assistance (through a new industrial policy) to modernise and move into high-value production to improve their capacity to create surplus value and to ensure their survival and sustainability.

On the supply side, workers superannuation savings has the potential to become an increasingly important source of capital as co-investment with public capital to meet the capital requirements of the productive sector of Australian industry. This implies: (a) the need for transformation in the deployment of workers capital to create surplus value, where funds under management (FuM) are growing rapidly; and (b) the alignment of values between industry development and good jobs on the one hand and the fiduciary duty that obliges workers' capital to be invested in the interests of beneficiaries on the other.

Some of the available strategies include:

- In the equity asset class - to shift investment strategy from minority share ownership and share trading to strategic majority stakeholdings in the productive sector of the economy, and imposition of cooperative/participative governance models in those majority owned firms.
- In the private equity asset class – to shift allocations to those private equity firms, with a not-for-profit business model, that purchase poorer performing companies in the productive sector, including essential service provider companies, and provide management and capital support to sustainably grow those companies, reduce debt and transform management and governance structures.
- In the venture capital asset class – to shift investment to those venture capital firms that focus on innovation/commercialisation that can help build the small capital sector where future high skilled jobs are likely to emerge.
- Taking control of asset management in-house (provided executive salaries are controlled) and by-passing/eliminating rent seeking asset management firms.
- Working with government to return privatised public services, especially those that deliver services that are a human right, back to majority public or cooperative ownership (at the original purchase price); and simultaneously introducing cooperative and participative management and governance structures.
- Adoption of new company management models, including worker self-management, to democratise workplaces under a charter to deliver surplus value for reinvestment, including in R&D that repositions these companies at the frontier in the knowledge age.
- Support the establishment of a political economy finance academy to train and educate a new cohort of trustee directors, trade union officials/delegates/workers, finance sector managers; as well as public servants in the economic and social portfolios of government, with a focus on financing investment in productive activity and on socialised retirement income vehicles.

In parallel, trade unions could campaign for and organise around:

- A transformation of the role of the state and its institutions, including the priority for establishing in Australia a national industrial transformation agency (NITA) and a superannuation investment agency (SIA) as a first step (Pickette 2019), guided by a mission-based new industrial policy.
- Building coordinated civil society social movements alongside trade unions, embedded in communities, to collectively provide the bedrock for helping define and sustain citizens' rights and needs, and to hold the state accountable.
- A phased nationalising and democratising of the banking sector (commencing with the challenger banking sector that is in many cases already operating on not-for-profit principles), with a corporate investment charter to support and nurture the productive sector, as a lender of first resort, based on sustainable investing principles.
- Ensuring the social capture of benefits from new technologies such as automation, artificial intelligence (AI), big data and the 'Internet of things', *i.e.* ensuring new technologies are instruments for social and financial emancipation (value creation), not instruments to deepen financialisation (value extraction) (World Economic Forum 2018).
- Prohibiting further privatisation of social and community services and restoring essential services (those that a considered a human right – education, health, water, household energy for cooking and heating, public transport, communications) as publicly provided services. This needs to include a prohibition on privatisation or outsourcing of public service policy advice.
- Restructuring corporation law governing finance sector actors, aiming to eliminate rent-seeking finance vehicles and to reframe corporate governance on transparent and democratic principles that facilitate the creation of new relations between the owners of capital, the controllers of capital, and labour; and reframing competition policy to promote cooperativism and collaboration.
- Taxation of rent as well as profit, and introduction of a global financial transactions tax.
- Tax and industrial policy support for productive capital formation that supports missions for sustainable advanced industries linked to

national and global value chains delivering goods and services to satisfy human needs; and providing quality jobs.

- A shift in trade and foreign policy towards strategic economic, trade, capital and labour alliances, particularly with the emerging economies and other economic clusters with strong central economic coordination, and within a charter to seek commitments to demilitarisation, observance of human rights, equality and sustainability.

Conclusion

The continuing allocation of superannuation and pension fund capital to finance sector rent-seeking activities, where economic value is extracted rather than created, is expediting the financialisation of economies and sapping their productive capacity. As Marx described it, this is parasitic behaviour. The effect is a squeeze on the amount of industrial capital allocated to productive activity where surplus value is created. The consequences are capital misallocation, reduced access to bank capital for SMEs, lower multi-factor productivity, and downward pressure on labour costs as industrial capitalists seek to maintain profit levels. In these circumstances, industrial capitalists predictably seek ways to maintain levels of surplus value by tying to reduce the price of labour (wages) and the ability of labour to engage in collective action to maintain their labour power (meaning their contribution to the productive process, not to be confused with industrial power).

In this environment workers have reduced capacity to restore or expand their labour power by purchasing the requirements to provide their capacity to work (such as food, shelter, transport, education and communications). This causes further reduction in the aggregate demand for the very goods and services they produce. This is the vicious cycle of wage stagnation that the Australian economy, and others, has experienced during the last decade. While it is not wholly attributable to the role played by finance capital, measures such as the share of national income going to labour versus the share going to capital, and to the financial sector in particular, provide a window into this interconnected set of political economic relations. They also take us to the heart of the problem of growing income inequality.

These fundamental political economic problems and challenges may have been temporarily pushed aside by the advent of the COVID-19 pandemic and its economic impacts. However, the behaviour of the financial system, including that of the superannuation and pension system, has revealed yet again that the notions of profit, value and the role of the state need radical transformation. A deeper understanding of the root cause and transmission of pandemics can come from study of the natural barriers to pandemics in nature and ecology, which capital is destroying, and the tendency towards monoculture in food production that has been encouraged by capital. The state's capacity to respond in the interests of its citizens (rather than the interests of corporations) and the allocation and role of capital are similarly critical issues that have been highlighted and need to be addressed.

The contradictions of capitalism are being starkly revealed to the global citizenry. They are manifest as inequalities both within and across nations, the misallocation of investment in the health sector of the economy and the contradictions of the finance market that are exposed for all to see. Meanwhile, people in the working class have played a heroic role as front-line responders and in critical supply chains, while many not in front line roles have been without enough work and sustainable incomes (particularly those across the globe in the informal economy who have little or no regular income). Simultaneously, private corporations and businesses have been rewarded with transfers of public finance without adequate conditionality, dressed up as employment sustaining initiatives.

Can the political left develop, articulate and win widespread support for a strategic response – a program of achievable and staged actions - that prevents a return to the *status quo* and addresses the fundamental contradictions of capitalism as we emerge from the pandemic? Workers' capital and how it is managed is particularly important in this context. Trustee directors on pension fund governance bodies are responsible for setting the investment strategy of their superannuation and pension funds, as part of their fiduciary duty. They have within their trustee power the capacity to change the way their superannuation and pension funds allocate capital - to be undertaken as a collective task alongside the trade unions that nominate them for their trustee role. If superannuation and pension funds are to responsibly invest that capital in ways that promote equality and restore both labour capacity and industrial power, they should shift capital away from rent-seeking value extraction to productive value creation. It *can* be done and there is a fiduciary duty to do so.

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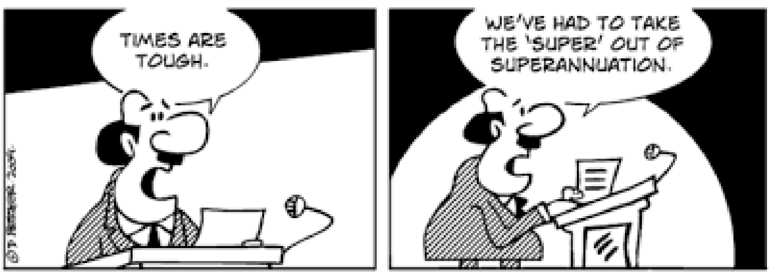

THE RISE OF FOSSIL FUEL AUTHORITARIANISM IN AUSTRALIA

Finn Bryson

The past decade has been marked by an unprecedented politicisation of fossil fuel extraction in Australia. Successive Australian governments have built their mandate upon fossil-fuelled ambitions to be a global 'energy superpower' (Rosewarne 2016), constructing fossil fuel accumulation strategies that are now deeply engrained in Australia's political institutions. Facing this situation, activists have sought to stymie capital's state-sponsored access to Australian fossil fuel reserves: actions have included First Nations peoples' resistance to coal and gas extraction, the co-ordinated exercise of consumer power via primary and secondary boycotts, and strikes. Unsurprisingly, state actors have attempted to quash these emerging challenges. Indeed, it is possible to identify an increasingly authoritarian character in recent measures to 'crack down' on opponents to fossil fuels. Australian governments – working in conjunction with fractions of capital committed to fossil fuel projects – are seeking to silence civil dissent by, for example, criminalising an ever-growing number of activities of civil society groups, outlawing the consideration of environmental concerns in planning processes, and disciplining investigative journalists via punitive policing and legal techniques.

This article argues that the Australian state is taking recourse to authoritarian practices in order to manage crises of capitalist socio-ecological governance. It shows that, while the 'authoritarian fix' (Bruff 2012: 114) serves to prolong fossil fuel accumulation strategies, it results in a simultaneous deepening of the political crisis of legitimacy for neoliberal socio-ecological governance. This analysis is developed by using both ecological Marxism and the concept of authoritarian

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neoliberalism to understand the relationship between the Australian state and fossil fuel capital, using Adani's Carmichael mine as a case study.

The argument is developed in two stages. The first engages eco-Marxist theory to map the relationship between the Australian state and fossil fuel capital, both in general terms and in the specific case of Adani's Carmichael mine. This allows us to identify the parts of the state form where authoritarian governance of the fossil fuel industry is emerging, and upon which environmental struggles are focussing their dissent. The second stage considers the shape of the 'fossil fuel authoritarianism' characterising Australian governance. It notes that the declining quality of natural resources, alongside intensifying protest activity, has increased costs for fossil fuel capitals like Adani, feeding into a crisis of underproduction which the state is mobilising to resolve. Because the elements of the state that support fossil fuel capital have become objects of increasing social contestation, state actors have increasingly resorted to authoritarian practices to reproduce fossil fuel accumulation strategies.

The article examines how these authoritarian practices have been carried out – and resisted – in four key spheres:

- The subversion of Native Title processes in the relationship between Adani and traditional owners;
- The erosion of environmental regulatory and planning processes as key sites of democratic input into environmental governance;
- Interventions to silence community opposition by restricting dissent to and information about fossil fuel projects;
- The re-direction of fiscal support for Adani through techniques of secrecy and obfuscation.

Left political parties appear systemically bound to offer only slightly differentiated policy platforms, failing to cohere around a strategy for a just transition away from fossil fuels. Yet in this void, progressive voices are finding space to call for radical alternatives, some of which may hold the promise of genuine democratisation of environmental and economic governance. The concluding parts of this article explore these more progressive possibilities.

Authoritarian neoliberalism, ecological Marxism, and the climate crisis in Australia

Since the emergence of neoliberalism, political economists have reflected on its authoritarian dimension as in the dual notion of the 'free economy and the strong state' (Gamble 1988). More recently, some political economists have posited the rise of 'authoritarian neoliberalism', involving 'the state's reconfiguration into a less open and democratic entity' in order to manage capitalist crises in a context where dominant neoliberal governing strategies have lost their legitimacy (Bruff 2014: 116; Tansel 2017). 'Authoritarianism' here refers to the 'active practice of disrupting or sabotaging accountability', following contemporary political science analyses of authoritarianism (Glasius 2018: 521).

Why, in the face of intense opposition, has the Australian state taken recourse to authoritarian practices to safeguard fossil fuel capital from active dissent? Unlike the countries studied in the existing authoritarian neoliberalism literature, Australia's economy escaped the calamitous effects of the post-2007 economic crisis that engendered a collapse of legitimacy for other neoliberal governments (Bruff 2014). Australia's economic position following the crisis was seen as evidence of the success, rather than failure, of state economic management.

The same cannot be said of Australia's scorecard on environmental governance. Decades of neoliberal environmental policy have presided over plummeting biodiversity, the degradation of some of Australia's most cherished natural wonders, and most recently to federal climate policy being described as 'embarrassing' at the COP26 international climate summit in Glasgow (Morton 2021). In Europe, authoritarian neoliberalism has sought to quash popular opposition to reforms that privilege capital in general at the expense of labour in general. In Australia, on the other hand, I argue that the most prominent examples of authoritarian statism *seek especially to discipline opposition to state support of fossil fuel capital*, at the expense of nature and its life-giving capacities.

Ecological Marxist writing can help understand the specific nature of the crises spurring authoritarian neoliberal governance in Australia and the role of the state in managing these crises. James O'Connor's (1991) theory of the 'second contradiction of capitalism' provides a framework for understanding the tendency of capital to engender economic crisis by degrading its own 'conditions of production' – those things such as accessible nature, labour and large-scale infrastructure that are crucial inputs to production but that capital cannot produce independently. Due to its tendency to degrade nature and the resulting social opposition, fossil fuel capital in Australia faces rising costs that are culminating in a crisis of underproduction, which the state is called upon to resolve by extending economic and extra-economic support to the industry.

Ecological Marxist writing on the 'environment making state' (Parenti 2015) sheds light on the particular aspects of the Australian state that reproduce fossil fuel accumulation strategies. The authoritarian changes implemented to protect the fossil fuel industry do not emanate from a monolithic state with final authority, but are uneven processes contested by different branches of the state and by civil society actors. Indeed, here 'the state' refers to a series of relationships between institutions, actors and practices that are connected to social and economic relations, and only ever relatively unified.

Eco-Marxist theory explains the forces driving the state to mobilise in support of fossil fuel capital and illuminates how this support is carried out. Yet it does not provide a complete framework for understanding the contested reproduction of current accumulation strategies. To see how insights from eco-Marxist scholarship can be used in tandem with authoritarian neoliberalism theory, it is useful to introduce a major case study where these elements intertwine.

Adani's Carmichael mine

The Carmichael coal project was constructed by the Indian-owned Adani Australia[1] (henceforth, 'Adani'). It spans from the Adani Abbot Point Terminal port on North Queensland's Whitsunday coast, through Central Western Queensland via a 189-kilometre rail link, to the site of the mine in the Northern Galilee Basin. The mine is expected to be the 'icebreaker' that defines the tax and regulatory terms of engagement for mining projects in the wider Galilee basin. Nine mega-mines have been slated for the region, but only Adani's Carmichael mine has secured infrastructure

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[1] On 5th November 2020, Adani announced it would rename its Australian mining division 'Bravus'. The better-known name 'Adani' is used in this article as is accurate for the period of analysis. The name change can be seen as part of a strategy to obfuscate information about the project, as discussed later.

and approvals to start construction. The proposed mines for the region could produce up to 330 million tonnes of coal a year – when burned, the carbon emissions produced would make the Galilee Basin the 7th-largest global emitter, if it were considered a country.

Yet, the grand development ambitions for the Galilee Basin are facing significant challenges, with the abandonment of plans for several major mines and regional rail infrastructure. Numerous studies have suggested that, given dire market conditions for coal exports, many of the proposed Galilee basin mine projects are highly likely to become 'stranded assets' if they are built (Lucas 2016). In this context, many Australians view the imminent energy transition as a done deal, as a growing group of businesses advocates for accumulation strategies supporting renewable energy capital over fossil fuels (Murphy 2020).

As if to defy this prognosis, state actors have taken recourse to an 'authoritarian fix' (Bruff 2012) to secure the short-term economic viability of Australia's institutionally-embedded fossil fuel accumulation strategies. State support has made Adani's Carmichael mine impervious to increasingly negative market signals for fossil fuels. However, when considered in light of O'Connor's theory, this reliance on state support is also a vulnerability. Activism surrounding the Carmichael mine has targeted key lifelines of state support, contributing to significant delays and a reduction of the project's initial phase by more than 80% in terms of output (Morton 2019). Indeed, the relationship of authoritarian governance and the dissent it seeks to manage is dialectical, as the state tends to become 'an increasingly direct target of a range of popular struggles, demands and discontent' in the process, necessitating further authoritarian interventions to maintain hegemony (Bruff 2016: 108). By interrogating this tension, we may begin to assess the prospects for building a more democratic, participatory ecological politics, both through the state and outside it, in community organisations and workplaces.

The conatal origins of Australian fossil fuel capital and the settler colonial state: an ecological-Marxist perspective

The historical development of Australian fossil fuel capital, alongside the subjugation of Indigenous people, are imbricated in the development of *world* capitalism through colonisation. An eco-Marxist analysis of the relationship between capitalist value and nature helps to explain the drivers of Australia's past and present socio-ecological crises.

The invasion of 'Australia' facilitated the appropriation of cheap, uncapitalised nature required for the expansion of British industrial production. According to an 1850 editorial in the *Economist*, 'the colonies are of less importance to us [Britain] as consuming our manufacture than as supplying us with raw produce, and affording a large field where our surplus population may both provide for themselves and minister to the wants of people at home' (cited in Goodwin 1974: 31). This reflects the understanding of eco-Marxists like Moore (2011: 30) who explains that 'capital's great need is for low-cost energy, food, and raw materials', as these increase labour productivity without increasing capitalisation by enabling a larger amount of natural resources to attach to a given unit of capital. For instance, coal was exported from Australia to India promptly after the first reserves were mined in the colony because of the particular productivity bonus associated with using energy-dense fossil fuels in commodity production (Huleatt 1981). In this way, colonisation has stemmed the tendency for the rate of profit to fall, serving as a 'spatial fix' for capital (Harvey 2001).

Capitalism relies for its reproduction on the continual appropriation of the unpaid work of 'women, nature, and colonies' (Mies 1986). After refusing to acknowledge Aboriginal sovereignty over the land and declaring it '*terra nullius*', the British entrusted to the Governor the responsibility of distributing the 'Crown lands' to facilitate accumulation by dispossession on a grand scale, often forged through the violent massacre of traditional owners and supported by border police forces who protected settler economic operations (Echo Hawk 2010). By the time of the 'retreat from Empire', the fortunes of the Australian settler state were already entwined with the supply of cheap food and energy to fuel British industrial expansion. Thus, the emergent imperatives of capital accumulation bled beyond British national boundaries, incorporating Australia into a global socio-ecological metabolism through colonial violence. This is the conatal origin of Australian fossil fuel capital and the settler state.

Fossil fuel accumulation strategies and the 'environment-making state'

Today, the Australian state conducts a wide range of activities to support capital accumulation through fossil fuel extraction. The political and fiscal 'success' or legitimacy of a capitalist state is a function of how well it manages the process of economic development, which must be forged through collaboration between state and private actors (Harvey 2010: 197). State actors commonly seek to advance 'accumulation strategies', or growth models, that will achieve 'differential accumulation', i.e. above-average competitiveness and profits, in order to attract and retain global investment (Jessop 2016: 58).

State support for the differential accumulation of mining projects includes diesel fuel subsidies, free water allocations, government-funded rehabilitation of retired mine sites, and specially-negotiated tax concessions such as 'royalty holidays'. Estimates suggest this support costs governments $29 billion per year nationally (Coady *et al.* 2019).

This drives a regime of capital accumulation based on the appropriation of unpaid units of work/energy represented in the solar irradiation that has been condensed through the compression of living matter over billions of years to form fossil fuel deposits. In Moore's (2011) terms, the Australian extractive development strategy relies on unlocking 'frontiers of appropriation' like the Galilee Basin coal deposits. The attachment of large amounts of unpaid work (*i.e.* nature) to each unit of capital is key to the differential accumulation achieved by the Australian fossil fuel industry.

Yet, fossil fuel accumulation relies on natural resource inputs, which capital cannot produce. Nature ('land') is a 'fictitious commodity' (Polanyi 1944: 72). To produce it as a commodity available to capital requires state intervention. Before fossil fuel extraction can be planned, the state must make nature 'legible' by 'encasing it within the techno-managerial apparatus of administration, science, and governance' (Parenti, 2015). State departments conduct a significant portion of exploratory work for mining in Australia, consisting of interpreting and mapping of regional geology, and translating this data into opportunities for extractive industry.

The Australian state also provides land for extractive operations through the coercive *Native Title Act* of 1993, which reserves the ability of the state 'to divest land rights unilaterally, without consent or recompense' (Strelein 2005: 260). Mining companies regularly use the implied threat of extinguishment to secure a nominally voluntary Indigenous Land Use Agreement (ILUA) by creating divisions in Aboriginal communities between those wanting to protect sacred places and culture, and those pursuing economic windfalls and employment opportunities.

In order for fossil fuel capital to flow through sites of extraction, electricity production, and distribution, states must ‘open space with roads, railways, and ports, which are based on the scientific knowledge, good credit, and direct investment of public agencies' (Parenti 2015). Australian governments have agreed to provide infrastructure under favourable terms in order to secure mining investment in the Galilee basin. The Queensland government spent nearly $2 billion establishing and developing the Abbot Point Special Development area to ‘open up’ the Galilee basin to coal mining as a new frontier of accumulation (Campbell 2015).

One of the lynchpins holding Adani’s Carmichael mine project together is the fusion of Indian and Australian development strategies (Rosewarne 2016). A key pillar of India’s energy security strategy is Adani’s vertically-integrated supply chain involving coal extraction; transportation by rail and sea freight; power generation; marketing and distribution of electricity to Indian consumers; and even other energy-intensive industrial ventures such as steel production. This plan rests on a guaranteed supply of low-ash high calorific value coal – enter the Carmichael mine. Adani is not concerned with whether the Carmichael mine makes a profit or not. Instead, Adani’s CEO suggests that the mine is a ‘strategic fit’ for the company’s vertically-integrated supply chain (McKenna 2015). As a territory governed by state architectures that routinely support fossil fuel capital, Australia is certainly a strategic choice for Adani.

The differential accumulation achieved by fossil fuel capital in Australia has relied upon attaching greater amounts of unpaid work/energy to each unit of capital. However, the ongoing degradation of the means of life in this process has spurred a crisis born of the second contradiction of capitalism (O’Connor 1991) now facing fossil fuel capital. Analysing this crisis requires consideration of both processes of accumulation and legitimation – the twin requirements that O’Connor identifies as essential for maintaining economic and social order in capitalism.

Legitimising destruction: ‘jobs vs. the environment’

To be perceived as legitimate, accumulation strategies need to be convincingly articulated as in the ‘national interest’, and in the interests of a reasonable number of other capitals (Jessop 2016). Hegemonic projects such as Adani’s Carmichael mine must be legitimised in prevailing discourses to justify state support.

A key strand of the discourse justifying state support for fossil fuels is the ‘jobs vs. environment’ narrative, which highlights an alleged antagonism between environmental protection and economic development. Fossil fuel lobby groups have been some of its key proponents. But it is also promoted by networks of politicians, such as the Monash Forum of Coalition backbenchers, formed in 2018, which managed to secure state support for new fossil fuel extraction and coal-fired power generation projects after helping to install Scott Morrison as Liberal party leader and then Prime Minister. Support has come not only in financial form, but in extra-economic measures including restrictions on protest designed to insulate fossil fuel industries from democratic resistance.

Campaigns emphasising the potential economic cost of climate action were particularly prominent in the lead up to the 2019 federal election. Industry-funded minerals lobby groups organised pro-coal ‘go Galilee’ rallies and erected misleading billboards about the threat to Queensland jobs to encourage major parties to adopt fossil fuel-friendly policies. Meanwhile, one of the key owners of mining rights in the Galilee basin, Clive Palmer, launched a campaign bid worth $60 million in advertising alone, which, while unsuccessful electorally, was a major factor in the success of pro-coal candidates.

The ‘jobs vs. environment’ narrative is also supported by a fraction of labour that considers itself coal-dependent, primarily represented through the structural input of the mining division of the Construction Forestry Maritime Mining and Energy Union (CFMMEU) to the Australian Labor Party (ALP). Leading-up to the 2019 election, the CFMMEU made its endorsement of ALP candidates in marginal Queensland seats contingent on their support for the Adani Carmichael mine. The failure of the ALP in coal-dependent seats spurred internal disquiet, including the alleged formation of a group of ministers trying to steer the party towards coal-friendly policies, dubbed the ‘Otis Group’. After securing explicit support for the Adani mine from federal ALP leader Anthony Albanese, the mining division of the CFMMEU repeated its power-brokering approach with state ALP candidates in the lead-up to the Queensland state election.

Australian fossil fuel capital accumulation strategies have marginalised some other capitals. Renewable energy capital has suffered as the Monash Forum has blocked renewable energy targets in order to hamstring competitors to fossil fuels, for example. Meanwhile, communities based on Great Barrier Reef tourism – which historically has employed more people than the entire coal industry in Queensland – have sounded the alarm at the environmental and climate impacts of fossil fuels, which directly jeopardise the industry (The Australia Institute 2016). It is important to note that the state could secure capital accumulation by supporting other capitals instead of fossil fuels. The form of the state is not pre-determined by its functions. Rather, it is always subject to negotiation and contestation. The vacillations of the Queensland state government on questions of support for the Carmichael mine reflect increasing pressure from growing sections of the community, civil society and businesses that consider state support of fossil fuels to be against their interests. The remainder of this article will examine how the state has navigated its relationship with fossil fuel capital in the context of this shift.

The ‘second contradiction of capitalism’ and the rise of fossil fuel authoritarianism

O’Connor’s (1991) theory of capitalism’s ‘second contradiction’ can illuminate the economic crisis tendencies facing the fossil fuel industry in Australia, which form the impetus for authoritarian interventions by state actors. As fossil fuel capital depletes Australia’s most favourable resource fields, production costs rise as capital flows turn to less advantageous coal reserves. Adani’s Carmichael mine, for instance, will be further from export facilities than almost all other Queensland mines, requiring the haulage of coal along 189 kilometres of rail to coastal ports. Galilee Basin coal reserves are covered by an average of 74 metres of overburden – the mining industry term for earth that lies above an area that is propitious to economic development. This means Galilee coal is between three and ten times deeper than presently developed seams such as those of the Bowen basin. In this context, securing favourable regulation and support from the state represents one of the few reliable ways that fossil fuel capital can improve the value proposition of investments.

From another angle, 'anti-development activism' has been singled out by the Federal government as a 'continuing challenge for resources development' (Department of Industry and Science 2015). In Queensland, for instance, environmental activists have leveraged consumer boycotts and campaigns targeting brand reputation to persuade a suite of major Australian and overseas banks to rule out funding Galilee coal projects like Adani's Carmichael mine (Lucas 2016). Community pressure has at the same time restricted the state's ability to provide funding to Adani, as detailed in later sections of this article. These developments have the combined effect of raising the cost of finance for fossil fuel capital and thus threatening differential accumulation in the industry. Furthermore, community opposition has 'used the courts with devastating effect', forcing Adani into lengthy and expensive legal battles (McCarthy 2020). This politicisation of key state processes governing access to nature massively increases project start costs and heightens the already-significant risk of an underproduction crisis. It increases the need for government subsidisation to ensure the completion of half-constructed projects and the valorisation of invested capital.

The evolving global energy market presents another challenge to fossil fuel capital. Demand and prices for Australian fossil fuels such as thermal coal are steadily decreasing as many countries seek to reduce greenhouse gas emissions. The severity of this threat comes from the fact that when 'capitalists purchase fixed capital, they are *obliged to use it* until its value (however calculated) is fully retrieved' (Harvey 1982: 220). Fossil fuel companies have included in their asset calculations vast unused fossil fuel reserves over which they have extraction rights, as well as mines and energy generation infrastructure that is predicted to be obsolete well before originally anticipated (Lucas 2016). Whether or not these assets become 'stranded', and therefore whether shareholders' stakes must be devalued, depends in large part on the level of state support that can be secured to bail out failing enterprises or render marginal projects profitable. This explains why the fossil fuel industry has doubled its donations to the major Australian political parties in the past four years, with Adani rising from obscurity to the position of second-largest political donor within two years.

At the same time, voters, a growing number of activists, and Indigenous landowners are applying pressure on Australian governments at all levels to decrease, if not cease entirely, their support of an industry perceived to be destructive. Pressures emanating from the second contradiction of capitalism have wedged the Australian state between an immovable object and an intensifying force. On the one hand, the fossil fuel industry lobbies for support to avoid capital devaluation. On the other, the environment movement focusses growing community dissent on state facilitation of a polluting regime of abstract social nature.

O'Connor's theory of the 'second contradiction of capitalism' holds that 'crisis-induced changes in production conditions' lead to restructuring of relations governing capital's access to nature, often into forms that are *more social* i.e. that rely on greater facilitation by the state. The exact form that this 'socialisation' of production takes, and whether it creates positive or negative socio-ecological outcomes, is contingent on political struggle. I argue that in Australia this socialisation has taken the form of fossil fuel authoritarianism – a development that is nonetheless contested and unstable. To further explore these aspects we need to apply the authoritarian neoliberalism research framework to develop a historically-specific analysis of authoritarian interventions by the Australian state.

Native title as discipline: Wangan & Jagalingou resistance

One of the most important sites of fossil fuel authoritarianism and community resistance has been the dealings of Adani and the Queensland government with the Wangan and Jagalingou people, who are the traditional owners of the land on which the Carmichael mine project is being constructed. As discussed earlier, the Native Title system has routinely been used in a disciplinary fashion to coerce Aboriginal people into giving formal consent for mining developments on their land. The case of Adani is unique because a key group of traditional owners, represented by the Wangan and Jagalingou Traditional Owners Family Council, have sustained persistent opposition to the development. Their resistance has revealed the authoritarian mechanisms used to sideline the interests of Aboriginal communities through the *Native Title Act*.

Adani and state actors have systematically disregarded Wangan and Jagalingou (W&J) opposition by subverting land use agreement processes that are nominally consent oriented. Adani's first two attempts to secure an ILUA with the W&J Traditional Owners in 2012 and 2014 were voted down at authorisation meetings, while two other meetings held by the traditional owners without Adani confirmed community intentions to reject any proposal that involved compensating them in exchange for the extinguishment of their native title rights (Lyons 2019: 758). After calling in the support of the Coordinator-General, Adani held another meeting in April 2016 and obtained an ILUA. Investigations later revealed that Adani provided buses that brought many of the 343 attendees to this meeting, 200 of which were not descendants of the families party to the native title claim and thus ineligible to vote, and reportedly paid attendees 'sitting fees' of $2,500 each (Carey 2019). Adani and the Queensland government appear to have driven division and employed stacking techniques to sideline the will of Indigenous groups and secure an ILUA.

The Queensland government has resorted to moving the site of decision making outside the purview of elected representatives in order to ensure favourable conditions for Adani. In 2016, the executive branch of the state government deemed the Carmichael mine 'critical infrastructure', giving the Coordinator-General special powers to expedite the remaining planning approvals needed for the commencement of the mine's operation, and to forgo community input in decision making about the project (Lyons 2019). The role of Coordinator-General is an unelected public service position with wide-reaching powers regarding large-scale economic projects. Bestowing critical infrastructure status is a rare act, which, together with the 'Galilee Basin Development Strategy', laid the groundwork for compulsory land acquisition.

The executive branch of the state also overruled the judiciary to protect Adani against First Nations resistance. A rushed amendment to the *Native Title Act* allowed ILUAs that might have been invalidated by the Federal Court's *McGlade* decision – including Adani's – to stand. Lyons (2019) describes how state actors deliberately obfuscated the amendment and restricted opportunities for community consultation about the changes. The tendencies to merge the judiciary and the executive, while simultaneously disempowering parliament to limit economic democracy, were identified by Poulantzas (1978: 222–5) as key processes of authoritarian statism.

It is important to note that fossil fuel authoritarianism is a continuation of the ongoing expropriation of Aboriginal land since colonisation. The increased reliance on state arbitration and intervention to protect mining developments represents a recourse to authoritarian practices where Aboriginal people have challenged corrupt models of 'consent-seeking'. Authoritarian silencing of Indigenous struggle in the dispute over Adani's ILUA came to a head in 2019 when the Queensland government extinguished native title over a large swathe of the W&J lands without public announcement, using its statutory discretionary powers. The imperatives of Australia's fossil fuel accumulation strategy are producing an authoritarian sidelining of the rights of Traditional Owners.

The struggle of Aboriginal activists facing these injustices has been ongoing, achieving some important victories and igniting a broader movement against Adani. Traditional owners have won a battle to occupy a ceremonial camp on part of Adani's pastoral lease, against efforts by Adani and the Queensland government (W&J Family Council 2020). Meanwhile, challenges to Adani's ILUA have bought critical time for grassroots organising to build networks opposing the project. By highlighting the state's heavy-handed intervention, First Nations resistance has also discredited 'free market' accounts of neoliberalism that 'have a habit of essentialising states as inherently socially protective' (Bruff and Tansel 2018: 3). It has, thus, trained public attention on the state's constituent role in producing capitalist fossil fuel extraction, making this also a 'transparently social' part of the state more evidently open to contestation (O'Connor 1991). Despite a historical pattern of misunderstandings by white environmental activists, First Nations activists and environmental campaigners are forging broad networks of mutual support (Pickerill 2018; Mason 2020). While authoritarian statism may appear a show of strength, it also exposes the state's role in securing the conditions of production for capital, and can paradoxically subject the state to greater pressure from civil society and social movements.

Eroding environmental safeguards

The Australian state has sought to erode environmental regulation in a number of ways to minimise the barriers it poses to fossil fuel projects. Authoritarian neoliberal logics of regulatory reform involving the 'self-disempowerment' of democratic forums (Bruff 2014) have foreclosed democratic engagement in environmental governance.

The environmental regulatory processes that we have today are concretisations of past political contests between the state, capital and various civil society organisations, especially environmental organisations. These processes exist uncomfortably under neoliberalism. This is because they represent a form and product of economic democracy (however limited), and they carry the potential to obstruct the appropriation of nature and thus limit the rate of capital accumulation.

These protections have been used extensively by community and civil society groups fighting extractive projects in the Galilee Basin, forcing capital into lengthy delays and project re-designs, and generally contributing to the crisis of underproduction facing the sector.

Authoritarian neoliberalism in Australia is simultaneously a mode of governance and a socioecological regime. Environmental regulation - or so-called 'green tape' - now can *only* be reduced, and must be looked at 'from the perspective of business' (Morrison 2019). Prime Minister Scott Morrison moved his regulation-busting taskforce into the Department of Prime Minister and Cabinet to give it high priority and executive reach. The centralisation of political power in the executive branch of the state is recognised as a key tool in authoritarian regimes' strategic 'assaults on the norms and institutions of democratic societies' (McCarthy 2019: 303).

The state has tailored regulatory processes to support the Carmichael mine. CSIRO scientists were given just hours to analyse Adani's water plan under pressure from the Coordinator-General to reach a swift approval, even though Adani failed to provide critical information, without which the CSIRO admitted their analysis was essentially defunct. The state has also sought to remove aspects of environmental approval processes where objections would threaten approvals for fossil fuel projects. In Adani's case, changes made in 2016 to the *Water Act* 2000 (Qld) gave Adani's Carmichael mine a special exemption from being subject to a standard second window for public objection to its water license application. This shows how Australian capitalism develops *through* the continual reinvention of the society-nature totality to facilitate new frontiers of appropriation such as the Galilee Basin, such that 'the endless accumulation of capital is […] the endless commodification of nature' (Moore 2011). The weakening of environmental regulations and planning approvals is part of neoliberal legal and regulatory techniques that erode, in the name of 'economic necessity', the democratic institutional forms where social compromise has traditionally been negotiated (Bruff 2014). This has become a key method for state actors seeking to safeguard fossil fuel capital from dissent.

Dynamic struggle confronts rising authoritarianism

Where state actors have used legal and regulatory measures to erode formal avenues of democratic participation in environmental governance, dynamic and innovative protest activities have emerged to pressure the state and the fossil fuel industry. Various state actors have sought to criminalise or increase penalties for an increasing number of protest activities that previously were considered legal or incurred only a small fine, tending toward ‘the centralisation of state powers by the executive branch at the expense of democratic debate and participation’ (Bruff and Tansel 2018).

The current ALP state government in Queensland has significantly intensified policing of protest activities with little justification. In 2019, the Queensland government introduced anti-protest laws providing expanded police powers to strip search protestors without a warrant (Queensland Legislative Assembly 2019). Legislators alleged protesters were using dangerous booby traps, the only evidence of which was a single case that transpired 14 years prior. The *Summary Offences and Other Legislation Amendment Act 2019* was introduced by the state Labor government, while the Coalition opposition suggested harsher versions of the same measures. Only one MP voted against the legislation. The unanimity of both major parties on imposing harsh new laws on the basis of minimal evidence is a product of the crisis facing fossil fuel capital, which requires increasingly extreme forms of state protection precisely at the moment when the public is most opposed to these measures. Faced with a threat to the dominant accumulation strategy, the major parties have closed ranks, eroding electoral options of opposing extractive projects.

Facing a crackdown on formal means of expressing dissent, activists have developed new strategies to effect a vigilante democratisation of ecological governance. Indeed, authoritarian practices tend to engender creative forms of resistance (Bruff 2016), like those developed in the struggle against Adani’s Carmichael mine. The *Stop Adani* campaign and the NGO *Market Forces* ran large-scale campaigns that secured vows of non-involvement from all major Australian and international banks and 15 major insurers, forcing Adani Australia to seek financing from its parent company, already facing cash-flow issues. Campaigning by shareholders, staff and external environmental activists targeting engineering, construction and haulage firms forced Adani to shoulder an estimated $200 million in extra costs to set up a new rail company for the project.

The executive branch of the Federal government has attempted to curtail these practices. Prime Minister Scott Morrison commented to a Queensland Resources Council lunch that he and the Attorney-General were ‘working to identify mechanisms that can successfully outlaw these indulgent and selfish practices’ (Haydar 2019). At the same time, he asserted that people have been ‘testing the limits of the right to protest’ (*ibid*.). Morrison proposed a ban that would make it illegal to refuse to provide services to fossil fuel industry projects on the basis of ethical objections, restricting companies that may want to align their operations with the values of their customers. However, high-profile opposition from lawyers, academics and civil society actors led the government to abandon this proposal. The research framework of authoritarian neoliberalism ‘reveals that the way we live today is not inevitable because it is actively constructed by competing social forces’ (Bruff and Tansel 2018). In the same way that capital may marshal state institutions to secure authoritarian measures in its favour, civil society actors may sometimes mobilise existing institutions to obstruct authoritarian practices.

State actors have repeatedly sought to criminalise the activities of groups opposing fossil fuel projects in order to preserve increasingly controversial regimes of capital accumulation. Of course, legislators on both sides of parliament acting in lock-step to increase police powers or disempower regulatory bodies has been a feature of many neoliberal regimes, such that formulating a new, authoritarian periodisation within neoliberalism may risk ‘obscuring a broader history of authoritarianism and its contradictions’ (Ryan 2019: 116). However, a renewed focus on contemporary forms of authoritarianism illuminates precisely these contradictions, reminding us that ‘an increasingly authoritarian state is simultaneously strengthened and weakened by this shift towards coercion’ as its authoritarian interventions spur social opposition (Bruff 2014). Authoritarian neoliberalism as a research agenda helps assess the prospects for challenging authoritarian practices and securing better living conditions for marginalised communities and natures. Incorporating an eco-Marxist perspective enables the adaptation of this understanding to historically-novel forms of opposition to Australian fossil fuel accumulation strategies.

Pushing state support underground

As the fossil fuel industry loses its ‘social license to operate’ (Zhang *et al.* 2015), obfuscating state support for fossil fuels – and restricting dissent to it – have replaced more ‘normal’ consent-seeking governance in reproducing fossil fuel accumulation strategies. Large-scale surveys show that Australians are increasingly worried about climate change and overwhelmingly prefer renewable energy sources and government programs that fund them rather than fossil fuels (Blau 2020; Lowy Institute 2020). Instead, neoliberal environmental policy has expanded Australia's reliance on fossil fuels. Research presented at the COP26 climate summit revealed Australia's per capita emissions from the use of coal were higher than those of any other country (Morton 2021).

Nowhere is the legitimacy of state support of fossil fuel projects more contested than in Queensland. The 'sunshine state' is the source of over half of Australia's coal exports, yet studies show climate change is the issue that most worries Queenslanders (Blau 2020). McCarthy's (2019) argument that 'populist and authoritarian politics and regimes often arise directly from tensions between rural and urban areas' plays out in rural Queensland electorates, where the interests of communities built around fossil fuel industries have successfully been pitched against those of an alleged 'greenie' urban elite.

The polarisation of the populace on the issue of fossil fuels came to a head in the lead up to the 2017 Queensland state election. Adani came close to securing a $1 billion subsidised loan for its Carmichael mine project from the federal government, sparking community uproar on the basis that the mine did not meet the funding criterion of serving the 'national interest'. In a trial against Adani in the Queensland Land Court, Adani's claims that the Carmichael project would create 10,000 jobs in regional Queensland were ruled to be inflated seven times over actual likely jobs figures (Environmental Law Australia n.d.). High-profile campaigns and community pressure led the incumbent premier Anastasia Palaszczuk to make an election promise to veto the loan, along with any other public subsidies for the Carmichael project. The negotiation of state support for Adani's Carmichael mine illustrates that the provision of the conditions of production is an uneven, contested process.

In the absence of a clear social license for Adani's Carmichael project, the Queensland government has resorted to strategies of obfuscation and secrecy to continue supporting the mine. Normally, the social license to operate supports the 'legitimisation' of state programs (O'Connor 1973: 6) or the formation of 'hegemonic visions' that justify state support for economic projects (Jessop 2016). The state has abandoned attempts to legitimise the $4.4 billion of tax exemptions and capital subsidies it will provide Adani over the first 30 years of the project's lifespan. Instead, it is safeguarding this support through 'administrative and legal efforts to limit the social and political space for contesting those ideas/policies' (Bruff and Tansel 2018: 2). While these measures would meet most definitions of a subsidy, state actors have quietly re-structured support for Adani and denied that it constitutes a 'subsidy' (The Australia Institute 2020). For instance, following the 2017 election, the Queensland government immediately entered negotiations to allow Adani to pay no royalties on Carmichael coal for up to ten years, keeping these negotiations secret by the ironically-named 'transparent policy framework' drafted specifically for Adani. Concealing information to circumvent dissent has become a hallmark of Queensland's governance of fossil fuel capital.

The seeds of democratic alternatives

While Australia's major political parties are in a deadlock, with neither party proposing significant change to current extractive accumulation strategies, progressive voices are building support for radical alternatives. The ALP at state and federal levels has not been able to mobilise around proposals for a just transition for workers, which could cut through fears about fossil fuel job losses by proposing a planned and orderly re-training and employment program as an alternative to the chaotic transition already occurring. But any just transition policy would require significant public investment, which has become political anathema in Australia, due not only to an entrenched discursive vilification of government debt, but to the forms of 'embedded neoliberalism' that enshrine the logic of privatisation and austerity-style cuts to public services in state institutions (Cahill 2014). This reflects what Bruff (2014) identifies as a paralysation of left-wing political parties, which are failing to propose genuine alternatives to an increasingly sclerotic and disliked 'free-market' capitalism.

While this bipartisan deadlock and the discursive manipulation discussed in the previous section of this article may appear to demonstrate the strength of the fossil fuel hegemonic bloc, it could alternatively be a sign of weakness. As argued by Bruff (2016), 'the apparent strengthening of the state simultaneously entails its growing fragility, for it is becoming an increasingly direct target of a range of popular struggles, demands and discontent' due to its recourse to coercive approaches that marginalise an ever-growing section of the community. Instead of a genuine engagement with concerns about the fossil fuel industry, we are witnessing 'the snowballing involvement of the state in economic contradictions [that] merely broadens the cracks in the power bloc' (Poulantzas 1978). These cracks serve as openings for progressive voices to make ambitious claims on the state. In the Australian Climate Strikes of September 2019, up to 300,000 protestors demanded not only the phasing out of fossil fuels, but also public funding for 'a just transition and job creation for all fossil fuel industry workers and communities' (ABC News 2019). This demand was developed in collaboration with trade unions, reflecting a renewed effort in the climate justice movement towards greater democratisation and linkages with labour and Indigenous activists.

Efforts to overcome the 'jobs vs. environment' dichotomy and build broader alliances around climate policy have resulted in development of various proposals for 'Green New Deal'-style programs tackling the triple crisis of climate, inequality and democracy. Not all are transformative. Many proposals emphasise the windfall on offer if Australia capitalises on its abundant renewable energy resources to become a 'superpower' in renewable energy exports and green manufacturing. But without engaging with issues of political process, they risk reproducing current authoritarian environmental governance in concert with renewable energy capital and other fractions of capital positioned as 'green'. While these plans project massive job creation *in the aggregate*, unregulated renewable energy industries would not necessarily deliver well-remunerated, permanent jobs in marginal electorates home to fossil fuel communities, making these programs unjust and unlikely to gain political support (Pearse and Bryant, forthcoming). Plans for 'just transitions' that overcome this shortfall consider 'the social and spatial embeddedness of labour in energy transitions' and propose more particularised jobs plans based on needs expressed by affected communities (*ibid*.). Importantly, under current Native Title law, we can expect continued sidelining of Aboriginal landowner interests. Capital's 'land grabbing' practices are likely to intensify with the expansion of surface land use for renewable energy generation in the 'end of the subterranean energy regime' (Huber and McCarthy 2017). More promising research agendas emphasise the need for democratic, participatory *processes and relationships* in constructing any program for political economic transformation (*e.g.* Heenan and Sturman 2020; Tattersall *et al.* 2020).

If programs based on principles of democracy, solidarity, and Indigenous sovereignty gain popular political backing, they may mobilise against and through the state to push back against institutionally-embedded neoliberalism and experiment with more ecologically- and socially-sustainable modes production. In limiting the circulation of dissenting discourses, authoritarian practices are prolonging politically problematic accumulation strategies while simultaneously propelling their undermining by radical alternatives.

Conclusion

This article has used eco-Marxism and authoritarian neoliberalism theory to analyse the processes by which fossil fuel authoritarianism has emerged, in dialectical relation to popular struggles against it, to prolong an extractive accumulation regime at the point of exhaustion. It has aimed to provide an understanding of the political economic terrain on which fossil fuel authoritarianism is being contested.

An eco-Marxist framework illuminates how the Australian state co-produces fossil fuel accumulation strategies, driven by a capitalist value relation that encourages the sacrifice of nature's life- and energy-giving capabilities at the altar of profit. As the second contradiction of capitalism engenders a crisis of capital underproduction, the scientific, regulatory, legal, political and fiscal support of the Australian state is increasingly necessary to secure the viability of the otherwise 'unbankable' Carmichael project. At the same time, a growing coalition of civil society actors is mobilising to pressure state actors to reduce or cease entirely their support of environmentally-destructive fossil fuel projects. As they find themselves 'unable to garner the consent, or even the reluctant acquiescence, necessary for more "normal" modes of governance' (Bruff 2012), state actors have resorted to authoritarian governance techniques on various fronts to reproduce extractive accumulation regimes.

The economic recovery plan implemented in the wake of the COVID-19 crisis has deepened the processes analysed in this article. The crisis-driven restructuring of the way the state provides production conditions has occasioned a renewed intensification of authoritarian statism at a moment when community resistance (such as large-scale protests) have been temporarily stymied. The 'emergency response' to COVID-19 has involved the allocation of four times more fiscal stimulus to the fossil fuel industry than to clean energy, with only limited opportunities for scrutiny by a massively scaled-back parliament. Significant budgetary decisions were made on the recommendations of the National COVID-19

Coordination Commission. This is an unelected and opaquely governed panel comprised mostly of fossil fuel executives, tasked with advising the government on how to rebuild the Australian economy in the wake of the COVID-19 crisis by processes that have been concealed from public scrutiny. The advice of the commission has been translated into policy supporting a vast, subsidised expansion of natural gas production.

Nonetheless, the pandemic appears to have opened the terrain for increasingly mainstream proposals and policy for a 'green recovery' that may undermine fossil fuel capital's hegemony. In contrast to the Federal government's approach, many state governments have already planned for a transition to satisfying domestic electricity needs by renewable energy generation. However, most state governments are trying to 'have their cake and eat it too', facilitating renewable energy development while approving expanded fossil fuel operations. We may see discursive appeals to domestic 'energy security' supporting fossil fuels falter, as the authoritarian measures they justify relate increasingly to *export-oriented* production like the development orchestrated in the Galilee Basin.

Critically, the 'authoritarian fix' is fragile. Dynamic social contestation is already forcing cracks in fossil fuel authoritarianism by pushing it to extremes where it marginalises not only civil society, but an ever-growing section of capital and state institutions. These cracks are widening under the inaction of the depoliticised parties and parliaments of the mainstream. As such, progressive voices are finding an opening to call for radical, sustainable alternatives, some of which may hold the promise of genuine economic democratisation and an end to fossil fuel authoritarianism.

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THE INEQUALITY-DEBT-CRISIS NEXUS:

EXPLORING THE MISSING POLITICAL ECONOMY DIMENSION

Guangdong Xu

Inequality poses serious economic, political, and social challenges to countries worldwide. A recent report issued by the United Nations warns that 'countries with high and rising inequalities generally experience slower growth than those with lower inequalities' (United Nations 2020: 45). Even worse, 'rising inequality creates discontent, political dysfunction and can lead to violent conflict' (United Nations 2020: 50). In addition to these macro effects, inequality may also impact a society at the micro level. For example, inequality is shown to negatively influence individuals' health conditions, life satisfaction, and moral values (Vandemoortele 2021). These harmful consequences of inequality led Joseph Stiglitz to conclude that 'widely unequal societies do not function efficiently, and their economies are neither stable nor sustainable in the long term' (Stiglitz 2012: 83).

Moreover, an economy may be destabilized by inequality, particularly through the channel of household debt. Developing this analysis, Rajan (2010) attributed the occurrence of the 2008 financial crisis to an inequality-driven credit boom. More specifically, he argued that rising inequality in the US over the several decades before the financial crisis generated great political pressure for redistribution, eventually manifesting in the form of subsidized housing finance. Low-income households who used to be denied access to credit markets were then encouraged to participate in mortgage finance. The resulting lending boom created a massive run-up in housing prices that ultimately reversed in 2007 and led to the financial crisis of 2008. The basic logic of Rajan's argument

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can be summarized as follows: income inequality → household debt → financial crises.

Motivated by Rajan's argument, numerous subsequent studies have explored the relationship between income inequality, household debt, and the likelihood of financial crises. This literature generally confirms the suggestion that income inequality does play a role in the evolution of household debt, the occurrence of financial crises, and their interactions. However, there are still many unsettled points and disagreements. More importantly, most studies overlook the role of politics in initiating and catalyzing the process from inequality to household debt and then to financial crises; consequently, they may suffer from an omitted variable bias. As this article shows, political factors indeed matter in understanding: (1) whether greater income inequality increases households' demand for debt; (2) whether and to what extent that demand for debt can be met by banks; and (3) under what conditions credit expansion may trigger a financial crisis.

In exploring these issues, this article critically considers the literature on inequality, household debt and crises. The next section focuses on studies that test or otherwise cast light on Rajan's hypothesis. Then comes a section discussing how political factors affect both the connection between income inequality and household debt, and the connection between credit booms and financial crises. The concluding section briefly summarizes the case for a political economic perspective on these issues. The extensive bibliography at the end of the article is a resource that may be helpful for other researchers on this important topic.

Inequality, debt and crises: a brief survey

From inequality to debt

We first survey US-centered empirical studies and then review cross-country empirical studies. Certain US-centered studies indeed confirm the inequality-debt nexus. Using aggregate US data for 1980 to 2003, Christen and Morgan (2005) reported that income inequality has substantially contributed to increased consumer borrowing, and particularly to installment loans (which are used to finance the purchase of consumer durables). Boushey and Weller (2008) found that in the US, from 1980 to

2004, inequality had a significantly positive effect on credit card debt, which in turn contributed to an increase in personal bankruptcy. Berisha, Meszaros and Olson (2015) showed that income inequality and household debt in the US have a significant statistical relationship from 1919 to 2009. Yamarika *et al.* (2016), using US state-level data for 1977 to 2010, found a positive long-run relationship between inequality and housing credit and indicated mutually causation between these two variables.

However, other studies reached more nuanced conclusions. Fasianos *et al.* (2017) employed annual data for 1913-2008 and showed that the relationship between inequality and debt is nonlinear, *i.e.*, household debt only responds to a rise in income inequality, while a fall in income inequality has no impact on the level of debt. Berisha and Meszaros (2017) built a state-level panel dataset that spanned 2003 to 2012 and reported that household debt influences measures of income inequality, rather than *vice versa*. A similar conclusion was reached by Berisha and Meszaros (2018), who (based on a time series data for 1927 to 2011) found that increases in household debt led to an increasing income inequality, although the effect is short lived. Based on the Survey of Consumer Finance conducted by the Federal Reserve Board covering 1989 to 2013, Thompson (2018) differentiated the effects of rising top income on middle- and upper-middle-income households (taking on more housing-related debt) from those on lower-income households (reducing non-mortgage borrowing). De Stefani (2020) combined several datasets (Consumer Expenditure Survey, Panel Study of Income Dynamics, and Current Population Survey) and reported that, in the decade preceding the 2008 financial crisis, among poor and middle-income American families, homeowners significantly increased their debt-to-income ratios (while renters' leverage declined) in response to an increase in top incomes.

In contrast to the above studies, which adopt a 'demand-driven' hypothesis that implicitly or explicitly assumes that household debt increases because poor or middle-income families demand credit to finance housing and/or consumption, Coibion *et al*. (2020) offered a 'supply side' hypothesis. Their empirical evidence indicated that 'although low-income households increased their leverage (debt relative to income) relative to higher income households in the years leading up to the Great Recession, *they did so to a larger extent when living in low-inequality regions than in high-inequality regions*' (Coibion *et al*. 2020: 3, italics in original). This is the case because 'as income inequality rises, banks treat an applicant's income as an increasingly precise signal about their type and therefore target lending toward higher income households on average' (Coibion *et al*. 2020: 47). Coibion *et al*.'s (2020) approach was followed by Loschiavo (2021), who used survey data on Italian households and reached a similar conclusion.

When we turn to the cross-country literature, we find certain studies that confirm the positive impact of income inequality on household debt. Klein (2015: 393) reported that there is a 'long-run relationship between income disparity and household debt' and 'depending on the inequality indicator used, in the long-run, a 1% increase in inequality leads to an increase in household credit by 2-6%.' Gu *et al.* (2019) found that both the level and growth of credit are positively and significantly influenced by income inequality. More specifically, they reported that: 'the rise in income inequality contributed to 8.9% of the increase in the private sector indebtedness on average across OECD countries in the sample period' (Gu *et al.*, 2019: 2292). Chang *et al*. (2020) showed that income inequality contributes to both credit growth and an increase in credit size (relative to GDP), which is more evident in countries that have experienced deindustrialization. Herradi and Leroy (2020) reported that inequality (evolution of top incomes) has persistent effects on credit expansion, especially for mortgages and business loans. Bazillier *et al.* (2021) found that increases in income inequality trigger expansions of household debt, particularly when inequality is measured by the ratio of top incomes to middle incomes, rather than the ratio of top incomes to bottom incomes.

However, other cross-country studies have failed to find a robust relationship between inequality and household indebtedness. Rubaszek and Serwa (2014) could not identify any significant relationship between the Gini coefficient and the ratio of household debt to GDP. Malinen (2016) found that income inequality has a positive long-run effect on aggregate credit, but not on household loans. Stockhammer and Wildauer (2018), using the top 1% income share and Gini coefficient as proxies for inequality, concluded that: 'we fail to find a robust statistically significant relationship between income inequality measures and household debt' (Stockhammer and Wildauer, 2018: 112). Moore and Stockhammer (2018) found weak evidence for long- and short-run effects of inequality on household debt.

From debt to crises

The empirical evidence of an association between household debt and crises seems stronger. A number of studies have found household credit to be a useful indicator to predict financial crises. Büyükkarabacak and Valev (2010) reported that household credit growth is associated with a greater likelihood of financial crises (whereas the predictive capability of enterprise credit is weaker and less robust). In using a different measure of household credit, *i.e.*, household credit/GDP gap (constructed by subtracting a trend that is recursively estimated), Anundsen *et al*. (2016) found that both the household credit gap and the enterprise credit gap positively and significantly affect the likelihood of a crisis, but household debt is more powerful in predicting a crisis. In addition, the impact of the household credit/GDP gap is amplified when there is a housing bubble, corroborating the findings of Jordà, Schularick and Taylor (2015a) who demonstrated that the interaction of asset price bubbles and credit (total loans rather than household credit) growth increases the risk of a financial crisis-driven recession. Drehmann *et al.* (2017) introduced the debt service measure and reported that debt service is the main channel through which new borrowing in the household sector affects the probability of financial crises. Alter *et al.* (2018) further confirmed that household debt increases the probability of financial crises (the effect is twice as strong for nonfinancial corporate debt) and found that changes in household debt are more important than levels in predicting financial crises.

Rather than exploring the aggregate measure of household credit, other studies have focused on certain components of household credit, such as mortgage credit, and similarly confirmed its connection to the likelihood of financial crises. Jordà *et al.* (2015b) investigated the connections between interest rates, housing price booms, and financial crises with data spanning 140 years and 14 advanced economies, finding that: 'over the past 140 years of modern macroeconomic history, mortgage booms and house price bubbles have been closely associated with a higher likelihood of a financial crisis' (Jordà *et al.* 2015b: S4). A similar conclusion was reached by Jordà *et al.* (2016) who reported that both mortgage and non-mortgage loans are predictive of financial crises, but mortgage loans are associated with deeper post-crisis recessions and protracted recoveries. Bezemer and Zhang (2019) also found that mortgage credit helps explain post-crisis recession severity: a rise in credit composition (the share of the household mortgage credit of the total credit) before the 2008 financial crisis is associated with a greater growth loss after the crisis.

As the literature, particularly the literature on ‘early warning indicators’, has shown, credit – whether measured by its level, growth, or gap (deviation from the trend) - is a useful predictor of financial crises (Frankel and Saravelos 2012; Kauko 2014; Tölö, Laakkonen and Kalatie 2018). Given the established connection between credit indicators and the crisis incidence, as well as the increasing importance of household credit (particularly mortgage loans) in advanced economies since World War II, it is not surprising that most studies confirm the relationship between high levels of household credit and the likelihood of financial crises.

Combining inequality, debt and crises

Rajan’s (2010) original hypothesis is tripartite in nature, *i.e.*, an increase in income inequality contributes to higher household debt, thereby planting the seeds for a financial crisis. It is surprising that most other contributions to this literature, as discussed above, have only focused on parts of this phenomenon. They have usually either examined the relationship between income inequality and household debt; or investigated the connection between household debt and the likelihood of financial crises. Only three exceptions – the studies by Bordo and Meissner (2012); Perugini *et al.* (2016); and Rhee and Kim (2018) – have attempted to explore the entire process. These deserve particular attention.

Using data for 14 advanced countries for 1920 to 2000, Bordo and Meissner (2012) found that, while (aggregate) credit growth heightens the probability of a financial crisis, there is no evidence that a rise in inequality (share of total income of the top 1%) leads to (aggregate) credit growth. Their conclusion has been criticized for not differentiating between household credit and enterprise debt, and for certain methodological flaws (Gu and Huang 2014). Based on Bordo and Meissner’s (2012) sample but using different estimators and more model specifications, Chang *et al*. (2020) reached a completely different conclusion – that income inequality contributes to both credit growth and an increase in credit volumes, particularly in deindustrialized countries. Perugini *et al.* (2016) used a sample covering 18 OECD countries for 1970-2007 and reported ‘a statistically significant, direct, positive relationship between income concentration and private sector indebtedness’, and ‘growing private sector indebtedness is shown…to increase the probability of a financial crisis' (Perugini *et al.* 2016: 229). Rhee and Kim (2018) employed panel data for 68 countries for 1973 to 2010 and found that income inequality in developing countries increases the probability of financial crises, both directly and indirectly (through the channel of credit growth), whereas neither inequality nor credit growth affects the financial crises in advanced economies.

It seems difficult to reach a consensus, even inside this small body of literature. For example, inequality was measured based on the top 1% income share in Bordo and Meissner (2012) and Perugini *et al.* (2016), but with the Gini index in the study by Rhee and Kim (2018). In addition, while Bordo and Meissner (2012) focused on the level of inequality, Perugini *et al.* (2016) investigated inequality growth; and Rhee and Kim (2018) were interested in both inequality levels and growth. More importantly, neither of the studies directly used the household credit indicator, which is the core intermediary variable of Rajan's (2010) hypothesis. They generally used aggregate credit as an intermediary variable and, while certain variables such as gross fixed capital formation/GDP have been included to control for enterprise credit, whether and to what extent this strategy can fully address the indicator problem is debatable.

Inequality, debt and crises: interim summary

Most studies that attempt to test the hypothesis raised by Rajan (2010) have only focused on parts of the hypothesis, investigating either the first part (the connection between income inequality and household debt) or the second part (the connection between household debt and financial crises).

Regarding the first part (the inequality-debt nexus), while US-centred studies essentially confirm the existence of such a nexus, cross-country studies reach more mixed conclusions.

The second part (the debt-crisis nexus) has been confirmed by most studies, although data and methodological problems inherent to these studies may undermine their robustness (Caggiano *et al.* 2014; Dwyer and Tan 2014; Boyd *et al.* 2019).

Finally, only three studies have attempted to investigate the complete connections between inequality, household credit, and financial crises. However, these three studies used aggregate rather than household credit as an intermediary variable, and therefore deviate from Rajan's original argument.

A further problem with most of the literature, as the following section will show, is the failure to consider the political aspect as an intervening variable in the inequality-debt-crisis nexus.

The missing political economy aspect

The hypothesis raised by Rajan (2010) seems to have been tested systematically and rigorously, even though it is doubtful that a consensus has been reached. Unfortunately, if we examine the relevant literature more carefully, we find that an important piece of the puzzle has been overlooked by most of the empirical studies that we have surveyed. The missing element is the political factors that bear on the economic relationships.

The failure of existing studies to introduce political variables into their statistical analyses (as a control variable or a mediating factor) seems to deviate from Rajan's original argument. Rajan elucidated the vital role of politics in the inequality-credit nexus by stating that:

> politicians have recognized the problem posed by rising inequality… Taxation and redistribution could be an alternative, but, as the political scientists Nolan McCarthy, Keith Poole, and Howard Rosenthal argue, growing income inequality has made Congress much more polarized and much less likely to come together on matters of taxation and redistribution…Politicians have therefore looked for other ways to improve the lives of their voters. Since the early 1980s, the most seductive answer has been easier credit. In some ways, it is the path of least resistance (Rajan 2010: 31).

In other words, according to Rajan, inequality would not *automatically* lead to credit expansion; politicians are the bridge between them. Overlooking this important role of political decision making leads not only to a misunderstanding of the essence of Rajan's (2010) hypothesis, but also to a serious omitted variable problem that may bias the results of the empirical studies. To rectify this deficiency, we need to explore the role of politics in shaping the connections between inequality, household debt, and financial crises. The remainder of this article points to how this may be done, leading to a broader political economic understanding of the nature of the inequality-debt-financial crisis nexus.

Politics and the inequality-credit nexus: demand side analysis[1]

When the income level of poor people falls because of increased inequality, they may not immediately resort to credit to maintain their living standard if their welfare as consumers is not lowered. There may be offsetting factors. For example, Kus (2013) argues that the availability of imports from low-wage countries (particularly China) helps low- and middle-income households in OECD countries access a wide range of products at lower prices, thereby moderating the negative effects of income inequality. More importantly, the decisions of low-income households on whether, and to what extent, to participate in credit markets are heavily influenced by the accessibility and generosity of the welfare system. If a universal and generous welfare system is in place, households that experience income stagnation or even income decline may not need to borrow to finance their expenditures. In contrast, cuts in welfare state programs and payments may leave income-constrained households no choice but to rely on debt to meet their needs.

The substitute role of household debt for traditional social policies has been emphasized by many studies. For example, Schwartz (2012: 48) argued that, in the 1990s and 2000s, 'faced with stagnant wages and a falling real value of pensions, health insurance coverage, and other buffers against risk, households increasingly used credit and in particular housing-based credit as a substitute buffer'. Lapavitsas and Powell (2013: 364) also stated that 'households have been pushed into the arms of the private financial system as public provision has retreated across a range of fields and real incomes have been broadly stagnant'. Similarly, assets (like housing) which are financed by debt may be increasingly relied upon by low- and middle-income households as self-insurance when faced by the decline of welfare states (Montgomerie 2013; Ansell 2019).

The substitute hypothesis is supported by empirical studies, such as Kus (2013), that have found credit access to have a negative association with

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[1] For theoretical clarity, we discuss the role of political factors in the demand and supply of household credit separately. The demand side analysis focuses on the relationship between politicians and households (who may demand credit); and the supply side focuses on the relationship between politicians and banks (supplying credit). In reality, the situation is less tidy. Government policies may simultaneously influence both demand and supply of credit, and politicians may attempt to affect the banking sector (supply side) because they face pressure from households as voters (demand side).

the degree of redistribution. The study by Ansell (2019) reported a negative relationship between house price appreciation and citizens' preference over redistribution and social insurance; while Wiedemann (2021a) showed that households experiencing unemployment borrow more when unemployment benefits are less generous. However, there are studies that find a more complicated relationship between social welfare (e.g. housing) and household debt: household debt is shown to be a complement rather than substitute for social welfare (e.g. housing) under certain circumstances (Van Gunten and Kohl 2020; Comelli 2021; Wiedemann 2021b).

The rise and decline of the welfare state is closely related to political development. There are several political elements that may affect the existence and design of welfare states, such as electoral systems, party ideology, and the power of labor unions (Myles and Quadagno 2002; Dorlach 2021). Party ideology seems to be the most relevant factor in understanding the connection between welfare and household debt. For example, right-wing governments are found to redistribute less (Iversen and Soskice 2006), particularly when house prices are rising (Ansell 2014) and when the budget deficit is increasing (Savage 2019). In addition, Kohl (2020) reports that, in 19 OECD countries, conservative parties have consistently defended private homeownership across countries and time, and in countries with high home ownership rates rising housing prices in turn increase voter approval of incumbent right-wing governments (Han and Shin 2021). Both a reduction in social spending and the expansion of homeownership can be argued to contribute to an increase in the demand for household debt. In contrast, left-wing parties tend to support more generous redistribution policies (and provision of public housing), which then neutralize the effects of inequality on credit expansion (Ahlquist and Ansell 2017).

Politics affects the credit demand of households not only indirectly by shaping the welfare system, but also directly through various policy channels. Politicians may attempt to stimulate the demand for household debt by resorting to, for example, mortgage interest deduction (Hilber and Turner 2014; Gruber *et al.* 2017), low down payments (Reiss 2016), government guarantees for credit risk (Fetter 2013; Grundl and Kim 2021), and other fiscal or financial policies (Fuller 2015; Anderson and Kurzer 2020). Politicians endorse these policies because household credit expansion may help them realize political benefits (wider credit access and higher economic growth) immediately and defer political costs (financial fragility or even a crisis) to the future. In addition, credit may reward their supporters without triggering the complicated and lengthy process of budget decision-making (Kern and Amri 2021). In contrast, when politicians fail to meet the expectations of credit-seeking households, they are likely to be punished in elections (Antoniades and Calomiris 2018).

Politics and the inequality-credit nexus: supply side analysis

During the last several decades, household credit has expanded rapidly, particularly in developed countries. Léon (2018) reported that, in a dataset of 88 countries, firm credit increased by 22% from 2000 to 2014, while household credit expanded by 70%. In high-income countries, household credit now accounts for approximately half of the total credit. This development can be attributed to certain supply factors. For example, in the period of a knowledge economy, firms increasingly use intangible assets that are difficult to accept as collateral for loans, and banks therefore have to reallocate loans to lenders with tangible assets, such as house-owning families (Dell'Ariccia *et al.* 2021). In addition, certain financial innovations, such as securitization, motivate banks to increase mortgage lending by reducing their risk exposure to loan defaults (Mian and Sufi 2009). Political factors also contribute to the increased supply of household credit.

Laws are the most powerful weapon that can be used by politicians to affect the supply of household credit. For example, the US Community Reinvestment Act (CRA), which was enacted in 1977 to encourage banks to meet the credit needs of low- and middle-income neighborhoods, has been found to induce more and riskier mortgage lending (Agarwal *et al.* 2012; Saadi 2020). The enactment of the CRA was an outcome of a political struggle (Krippner 2017). Moreover, the enforcement of the CRA is also influenced by political considerations: banks protected by powerful politicians (Senators) exhibit less compliance with legal requirements (Akey *et al.* 2021). In the run-up to the global financial crisis of 2008, a large number of housing and mortgage credit related bills were passed by the US Congress; these bills were heavily influenced by the financial industry through campaign contributions and lobbying expenditures (Mian *et al.* 2013; Igan and Mishra 2014) and can be argued to encourage more aggregative expansion of mortgage lending (Dagher 2018). Thanks to its lobbying expenditures and campaign contributions, the financial industry not only enjoyed favorable policies before the financial crisis of 2008, but also received generous bailouts during the financial crisis (Mian *et al.* 2010; Couch *et al.* 2011; Duchin and Sosyura 2012; Blau *et al.* 2013; Dorsch 2013).

Politicians also have other policy tools at their disposal. They can use macroprudential regulatory tools, particularly those related to housing and consumer lending (such as capital buffers aimed at residential mortgages and loan-to-value ratios) for electoral purposes (Müller 2019). They have also pressured state-owned banks or quasi-public (government sponsored) entities (such as Fannie Mae and Freddie Mac, in the US case) to increase the supply of credit (Fieldhouse, Mertens and Ravn 2018; Garber *et al*. 2020). Finally, as a low interest rate is welcomed by indebted voters (Brännlund 2021), it is not surprising to find that politicians prefer a loose monetary policy (Belke and Potrafke 2012; Chang *et al.* 2020), which in turn contributes to the expansion of household credit (Berisha *et al.* 2018; Stockhammer and Wildauer 2018).

Politics and the Credit-Crisis Nexus[2]

While credit in general - and household credit in particular - are shown to be effective predictors of future financial crises, not every credit boom ends disastrously. Dell'Ariccia *et al.* (2016) identified 176 credit boom episodes in a sample of 170 countries between 1960 and 2010; among these episodes, only one in three was followed by a financial crisis within three years. Similarly, Richter, Schularick and Wachtel (2021: 14) warned that their results show that while 'credit booms are associated with an increase in the likelihood of a crisis', 'not all booms end in a banking crisis'. Whether and to what extent an empirical connection between credit booms and banking crises can be established depends on regulatory policies, procedures, and tools (Laeven 2011; Kim *et al.* 2013; Duffie 2019). The design and implementation of banking regulations is in turn shaped by political processes.

Regulators may fail to curtail excessive credit growth because they are 'captured' by the banking industry that they are supposed to regulate (Dal

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[2] Politics will not only determine whether a credit boom may turn into a financial crisis, but also shape the pattern of response to the crisis (Keefer 2007; Mian *et al.* 2010; Chwieroth and Walter 2020a, 2020b).

Bó 2006; Carpenter and Moss 2014). This may be because of the phenomenon of ‘revolving doors’, whereby personnel move between the regulators and the financial institutions, or because of other problems, such as incompetence or corruption. For instance, Baxter (2011: 181) argued that, in the US, ‘there is ample evidence from various regulatory actions that the industry, particularly large financial organizations, have enjoyed surprising favor at the hands of the financial regulators.’ Omarova (2012: 629) further concluded that ‘in large part, the latest crisis [the financial crash of 2008] was also attributable to the regulators’ failure to maintain their independence from the financial industry and to act in a truly public minded manner--the phenomena commonly associated with the concept of regulatory capture.’ Regulatory capture and the subsequent regulatory failure are certainly not limited to the US (Fernández-Villaverde *et al.* 2013; Demetriades 2017). Recognizing this, following the 2008 crisis, concerns about regulatory capture led to a paradigm shift in OECD countries, in which more regulatory powers in financial markets are allocated to politically controlled officials, such as treasury secretaries and finance ministers, rather than independent agencies (Gadinis 2013).

Regulators may also fail because they cannot resist the pressure from legislators or executives, who in turn need to cater to the interests of voters or their patrons (such as the banking industry). Because, at the micro level, politically connected (and hence powerful) banks face a lower probability of receiving regulatory enforcement actions (Lambert 2019; Papadimitri 2021), they adopted more aggressive and risky strategies before the 2008 financial crisis and achieved a worse performance during the crisis (Igan *et al.* 2012; Kostovetsky 2015). At the macro level, politicians have strong incentives to create credit booms to increase their popularity but are reluctant (or incompetent) to strengthen banking regulations and/or take other corrective measures to prevent credit booms from going bust (Hasanov and Bhattacharya 2019; Herrera *et al.* 2020). Even worse, when the danger of bank failures is imminent, regulatory interventions may still be postponed by politicians for electoral purposes (Brown and Dinç 2005; Liu and Ngo 2014). The evidence therefore suggests that a credit-induced crisis is more like the outcome of a politically determined regulatory failure.

The missing political economy aspect: interim summary

Political factors, such as welfare systems, partisan ideologies, electoral cycles, and interest groups, play a critical role in shaping the inequality-debt-crisis nexus. Politics influence whether, and to what extent, increased income inequality may induce the expansion of household credit and affect the probability of a credit boom ending in a banking crisis. Therefore, failure to consider the effects of politics in studying the inequality-debt-crisis nexus will inevitably generate biased results. Indeed, the mixed findings that we have surveyed in the second section of this article may be the consequence of heterogeneity in political institutions (and perhaps other social, economic, cultural factors for which the studies fail to control) across sample countries. In other words, the chain reactions from income inequality to credit expansion and then to banking crisis may only occur in countries with political conditions conducive to those connections and consequences. The US seems to be the most obvious case in point: its political conditions, such as a meagre and selective welfare system, regulatory capture, political ideology, and power of the financial industry, are extremely conducive to initiating and catalyzing this disastrous process (Prasad 2012; Trumbull 2012; McCarty *et al.* 2013; Prasad 2016; Krippner 2017; Atkinson 2019). Because these conditions are less prevalent in other countries, income inequality-induced banking crises (through household credit expansion) may not be a universal phenomenon.

Conclusion

In the last decade, numerous studies have explored Rajan's (2010) hypothesis that income inequality tends to contribute to banking crises by stimulating the accumulation of household debt. Taking this literature as a whole, we may agree with Bazillier and Hericourt's (2017: 488) conclusion that: 'there is strong evidence supporting the idea that inequalities do play a role in the dynamics of credit, finance, and possibility financial crises'. However, there are many unsettled disagreements. More importantly, the literature seems to deviate from Rajan's original argument by overlooking the essential role of politics in shaping the entire process from inequality to financial crises. This deviation may lead to an incomplete or even distorted understanding. As discussed in this article, political factors, such as welfare states, party ideologies, elections motivations, and the power of interest groups, indeed matter: they not only shape the way that households and banks respond to increased income inequality, but also determine the probability of credit booms ending in systemic banking failures. The variance of political institutions over time and between countries suggests that the inequality-debt-crisis nexus may be dynamic, heterogeneous, and difficult to standardize. These political aspects should be taken more seriously in future studies. Blending the economic and political elements leads to a more integrated approach to understanding the complex relationships between income inequality, household debt, and financial crises.

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MACROECONOMIC AND STRUCTURAL POLICIES:

ECONOMIC POLICY IN POST-WORLD WAR II AUSTRALIA

Evan Jones

Mainstream economists' conception of an activist role for government is oriented predominantly at the 'macroeconomic' level. If the profession conceives of a role for government in the 'microeconomic' sphere, it is generally a negative role, oriented towards destroying the impediments to the free operation of 'the market' – hence ‘microeconomic reform’. The macro-micro divide is essentially a policy-market divide.[1]

The bias towards the primacy and capacity of macroeconomic policy remains in the current environment. This bias is inconsiderate of three intrinsic weaknesses.

First, there is inevitable unequal structural impact of all ‘macroeconomic’ instruments on different sectors of the economy. Successive cash rate reductions have been recently introduced by the Reserve Bank of Australia, despite their manifest unsuitability for the desired task of reflation and their adverse structural impact (as on the housing market). Budgetary policy continues to be seen as an essentially macroeconomic instrument, in spite of the discriminatory impact of its application.

Second, public structural interventions, complemented by focused private sector initiatives, are the motor force of national economic development –

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[1] This manufactured dichotomy is analysed at length in Jones (1993).

Jones, E. (2021)
‘Macroeconomic and Structural Policies:
Economic Policy in Post-World War II Australia’
Journal Of Australian Political Economy
No. 88, pp. 98-123.

an axiom little understood by countries suffused with liberalist ideology. Regardless of ideology, structural interventions inevitably persist, but their application, for lack of a strategic vision, tends to be reactive and pragmatic, even potentially corrupt.

Third, structural and macroeconomic policies are more effective when used conjointly. However, Australian institutional culture inhibits such acknowledgment. This is the principal issue to which this article is addressed. Its detailed investigation of economic policy ambitions in the decades immediately following the Second World War challenges the received wisdom that macroeconomic stabilisation policy was responsible for the post-war boom and near-full employment. Moreover, it points to the origins of the dominant view of economic policy in an ahistorical and ideologically influenced mindset which has narrowed and distorted the perspective of policy makers and commentators alike.

Constructing an economic development regime in 1945

The period immediately following World War II provides an opportunity to confront the necessary interaction and tension between macroeconomic and structural perspectives. From the experience of this period came the evolution of later policy structures and the subsequent narrowing and cementing of conceivable and acceptable policy frameworks.

In 1945, a 'developmentalist' mentality prevailed under a Labor Government, after economic depression and war (*cf.* Macintyre 2015). The federal public service had been invigorated with skilled personnel. There was the will and seeming capacity to offset decay and disadvantage in myriad sectors – farming, industrial renovation, urban/regional disparity, housing in general, basic public infrastructure and social welfare.

'Full employment' was one powerful catch cry. The iconic *Full Employment in Australia* embodied this vision (Parliament of the Commonwealth of Australia 1945). Its vision is essentially that of a Keynesian-style government-backed aggregate expenditure to fit requirements, where public capital expenditure supplements expected private capital expenditure,[2] coupled with attempts to stabilise

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[2] A National Works Council was created in July 1943 as a vehicle to prepare a priority list of public infrastructure projects, to be drawn on if and when needed at short notice.

(agricultural) export revenues. This was to be supplemented by a new vehicle that matched jobs with personnel and also facilitated training. Thus, the Commonwealth Employment Service was created in January 1946; the Commonwealth Reconstruction Training Scheme for returned services personnel had been in place since January 1944. The White Paper was complemented by the 1945 *Banking Act*, which committed the restructured Commonwealth Bank to the pursuit of full employment.

The White Paper was heretical by the standards of the 1930s Depression era when deflation was the acceptable prescription for economic recovery. Yet the document was essentially macroeconomic in orientation. It was weak on structural matters – how priority resources allocation was to be achieved – a weakness it compensated for by a professed commitment to work through any blockages, buoyed by a pervasive optimism.

Long essays on impending difficulties by H. C. Coombs (1944) and Douglas Copland (1944) were delivered to a January 1944 forum. Coombs highlights the remarkable successes of war-time controls, claiming that there is no alternative but to apply those lessons to managing the peacetime economy. Copland outlines in detail the components of a better post-War world, also emphasising the necessity for transitional controls. Both acknowledge the strains that will ensue, but optimism covers for evasion on the institutional mechanisms by which the desired structural changes and stability are to be achieved.[3]

By late 1947 rampant expansion had set in train inflationary pressures.[4] A self-conscious 'macroeconomic' policy fraternity was being established (the central bank within the Commonwealth Bank, Treasury, sections of the Department of Post-War Reconstruction), but it was neither coherent nor ultimately influential. Calming an over-heated economy was evidently

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[3] Macintyre (2015: 260) captures perfectly the authors' mentality: 'Aware of the magnitude and complexity of post-war problems, the participants in the summer school nevertheless thought them amenable to rational solution. They appealed to past experience of an unplanned economy to justify their plans and the knowledge of economic management built up during the war to demonstrate their feasibility.'

[4] Inflation increased from 2.5% in mid-1947 to almost 11% in mid-1949, fell back to 7-8% during late 1949 to late 1950, when the Korean War Wool boom drove it to over 20% during mid-1951 to mid-1952 (RBA, *Consumer Price Index, Historical Series*, Table g01hist).

not the top priority. Full employment was evidently now being seen as a realistic aim, even at the expense of some inflation (*cf.* Coombs 1948).[5]

There was also a deep concern for the structure of the economy. Shortages of labour, materials and equipment exacerbated inflationary pressures, confronting the policy makers with the inextricable inter-relatedness of the 'aggregate' economy and its structure. Was capital being used appropriately? Was it possible to channel scarce resources away from areas considered lower priority? Who was to decide these questions and through what mediums? Powerful extant war-time controls provided potential means for influencing the structure of the economy in desired directions.

In practice, the institutional machinery formally devoted to post-War determination of priorities lacked the coordination, authority and central direction that the same set of competent public servants had achieved during the War. At base, a consumption goods boom took scarce resources from infrastructure needs that the authorities deemed to have priority.

The fundamental problem was the difficulty of devising and imposing a strategic sectoral policy, implicitly exposing an institutional structure and embedded political culture that inhibited such procedures.

The determination of industry priorities: desirable but elusive

The matter of structural priorities was confronted immediately with the cessation of hostilities. The transition was felt keenly by the Capital Issues Advisory Committee (CIAC), created in November 1941 to restrict approval for capital issues to enterprises engaged in the war effort. During 1944, requests were received from firms planning for post-war conditions, for which the Committee was ill-prepared. In April 1944, a joint meeting

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5 Coombs (1948) acknowledges that inflationary pressures follow from the priorities accorded to economic development and social investment, implicitly a result of conscious contemporary political objectives. Gerald Firth (one author of the White Paper) delivered a paper in 1951, claiming that, with the Full Employment commitment, anti-inflation macroeconomic deflation had acquired a potential 'electoral cost' for the political class and thus could not be implemented as economists would wish (Firth 1977). This perception accurately reflects the altered priorities of the post-War period, held by the Labor Government and the bulk of its advisors. Comfortably heeled, abstractly minded economists were then out in the cold. It took the elevated Korean War boom inflation, in conjunction with new Treasury dominance, to alter the priorities.

was held by the Secondary Industries Commission (SIC) and the CIAC, following which the CIAC agreed to send to the SIC applications oriented to post-war conditions.[6]

In April 1945, G. M. Shain, CIAC Chair, wrote to J. K. Jensen, SIC Chair, requesting assistance in developing formal criteria for discrimination in capital issues approval. Jensen, caught unprepared, replied that he was wary of constructing an 'orderly plan' for selective industrial development. Reluctantly, Jensen offered 'motor vehicles, wool, and the cotton and rayon industries' as affording 'the best prospects of appreciable expansion'. Jensen was wary of privileging incumbents on grounds of market demand: rather, applications should be considered on grounds of potential efficiency and viability, and to let competition take its course.[7]

Disappointed, Shain turned to Prime Minister (and Treasurer) Ben Chifley in May for support. Shain noted that:

> [T]he time is fast approaching when my Committee will need some information on broad lines as to the types of industry which the Government considers are of prime importance to the national economy [and those considered to be 'relatively unimportant'] […] It is realised that the furnishing of the desired information presents difficulty, but having regard to the fact that some control over investment is contemplated in the early reconstruction period, it has occurred to my Committee that the Ministry of Post War Reconstruction might be in a position to proffer the desired advice.[8]

Shain requested that his Committee be informed as to estimates of the total likely capital requirements of secondary industry 'for any period ahead […] if an orderly plan is to be developed for the apportionment of available material and financial resources in a manner which accords with Government economic policy'.

The request was belatedly passed to sections of the Department of Post-War Reconstruction (DPWR) – the Economic Research Division and the Secondary Industries Division (SID, the research arm of the SIC). A combined presentation went to Chifley under the signature of H.C.

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6 Minutes of joint meeting, 27.4.44. National Australia Archives, series MP61/1: item 2/300/79.

7 Shain to Jensen, 27.4.45; Jensen to Shain, 11.5.45. *ibid*.

8 Shain to Chifley, 21.5.45, A571/158: 1946/3926 Part 2.

Coombs, DPWR Director-General, in September 1945.[9] Surprisingly, Coombs considered it 'impracticable at this stage to lay down hard and fast rules for the operation of the Capital Issues Control'. Rather, Post-War Reconstruction offered 'suggested broad lines of policy for your consideration'.

Foremost for types of industry considered 'of prime importance to the national economy' was construction, especially housing and 'building materials of all kinds'. The list also included: durable consumer goods and textile goods which are import-substituting; all transport equipment and components; goods for export; and investment promoting regional development. The list was too fulsome to be helpful.

Twelve months passed with little progress in the cooperative delineation of priorities. Coombs remained concerned about structural imbalance but was without a vehicle to make effective that concern. In September 1946, Coombs wrote to Harold Breen, SID Director, expressing concern about the continued expansion of secondary industry.[10] Was employment being drawn into enterprises of 'doubtful permanent value'? An investigation was necessary to indicate the forms of industry 'to which we might look for continued development'.

Contemporaneously, the Commonwealth Bank (in its central banking capacity) entered the field. The Governor, H. T. Armitage, wrote to the Treasury Secretary in November 1946 requesting that directives be given for 'advances policy'.[11] Armitage noted that labour and resources were in short supply, 'in large part' due to meeting consumption needs. The Bank was concerned with whether current demand and production were distorted by transitional factors. Would the level of production in some industries survive the restoration of overseas competition?

The Bank noted that public works had already been cut back for the sake of private investment. As private investment and production had tacitly been accorded higher priority, the government needed to examine the private sphere. As a basis for an advances policy consistent with general government policy on industrial development, the Bank requested a comprehensive review of industry and directives on industrial priorities.

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9 Coombs to Chifley, 25.9.45. *ibid.*

10 Coombs to Breen, 24.9.46, A9790/1: 112.

11 Armitage to Secretary to the Treasury, 19.11.46. A571/158: 1946/3926 Part 2.

A December 1946 memorandum from Treasury on the Bank's request brought the Commonwealth Actuary W. C. Balmford to the forefront in January 1947. Balmford was effectively the Treasury representative on the CIAC. Balmford found Coombs' feedback to date unhelpful.

The CIAC continued to process capital issue requests on its own terms, 'doing the best we can from such indications of government policy as become available'.[12] The CIAC had denied capital to groups designated as undeserving, notably the large retail traders. Balmford continued:

> We, nevertheless, feel that over-investment is undoubtedly taking place in some fields of industrial activity, (e.g. plastics and refrigerators) but there is no one who is sufficiently informed to offer an authoritative opinion. The Secondary Industries Commission and the corresponding [Secondary Industries Division] seem to be proceeding on the assumption that secondary industries should be developed at all costs regardless of the consequences.

Balmford requested a concerted attempt to find solutions from 'those most capable', to take the burden from the shoulders of Capital Issues:

> There is much to be said for an investigation into those activities which can be properly and fully developed in Australia at once, those which should proceed cautiously and those which should be definitely deferred. I feel that the physical and manpower resources of the country would be better concentrated in certain approved lines rather than frittered away in useless or, at any rate, expensive endeavours.

Balmford claimed that a workable solution required both competent research staff and a powerful ministerial backing. Ironically, the 'competent research staff' would inevitably involve SID personnel who he was simultaneously denigrating.

Balmford's perception that the SIC (the advisory body) and the SID (the new bureaucratic arm) supported an unconstrained expansion of the manufacturing sector was unwarranted. Breen, SID Director, had written to Balmford in May 1945, offering cooperation on the basis of the SID's developing survey work, but without effect.[13] There was already a functioning cooperative arrangement between CIAC and SID – the latter provided to CIAC detailed reports on specific manufacturing companies

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[12] W. C. Balmford, CIC Chair, to Secretary to the Treasury, 6.1.47, A571/158: 1946/3926 Part 2.

[13] Breen to Balmford, 31.5.45. MP61/, 2/300/79.

applying for capital issue approval. Breen had attempted to get feedback on CIAC decisions arising from SID advice but received no feedback on the criteria by which CIAC judged the applications.

Apart from intra-bureaucratic tension, Balmford claimed that the current practices of CIAC were a half-way house and the worst of all options. The Government should come up with explicit and coherent measures for discrimination or it should dismantle the Control machinery. Balmford’s January 1947 memo implied that the problem was probably insoluble.

> Industry is to some extent capable of looking after itself and unless we have a clear policy we may be doing people an injustice. If we are to say 'no' to a new venture because the field of its proposed operations is already covered, then we are favouring the existing and possibly less efficient concerns. How can anyone determine beforehand which is going to succeed – the most promising ventures have been failures, and vice versa?

A vehicle for deliberating on structural imbalance?

These concerns with structural imbalance were incorporated in the 7-page Agendum ‘Direction of Private Investment’, tabled at the Investment and Employment Committee’s (IEC) first meeting on 3rd February 1947.[14] The IEC, comprising key Ministers with employment responsibilities, was conceived as the pre-eminent vehicle to oversee implementation of the Government’s commitment to full employment.[15] The Ministerial Committee was to be assisted by a Working Committee of senior bureaucrats.

The ‘Direction of Private Investment’ paper highlighted that much employment growth was in the manufacturing sector. The concern was that consumer durables (especially refrigerators) were doing extremely well. Would such manufacturing expansion be sustainable once global war-time shortages were overcome? By contrast, basic industries were not keeping up with the raging demand – iron and steel, building materials, coal, and so on (*cf.* Commonwealth Bank of Australia 1949: 21).

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14 Agendum 5/47, 31.1.47. A571/1: 1947/1907 Part 1.

15 The IEC’s activities are outlined in detail in Robinson (1986) and Angley (1988).

Consumer goods industries were flourishing, following years of deprivation. A potent combination of factors – family formation, released savings and the growth of consumer credit (notably hire purchase) – facilitated the realisation of latent demand. By contrast, the production of some basic materials (coal and steel) was constrained by locational factors, labour and housing shortages, and previous union workplace gains.

Chifley himself was cautious regarding discriminatory action. At the February 1947 IEC meeting, he emphasised 'the great importance of caution in handling any suggestion to private enterprise for a deferment of new investment'.[16]

The Agendum recommended that there should be a comprehensive investigation of the nature of 'the present expansion of secondary industry'. Decisions 'as to policy on the control of investment could not therefore be taken' without it. The extent of the investigation required significant data and presumed a familiarity with input/output processes (the conceptual apparatus for which had yet to be adequately developed). It was reasonably 'considered that the complexity and importance of the problem required an approach of this kind', and that 'any investigation of this kind would of course entail considerable work'. The estimate that several months would be sufficient to perform the task displayed much optimism. The necessary infrastructure was in place but not sufficiently empowered to facilitate a task of considerable scope.

The Agendum's ambitions were being undermined before the meeting was finished. The SID was the natural fulcrum for an investigation into secondary industry, but it was distrusted by Treasury officer Fred Wheeler. Wheeler, IEC Secretary (and advisor to Chifley), directed that Balmford would be put in charge to prevent the investigation falling under the control of the SID. Wheeler was supposed to have written letters to the SIC, the CIAC and the Commonwealth Bank facilitating flow of information on the labour market, and to instigate closer liaison between the Commonwealth Employment Service, the SID and the Bank. It transpired at the first meeting of the IEC Working Committee in June that he had not done so.[17]

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16 IEC meeting Minute No.6. A571/158: 1946/3926 Part 2.

17 IEC Working Committee meeting 4.6.47, Department of Post-War Reconstruction Minutes. A9790/1: 114 Part 1.

In the meantime, the SID was acting on the prescriptions outlined in the February Agendum. In early March, the SID's F. L. McCay submitted draft terms of reference for the investigation to Treasury. It outlined the assumptions necessary regarding the general economic backdrop. McCay also emphasised the intent of an investigation to be 'both practicable and useful'.

At this stage, the Bank's Leslie Melville in conjunction with Treasury officers, using data from the Bureau of Statistics, were developing separately their own priorities. In April, S.G. McFarlane, Treasury Secretary, expressed apprehension to Balmford about the potential scale of such an inquiry (reflecting Wheeler's preferences) and recommended concentration on those industries whose 'expansion appears to be abnormally rapid and threatens to be unstable'.[18] He stated that a report would be desirable before the meeting of the Loan Council in July.

An Inter-Departmental Committee of senior people was created to manage the investigation. The Committee met on 3 June, but the discussion was perfunctory. Balmford stated that he did not have time to coordinate the investigation. Effective control passed to Wheeler, whose apparent dominant concern was to inhibit the investigation and to contain the influence of SID. Repetitive discussions ensued regarding delineation of the parameters of a study. There was little discussion of the document tabled from the Bureau of Statistics.[19] Given data limitations, the document was a competent contribution to the problem. The Bureau forwarded a list of sectors that had expanded rapidly and had sizeable employment – for example, chemicals and new segments of plastics, cotton textiles (vulnerable to import competition), engineering, agricultural implements (volatile) and furniture.

It was decided that a Working Sub-Committee be established, consisting of representatives from CIAC, SID, the Commonwealth Bank and the Department of Labour and National Service. The Committee also decided on certain industries for 'immediate investigation' – plastics, textiles (excluding woollens), wireless equipment, refrigerators, farm tractors, and

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18 McFarlane to Balmford, 24.4.47. A571/158: 1946/3926 Part 2.

19 *Survey of Private Investment: Note on Current Trends in Factory Output and Employment*, 29.4.47. *ibid*.

electrical motors in fractional horsepowers. The list varied little from the Bureau's suggestions but was undefended.

Melville was installed as Chairman by Wheeler, without consultation. Although of high repute, Melville was essentially a mainstream economist in orientation, his expertise being predominantly in finance. Breen, SID Director, understood that the SID was to be 'the spear-head and the executive body', so there remained unresolved issues of responsibility and authority for the carriage of the project.

The Working Sub-Committee duly met on 12 June under Melville and further deliberated on subjects for inquiry. Farm tractors and flax (representative of the textile group) were singled out (without defence), although the longer list appeared to be still under consideration.

There was an ancillary running battle over information. The Bureau's April document was conscientious, but the SID was critical of its weaknesses. The Bureau's figures for industry-specific changes were based on the 1944-45 census, the 1945-46 figures having not been processed, so crucial post-war changes had not been incorporated. The SID was also critical of the Bureau's classification – chemicals and metals and engineering were areas in need of urgent re-appraisal.[20] The SID possessed a 'hands-on' familiarity with secondary industry, born of close wartime contact and conscientiously maintained after the War. Wheeler lobbied in committee for containment of the investigation to such out of date data.

Nevertheless, the SID had good relations with the Bureau, and resolved to choose one of the Bureau's highlighted industries, cotton textiles, for intensive study as a pilot for investigations into other industries. A meeting was planned for 15 July to discuss it.

At the June meeting of the Working Sub-Committee, Breen raised the issue of the direction of capital – he wanted to know the orientation of bank advances and of capital raised in the market. This was an entirely reasonable concern. Melville claimed that the Bureau of Statistics and the Bank were preparing for the collection of data on bank advances 'according to purposes, industries and classes of borrower'. These were promised to Breen, but it is improbable that this data would have been divulged externally as banking data was considered highly sensitive by the Bank. It is possible that the data was never collected.

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[20] Classification of Australian Secondary Industry, n.d. MP188/1, 2/6/519.

On July 4, the Acting Treasury Secretary sought to reassure Chifley that the manufacturing industry inquiry was intended to serve merely a fact-finding purpose.[21] This was curious advice, given previous concern. It was also inappropriate, given that the Commonwealth Bank was formally committed to using the information for adjusting its advances policy.

Surprisingly, complications also arose from SID's perspective. Breen wrote to Chifley, fearing that the new investigations threatened existing SID operations. The SID proffered advice to the CIAC and to the Industrial Finance Department (small business lender) of the Commonwealth Bank. SID's brief was on technical management and cost efficiency of applicants. The SID considered that it was not its responsibility to decide who will fail and who will succeed in an industry. Moreover, the SID was developing a comprehensive information base on manufacturing industry, for which trusted links with industry personnel was an important source. Faced with industry rumours that the SID was to be used as a vehicle for Commonwealth Bank directives on discriminatory advances policy, Breen was apprehensive that industry contacts would withdraw cooperation.[22]

With Wheeler's recalcitrance and SID apprehension, the July meeting of the Sub-Committee was not held. At the IEC Working Committee meeting in late July, Wheeler intimated that the Committee to supervise the secondary industries investigation would have to be formally disbanded.[23] The Working Committee agreed that, as a substitute, the SID should prepare a detailed report on a number of key industries. These the SID proceeded to produce.

Another four months went by, and the IEC met on 6 November. As the Bank was impatient to tackle inflation, a Bank Advisory Council memo on appropriate measures was on the agenda. One criterion for an advances policy agreed to by the Committee was 'discouraging expansion in industries with productive capacity that was likely to become excessive in relation to eventual demand' – vague, and without acknowledgment of previous work. The Committee agreed that a factual basis for a selective advances policy remained essential, and that a fresh start should be made with the secondary industries investigation proposed at the February

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21 A571/158, 1946/3926 Part 2.

22 Breen to Chifley, 16.7.47. *ibid*.

23 Minutes, IEC Working Committee meeting, 30.7.47. A571/150: 1947/1908 Part 2.

meeting. The Chairman (Chifley) acknowledged the necessity for SID's assistance and hoped that its assistance could be obtained 'without betraying any confidences', to ensure maintenance of industry links. The Committee also considered other anti-inflationary measures, such as discriminatory taxes (sales, export), and currency appreciation, but dismissed them as impracticable.

Wheeler then wrote a memo to another Bank official, E. B. Richardson, on 17 November, noting that the Bank could not take responsibility for coordination of the investigation (in spite of Wheeler having previously organised this arrangement). Following Chifley's direction, Wheeler suggested that responsibility for advice on a 'selective advance policy' be handed to Jensen, SIC Chair. A Treasury-drafted letter (probably by R.J. Randall) was sent to Jensen under Chifley's name. Several sentences are important (emphasis added):

> Since excessive spending power is at the root of the trouble we have decided that, amongst other things, bank advance policy has to be tightened up […] But a tightening of bank advances is something that has to be handled very carefully. *It cannot be done on an overall basis because that would affect sound and unsound industries alike.* It has to be selective in a very realistic way. The Commonwealth Bank has to be on sure ground in what it does and keep right down to the facts all the time.[24]

As the SID was the research arm of the SIC, Jensen immediately handed the job to Breen. Breen (who had been seriously ill) handed responsibility to his deputy, Bernard Hartnell. Hartnell, with fresh eyes, expressed concern at:

> the complete lack of cohesion between a number of bodies, all of which had an interest in the promotion of industrial development but which were following independent lines of their own. [B]oth the Secondary Industries Commission and the Tariff Board were directly concerned in the furthering of secondary development but there was no organic connection between them. Again Import Licensing proceeded on a basis of decisions as to what was essential or non-essential, without reference to standards necessarily recognised by anyone else.[25]

Hartnell supported an earlier Coombs' objective for a 'Central Policy Organisation' but which was in abeyance, not least because of Coombs'

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[24] Chifley to Jensen, 19.11.47. A571/158: 1946/3926 Part 2.

[25] Minute of Hartnell/Randall conversation, 2.12.47. *ibid.*

perennial absence overseas. Treasury's Randall pointed out that the IEC was its *de facto* replacement. The activities of the IEC and associated committees were an attempt to establish co-ordination from the ground up. Within that framework, Hartnell replied that the process would have been enhanced if the Bank had gone 'further than they had done so far in getting classified information from the Trading Banks'.

The IEC meeting of 6 November 1947 had given the Bank approval for the general thrust of the policy, but the Committee also reiterated the need for a 'factual basis for a selective advance policy'. Towards this end, SID personnel were researching the conceptual underpinnings of the 'essentiality' of any industry to the Australian economy,[26] while also developing the industry-specific reviews.

The Commonwealth Bank initiative on selective advances policy

Within two weeks, the Bank had acted on its own. On 21 November the Bank issued an elaborate directive addressed to the restraint of advances.[27] Overdraft facilities (formally oriented to short-term borrowing for trading imbalances) were to be denied or to be liquidated if they were to finance or were financing capital expenditure. There was also a significant selective dimension. The building and building materials industries were to be supported; the booming rural sector should be pressured strongly to reduce its overdraft exposure; hire purchase was to be made available to finance industrial equipment but not consumer purchases.

These specific instructions were complemented by a generic selective instruction (section 1[c]):

> Banks should not finance new enterprises, or the expansion of existing enterprises –
>
> (1) where the production is not essential to the Australian economy;
>
> (2) where the added capacity is likely to increase production above ultimate demand;

[26] MP188/1: 2/6/519.

[27] Advance Policy, 21.11.47. Copy in Breen's papers, MP1038/2: Box 3, Folder 39.

> (3) where production is likely to be uneconomic in the long run because of excessive costs, or other factors.

The policy directive was leaked to the Press. Governor Armitage was appalled, accusing the banks of treachery (Schedvin 1992: 137). The central banking arm of the Commonwealth Bank had been given a powerful mandate in the Banking Act of 1945, but the culture that underpinned the selective advances policy was nurtured during the War when the trading banks were *de facto* arms of the state. Armitage was mindful of the loyalty of the British trading banks to the Bank of England, expecting the same from the Australian banking community.

At the IEC meeting in February 1948, Melville referred to the advances policy with the presumption that a sound basis for selectivity in the expansionary manufacturing sector was still dependent on the results of the work of the SID.[28] Yet Wheeler had advised Chifley's office in January that 'we were inclined to think that the Treasurer would not wish to do anything to revive the recent Press controversy over the Commonwealth Bank's advance policy'.[29] In other words, it is appropriate that the revived SID investigation be allowed to die quietly.

Wheeler's intervention received *de facto* support from unexpected quarters. In March, the maverick J.T. Lang, Independent Labour Party Member for Reid, inquired of the House:

> How is the local bank manager to decide whether or not any particular business is essential to the Australian economy? How is he to ascertain the ultimate demand for production? If he decides to play safe and observe the strict letter of the objective, he will refuse every request for an overdraft. The effect of this directive is to create a black market in money. Instead of paying the ruling bank rate of interest, new firms will be driven to other kinds of lenders […] This ban on new enterprise will protect the older, established business concerns from competition. It will assist the growth of monopolies, and destroy the incentive to produce. By attempting to remove all elements of risk from business, it will entirely destroy enterprise.[30]

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28 Draft minutes, 5th IEC meeting, 3.2.48. A571/150: 1947/1907 Part 5.

29 Wheeler to Garrett, private secretary to PM, 16.1.48. A571/158: 1946/3926 Part 2.

30 Commonwealth Parliamentary Debates (CPD), 10.3.48, Vol.196, p.461; extract reproduced in Copland and Barback (1957: 282).

Although hyperbolic, Lang's judgement is apt regarding the vacuousness of the section 1(c) guidelines. The selective guidelines relating to 'essentiality, relation to ultimate demand and long-term implications' were unworkable, and would have probably led to arbitrary practices on the part of bank managers. Chifley's reply side-stepped the issue of selectivity, referring only to the need to restrict bank advances in the aggregate in the face of severe inflationary pressures.[31]

The investigation into secondary industries 'imbalance' by the SID (renamed the Division of Industrial Development (DID) in January 1948) was killed off. No more is heard of it in the activities of the IEC and its Working Committee, which continued for the life of the Chifley Government.[32] The August 1948 IEC meeting highlighted that ambivalence had replaced an earlier assertiveness regarding a selective dimension to advances policy:

> [The discussion] recognised that difficulties would arise if any attempt were made to detail industries to which advances for new equipment could not be made, while at the same time some doubts were expressed as to the degree of cooperation that could be expected from the trading banks if instructions were limited to general lines of policy. It saw though that Bank managers might not be equipped to express a judgment for interpreting such policy – that their judgment may rather be limited to the credit worth of the applicants for accommodation, than the desirability of the enterprise in the national interest.[33]

The DID continued to produce the industry-specific reviews, albeit presumably for general edification.[34] The outcome of the selective dimensions of the Bank's policy directive in practice is unknown – officialdom evidently eschewing to highlight its existence. The annual Reports of the Bank make only one brief mention of the existence of a selective dimension (Commonwealth Bank of Australia 1948: 28). The

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31 CPD, 10.3.48, Vol.196, p.462; extract reproduced in Copland and Barback (1957: 184).

32 IEC concern with structural imbalance in 1948 and 1949 centred purely on the coal shortage, responsible for the belated inclusion of a SID/DID representative (Hartnell) on the IEC Working Committee.

33 Minutes, 6th IEC meeting, 10.8.48. A571/150: 1947/1907 Part 6.

34 Twenty-one industry reviews were produced between May 1948 and June 1950, when the Treasury resisted further issues on cost grounds. The 1950 steel industry review was probably the most significant, given continuing steel shortages. Copies in MP252: S8.

Bank had monthly meetings with the managers of the major banks, and queries regarding the tangible application of the criteria in specific instances indicated a formal concern from bank senior management. But there was evidence that Commonwealth Bank criteria were being used as a cover for bank-determined decisions on particular applications. More generally the Bank was not intrusive in monitoring the banks' behaviour.

Structural policies in practice

The policy debates in the late 1940s highlight that economic policy instruments were not derived ready-made from some theoretician's cookbook. Rather, much was initially attempted with grand intentions, but the instruments evolved pragmatically.

In the face of an over-heated economy, some 'macroeconomic' instruments received consideration – including tax increases, currency revaluation and interest rate increases – but were ruled infeasible, each because conflicting with other priorities.[35] Thus, greater demands were made on other instruments, notably use of the rekindled war-time measure, Statutory Reserve Deposits, to reduce the scale of bank credit advances.

In confronting what economists have subsequently conceived as macroeconomic problems – unemployment, inflation, balance of payments difficulties – policy makers were then acutely conscious of their structural dimensions. Thus the Bank claimed: 'A selective policy would be what we should like to have, but if a selective policy is not possible [because of inability to get agreement on the 'essentiality' of various industries], we are obliged to consider other methods, which are less satisfactory'.[36] Similarly, the Bank claimed that 'generally restriction of

35 The priority then accorded to interest rates was that they were to be kept low to finance the War-generated national debt, and also as an inducement to increased private capital expenditure and home purchases.

36 Advance Policy, Memorandum for Advisory Council, 3.10.47. Reserve Bank of Australia archives, RBA S-a-66.

credit is a blunt instrument not a sensitive tool'.[37] Moreover, the Bank's sensible orientation was not inconsistent with trends overseas.[38]

For such insightful bureaucrats, the use of discriminatory instruments was an integral dimension of an effective macroeconomic policy apparatus. As Richard Randall noted astutely in a Treasury memo, 'to frame [a Central Bank] advance policy meant the framing of an industrial policy, the two being really different aspects of the same thing'.[39]

However, disparate elements combined to ensure that discriminatory interventions involved an elaborate, problematic and ultimately unrewarding process. First, there was the technical problem of adequate information, tackled only gradually and accorded low priority.

Second, the fragmented division of responsibilities within the bureaucracy (coupled with formally conscientious consultative procedures) implied that initiatives would be developed haltingly and perennially stalled. Inter-bureaucratic rivalry compounded the effects of fragmentation. Treasury's Wheeler had administrative responsibility for the Investment and Employment Committee deliberations but was the least sympathetic to structural solutions to macroeconomic problems.[40] This perspective was dramatically enhanced after 1950, given the almost hegemonic authority of Treasury over economic advice following bureaucratic restructuring under the Menzies government (Weller and Cutt 1976: 23).

Third, there was dependence on private agents for implementing some discriminatory policies, the demands of private profit conflicting with the 'national interest'. This is pertinent to the dependence of the central

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37 Restrictive Credit Policy, Memorandum for Advisory Council, 29.6.50. RBA S-a-66.

38 A 1948 paper by English banking expert R. S. Sayers addressed precisely 'the swing away from the traditional "quantitative controls" and towards "selective credit policies"' (Sayers 1948: 20; quoted in Robinson 1986).

39 Randall to Wheeler, 5.12.47. A571/158: 1946/3926 Part 2. Randall, later Treasury Secretary (1966-71), was a then junior Treasury officer in the position of Principal Research Officer. Randall appears to have been the only Treasury officer with a keen sense of the structural dimension of macroeconomic problems.

40 When the Investment and Employment Committee was first mooted by the Department of Post-War Reconstruction, Treasury insisted that it supply the secretariat. Post-War Reconstruction officers were opposed, fearing (presciently) the narrowing of the agenda, but relented to speed up the Committee's establishment. Coombs to Dedman, 27.9.46. A9790/1: 112.

banking arm of the Commonwealth Bank on the private trading banks for the bulk of credit availability and direction, but also to the government's dependence on BHP for a needed expansion in steel production.

Fourth, there was the political dimension – the difficulty of governments defending discrimination in favour of particular constituencies.

Fifth, there was the philosophical dimension, embodied in cultural mores and institutional structures and practices. A representative concern, embodying the political and philosophical dimensions, was articulated by Balmford in late 1948 when the impatience of would-be investors was mounting over continued capital issues control and the legal authority for its continuation was tenuous.[41]

A deeply rooted philosophical liberalism (*c/f* Rowse 1978) was (and is) manifest in a wariness of hands-on structural discrimination in Australia.[42] Herein is the tangible workings of *laissez-faire* as an embedded ideology – endlessly discussed and praised as a principle but rarely analysed sociologically in its substantive and comparative impact.

In particular, the 'planners' post-War ambitions foundered on two rocks. First was Australia's highly imbalanced federalism. As H.V. Evatt noted at the January 1944 Post-War Reconstruction forum (Evatt, 1944), the question of:

> how far the present Constitution permits national planning and action, in time of peace, over such matters as employment, production, consumption, the prevention of monopoly and exploitation and the provision of social benefits […], the present Constitution gives to the Commonwealth no direct authority, or a direct authority so divided with the States as to be quite inadequate.

The Government attempted to enhance Commonwealth powers in the '14 Powers' referendum, long in preparation, held in August 1944 (Macintyre 2015: 253*ff.*). The referendum was lost. Desperate, the Government made

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41 Balmford to Acting Secretary, Treasury, 25.8.48. Advisory Council Papers, RBA BM-Pb (36th meeting).

42 The halting character of discriminatory actions under the Chifley and Menzies Governments contrasts with those (for example) of contemporary West German (*cf.* Shonfield 1965: chs. XI and XII) and Japanese governments (*cf.* Yamamura, 1967). With authoritarian political cultures in both countries and acquiescence of the US in Cold War mode, there followed systematic determination of sectoral priorities as a vehicle for industrial reconstruction.

a half-hearted referendum attempt again in May 1948 to gain permanent Commonwealth control over prices, rents and capital issues (Macintyre 2015: 440). The proposals were decisively rejected in all States. This process and outcome highlight that liberalist values were not merely institutionalised and passive, but actively re-asserted.

Second, the ‘planners’ faced the erection and expansion of a propaganda network painting their prospective better world as dystopian. The movement began in October 1942 when Melbourne businessmen established the Institute of Public Affairs. The propaganda escalated in response to the January 1944 Post-War Reconstruction forum, ready to battle against the ‘14 Powers’ referendum and have a decisive influence on the outcome. Curiously, ‘individual freedom’, not at risk, was emphasised rather than States’ rights. By 1949, with ready material from Chifley’s ill-judged attempt at banking sector nationalisation, the propaganda machine was extensive and hysterical (Macintyre 2015: 147; 261*ff.*; 440). It was essentially dishonest, but it fed into the liberalist meme of the sanctity of ‘individual freedom’, even that of democracy itself.

Policy pragmatism prevails

There were two parallel consequences of this environment. The use of macroeconomic instruments gradually evolved with increasing disregard for their structural effects. This practice developed by default, because of the experienced difficulty of effecting well-thought discriminatory actions. The culmination of this process was the 1951-52 Treasury-induced ‘horror budget’, leading to stagnant output during 1951-53.

Discriminatory actions and controls continued to be used pragmatically. The impediments to discriminatory action prevented it from being applied coherently. Capital Issues control remained in place, administered on the CIAC’s own terms. The Commonwealth Bank pursued a qualitative advances policy after November 1947 without advice from other informed sources. Dollar import licensing was in place continuously, of necessity; so too were export controls on certain rural and mineral commodities. Rent and some price controls survived until 1948 when, following a failed referendum over Commonwealth powers (as above), they were handed to the States. Rationing of ‘essentials’ survived – sugar (until 1947), meat (1948), petrol, butter and tea (1950). The Menzies Government dismantled many of these controls after its election in December 1949, only to re-establish controls, hiding behind defence preparations imperatives (capital issues control, materials stockpiling, etc.; *cf.* Boyd and Charwat 2014) and from economic necessity (comprehensive import licensing).

Much of the character and outcomes of these discriminatory actions and controls were inadequately documented by their practitioners (and subsequently by scholars). Discriminatory policy is a delicate process with a capacity to offend non-favoured constituencies and an in-built reason for lack of transparency. What discriminatory policy has been documented has been inadequately analysed.[43]

There is only a sketchy documentation of the Commonwealth Bank's qualitative advances policy, and no record of any overall evaluation of its implementation or effect.[44] The operation of other discriminatory policies is similarly oblique. For example, in the four Labor post-War years between December 1945 and November 1949, the CIAC approved 1758 applications for an issued capital total of £224 million; and 3296 applications for mortgages or other charges of £82 million.[45] Information is lacking on the scale and character of refusals that would allow us to judge the significance of the overall enterprise. Ironically, the significance of proposed investments in the manufacturing sector in the monthly lists of approvals highlights that the CIAC did not use its powers to constrain expansion of the manufacturing sector, the main issue of controversy in early IEC deliberations.[46] However, Balmford felt confident that the CIAC had inhibited issues of an unsavoury nature (stock 'watering' or those unequally favouring management) and had exercised a deterrent effect on ill-considered and speculative offerings.

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43 An exception has been the almost pathological attention to tariff protection and rural sector support, contextually disconnected from the plethora of structural policies (Jones 2016).

44 Schedvin's official history of central banking mentions selective advance policy only tangentially (1992: 202, 233, 320). Bank documents indicate that advance policy was intended to complement capital issues policy; with the ending of capital issues control in late 1952, advance policy was also formally supposed to be terminated. However, the Bank persisted with a selective dimension until the early 1960s – in particular, regarding hire purchase finance, housing finance and rural sector finance.

45 National Security (Capital Issues) Regulations; Summary of Approvals since 4th December 1939, 7.12.49. MP61/1: 2/300/2985.

46 Of approvals for capital issue (for cash subscription over £50,000) during the post-war Labor period, the manufacturing sector accounted for 61-66% of the total in the calendar years 1946, 1948 and 1949 (48% in 1947). Advisory Council Papers, BM-Pb (52nd meeting).

Dollar import licensing was another significant control mechanism for which no substantial evaluation was produced. But the procedure does appear to have been administered with a modicum of efficiency, under an inter-departmental committee that met regularly, decided on budget totals, allocated quotas, and distributed reports on its activities.[47] Whether the quotas were appropriate is unknown.

In spite of these discriminatory policies (or because of their partial and imperfect application), substantial structural imbalance remained into the 1950s. Basic materials remained in severe shortage – building materials, coal, iron and steel, some capital equipment – whereas some consumer items production had expanded dramatically. This imbalance was documented by Copland (1949), a phenomenon he depicted glibly as a ‘milk bar economy’ (p.4). There had been substantial expansion of the engineering and chemical sectors. Production of some basic commodities had expanded since 1939 (Copland acknowledges coal), but demand had increased even faster. The Australian economy was undergoing a dramatic qualitative transformation to a deeper level of industrialisation that influenced all sectors of the economy; strains were inevitable.

The myopia regarding structural policies is captured in an exchange early in the life of the Coalition Government. In May 1950, R.G. Casey, Minister for National Development and Works and Housing, inquired of G.P.N. Watt, Treasury Secretary:

> if there remains any machinery or control by which investment can be directed into channels that the Government believes to be useful and necessary, and discouraged from directions which are unnecessary – *i.e.* into basic industry as against luxury industry.

Watt replied that there was little available of this nature, noting: ‘At present some control over the direction of investment is being exercised by the Commonwealth Bank through its bank advance policy.’ In addition: ‘the present dollar import policy tends to discriminate to some degree in favour of basic or essential industries.’ He further noted that a sales tax hit luxury items and that the States exercised some control over the allocation of building materials. Watt concluded with: ‘I would say that there is no other machinery of controls which could be used to direct investment’.[48]

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47 See, for example, MP208/1: 5/80/608.

48 Casey to Watt, 8.5.50; Watt to Casey, 19.5.50. A571/158: 1946/3926 Part 2.

Treasury's answer was ill-informed, deceptive and irresponsible. Apart from temporary control measures, the Coalition Government embarked upon a number of dramatic discriminatory interventions – particularly those supporting development of the rural sector, symbolised by an enlarged and re-fashioned Snowy Mountains Scheme (assisted by a series of US dollar loans from the World Bank after August 1950), and of the resources sector – exports from which increased dramatically following the 1957 Trade Treaty with Japan.[49] Casey and his Ministerial successor, William Spooner, were major protagonists behind these priorities, for which Treasury's 1950 admonitions were misleading prattle.

The Coalition Government declined to create a permanent substitute for the Department of Post-War Reconstruction. There was thus no institutional vehicle for the broader strategic vision that had been envisaged for that Department in 1945. Treasury readily filled the vacuum.

During this period, Treasury channelled but did not dictate the developmental process. The importance of the Treasury as the dominant bureaucratic voice for respectable economic opinion has served to distort an understanding of the complex character of the policy process.[50]

The creation of a new conceptual idiom

The complexity of the evolution of the parameters of post-1945 policy instruments deserves emphasis because conventional interpretations of post-War policy ignore it. A substantial literature, official and academic, has arisen on an idiom of an aggregate macroeconomic perspective.

Leading the way was a federal Treasury survey of the economy in 1956, first of a continuing series (Commonwealth of Australia 1956). The document displays a quintessentially macroeconomic perspective. The economic problem is conceived as a matter of matching aggregate demand with aggregate supply, while keeping costs under control. The growth experience of the decade since 1945 is absurdly described as 'a

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49 The new Department of National Development, after several years of inaction, was transformed *de facto* into a department of mineral resources under geologist Harold Raggatt.

50 *Cf.* Cornish (2002) for an exaggeration of the contribution of Treasury and its Secretary, Roland Wilson, in particular. Cornish notes (p.30): 'It is sometimes suggested that Wilson's reputation has been overestimated because of the favourable circumstances that existed during these halcyon days.' This author concurs with such detractors.

spontaneous movement' (p.13). 'But apart from that general belief [in economic growth], it would be difficult to say that the movement has had any single source of inspiration, energy or sponsorship' (p.14). It is acknowledged that 'Governments have had a leading part in some sectors, such as immigration and basic development, and they have endeavoured generally to promote a context of favourable economic conditions' (p.13).

The character of the period has been obliterated – the strategic vision, the problems faced, the difficulties surmounted and the failures. It is remarkable that senior Treasury officials, given their contemporary experience, could sanction this misrepresentation of the immediate past.

This macroeconomic straitjacket facilitates neglect of policy dilemmas, ongoing during the 1950s, concerning structure – the resource demands of defence preparation; the priorities pursued under the comprehensive import licensing regime; the particular developmentalist imperatives of State governments; the continuing shortage of steel driven by the private interests of BHP; and policy support for the automobile and cognate industries with which a significant multiplier effect was associated.

An academic example of the new macroeconomic emphasis is the 1963 volume, *The Australian Economy* (Arndt and Corden 1963), which included the cream of Australia's economists. There is a token sectoral representation – agriculture attracts a separate chapter, but industrial policy has been caricatured by restriction to an ahistorical excursion on tariff policy by the theoretically oriented Max Corden. Public investment gets three pages. The perennial balance of payments problem gets three chapters, whereas long-term trade policy is marginalised. The elements that underpinned successive governments' developmentalism (public investment, sectoral subsidies, decentralisation, etc.) are seen through a refracted lens or are ignored.

The contemporaneous and authoritative Vernon Report embodied a 'macro-micro divide equals policy-market divide', apparently already entrenched in the textbooks. Government controls occur at the non-discriminating aggregate level, and the market dictates the allocation of resources. Thus (Committee of Economic Inquiry 1965: 11):

> Resources within the private sector in a free economy tend to be allocated in accordance with the expected profitability of various kinds of production. Movements of relative prices and costs help to control the composition of output by influencing demand, profitability, and hence production.

Such stylised representations have probably been interpreted by later generations of students as accurate reflections of historical processes, but the historical record has been re-written implicitly to suit intellectual and ideological interests. The process of economic policy making has been dramatically narrowed and rendered mechanistic and antiseptic.

A by-product of this intellectualising of policy history has been the notion that macroeconomic stabilisation policy was responsible for the bounty of the post-war boom, especially in the long-term maintenance of near-full employment.[51] However, macroeconomic stabilisation policy rode the wave – the high tide itself has been taken for granted (Jones 1989). An accurate rendition requires a better understanding of the myriad structural forces and policies of the period that underpinned development, and the evolution of the parameters of macroeconomic instruments driven by experience of their use in practice and channelled by the reigning liberalist ideology.

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51 A detailed latter-day representation of this vision is in Keating (2014).

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DISCOURSES OF DEREGULATION IN THE AUSTRALIAN WHEAT INDUSTRY

Patrick O'Keeffe

Following World War II, the Australian Wheat Board was established as a statutory marketing authority to be the sole marketer of the Australian wheat crop. This was intended to provide wheat farmers with security and stability, two goals that had characterised the approach of the Australian government towards agricultural policy in the 1950s and 1960s (Higgins and Lockie 2002; Botterill 2012a). It was an approach to agricultural policy that collectivised risk while protecting agricultural producers from fluctuating prices in global markets. Wheat was pooled and the returns from its sale were redistributed evenly among growers.

However, the situation changed significantly from the 1970s as deregulation became an increasingly dominant emphasis in Australian agricultural policy. The statutory marketing authorities were dismantled and commodity markets such as Australian domestic wheat were deregulated. The process accelerated during the 1980s with the increasing influence of 'economic rationalism' and free market logics on public policies (Tonts and Haslam-McKenzie 2005; Pritchard 2005; Banks 2005; Cheshire and Lawrence 2005; Botterill 2012a, 2012b, 2011). The process continued apace during the following decade. As Sinclair *et al.* (2015: 115) summarise the situation:

> Between the 1970s and 1990s rural policies were re-shaped as successive Australian governments embraced a neoliberal ideology. Market liberalisation was adopted as policy in the belief that agricultural industries would be more efficient and productive and, thus, better placed to compete in global markets: deregulation would play a vital role in flushing out inefficient producers.

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Tonts and Haslam-McKenzie (2005: 184) describe the neoliberal reforms implemented throughout the 1980s and 1990s in sectors such as agriculture as representing a 'radical shift away from the post-war policies and regulatory frameworks based loosely around the principles of Keynesian economic management'. Successive Australian governments sought to rescind trade barriers, privatise State-owned assets and authorities, and implement deregulation programs in key industries (Tonts and Jones 1997; Tonts 1999; Tonts and Haslam-McKenzie 2005; Cahill 2007). The ongoing existence of statutory marketing authorities, government underwriting programs and assistance was regarded as an impediment to competition (Banks 2005; McCorriston and MacLaen 2007; Sinclair *et al*. 2015). The process of change culminated with the deregulation of the domestic and export wheat markets, in 1989 and 2008 respectively, (Baker 2018, 2021).

The impacts of these policy changes contributed to consolidation of farms and high numbers of farmers exiting the industry (Tonts 1999; Pritchard 2005; Dibden *et al.* 2009; Sinclair 2015; Clarke and Alston 2016). Tonts (1999: 581) describes how these shifts coincided with declining farm incomes (in real terms) and high interest rates during the late 1980s and early 1990s, threatening the financial position of smaller farm businesses. Many smaller farmers were displaced by larger farms, which contributed to a shrinking farming population (Tonts 1999; Pritchard 2005). Between 1981 and 2011, the number of farmers in Australia declined by 40% to 106,200 (ABS 2011). Drought periods contributed to some of the farmer exits, but government policy for structural adjustment accelerated the departures of farmers seen to be less efficient and productive, all in the name of enhancing allocative efficiency (ABS 2011; O'Keeffe 2019).

These changes had considerable impacts on rural communities. Declining farm populations threatened the viability of smaller towns and precipitated the withdrawal of services from many rural areas, which contributed to a further loss of employment and further outmigration of rural populations (McKenzie 1994; Tonts and Jones 1997; Tonts 1999; Gray and Lawrence 2001). Yet, as Tonts (1999: 582) describe:

> Despite this, both federal and state governments have remained committed to an economic rationalist approach to public policy, arguing that a more competitive economy, achieved through market forces and minimal state intervention, is more likely to improve levels of rural economic and social well being that the general provision of public services and infrastructure.

This article analyses documents published between 1970 and 2000 to see how this shift from a collectivist approach to a market-based policy was made possible. The documents include reports by government departments and authorities, policy papers and media releases published by political parties and industry lobby groups, as well as articles published in rural and metropolitan newspapers. Through consideration of these sources, we can develop a better understanding of the discursive construction of a situation in which the rationalities of efficiency, competition and self-reliance were portrayed as policy truths, seen as essential objectives of common-sense policy making. It also reveals how these ideas then came to be adopted by farm lobby groups pushing for reduced government intervention in other sectors and areas of policy that they saw as adversely affecting their interests. The primary focus of the article is on the wheat industry during the period from 1970 to 2000, tracing the emerging influence of concepts such as efficiency, competition and individualism in farming discourses, and the influence of these ideas upon policy.

Neoliberalism as a discourse

Neoliberalism can be understood as a discourse (Rose 1993; Jessop 2002; Springer 2012) that seeks to render 'reality thinkable in such a way that it is amenable to political deliberations' (Rose 1993: 289). As Rose argues, language is used by governments, or people who have intentions of governing, to construct and shape the world in a manner which can be made operable. Similarly, Peck and Tickell (2002: 381) contend that neoliberal discourses attempt to reconstruct the world in 'their own image', making interventions which accord with these discourses appear logical and rational. By shaping the social world to be understood in terms of efficiency and competition, choice and incentives, the discourse allows for the development of policies that promote these values (Peck and Tickell 2002).

The success of this attempt to change the policy agenda requires neoliberalism to appear not as an ideology but as 'common sense' (Dibden *et al.* 2009: 304; Springer 2012: 134-5). The establishment of this common sense involves the normalisation of principles such as allocative efficiency, allowing them to be applied as 'the dominant metrics of policy evaluation', in the sense that policy should aim to maximise allocative efficiency (Peck and Tickell 2002: 394). Alternative values and logics are marginalised, set outside the bounds of common-sense thinking (Stenson and Watt 1999). This leads to the ‘authority of truth’, and the capacity of discourse to construct a dominant ‘truth’ which shapes how social issues may be interpreted and understood. It thereby legitimises or de-legimitises people’s actions and behaviours (Rose 1993; Stenson and Watt 1999; Anderson 2010). This process is made possible through the role of experts portrayed as being disinterested producers of knowledge (Rose 1993; Higgins 2001; Peck and Tickell 2002; Anderson 2010). Because of this connection to expert knowledge, neoliberal discourse is presented as apolitical (Peck and Tickell 2002), reflecting both common sense and an unimpeachable truth.

To understand the impact of these processes in a specific instance, such as wheat farming and wheat marketing in Australia, we need to analyse how deregulation was framed as a logical, common-sense response to the particular situation in the industry. Seeking to do this, my research builds on studies that have analysed rural policy change within Australia through a post-structuralist lens (Herbert-Cheshire 2000; Higgins 2001; Higgins and Lockie 2002; Cheshire and Lawrence 2005; Tonts and Haslam-Mackenzie 2005; Lockie and Higgins 2007). In particular, it adapts Higgins’ (2001) analysis, which showed the ‘different ways in which seemingly inevitable forms of regulation are constructed through economic knowledge as “rational”, “truthful” and necessary, and the forms of “restructuring” that accordingly emerge’. In a similar vein, this study aims to understand how concepts such as market competition and efficiency became so entrenched in agricultural policy making, with deregulation of markets and supply chains portrayed as being inevitable and essential policy changes. It shows how collective-based policy, such as statutory marketing, is problematised and positioned as being oppositional to ‘common sense’ policy. The analysis probes the following questions:

- What ideas and issues are problematised through these discourses, and how are they represented in relation to farming and farm policy?
- How is the rationality of efficiency, competition, self-reliance and free markets represented in the documents studied in this research and how does it shape policy debate?
- How is this rationality constructed as a response to the problematisations identified in this study?

Central to the research process is the examination of a wide range of documentation, including reports produced by Australian Government departments and authorities such as the Industries Assistance Commission (later known and the Industry Commission and then Productivity Commission), submissions to inquiries conducted by the Industries Assistance Commission (IAC), the Royal Commission into Grain Storage and Handling and submissions to this inquiry, industry reports and policy papers produced by Australian state and federal political parties and lobby groups such as the National Farmers Federation (NFF), as well as newspaper articles featuring commentary by politicians, farm industry leaders and farmers. The reports and articles were mainly sourced from collections in the Public Record Office of Victoria and State Library of Victoria. The analysis of their content and impact is presented here in chronological order, focussing on the relationship of the discursive changes to the policy changes over the three decades. As always with document-based research, it should be recognised that the selection of documents shapes the findings: voices expressing different opinions may not be captured and comments made in newspaper articles may not reflect the full scope of the policy debate which took place at the time. Nevertheless, what can be clearly seen is the increasing influence of concepts such as efficiency, competition and productivity during the 1970s, their increased prevalence and application to policy in the 1980s, and their further developments during the 1990s to frame the construction of a business-minded, competitive and individualised farmer identity.

1970s: constructing farms as ‘viable production units’

In the late 1960s and early 1970s, agricultural economists began to exert considerable influence over policies affecting Australian rural industries (Higgins 2001; Pritchard 2005). As Higgins (2001: 372) argues, the ‘practices of agricultural economists were central in constituting the viability of some farmers as a widespread problem of national economic significance, seen to require new forms of governing’. At the time, Australian agricultural policy was characterised by a high level of government intervention through statutory marketing boards, underwriting of commodities prices, using tariffs and subsidising inputs such as superphosphate fertilizer. LeCouteur (1971: 10) criticised the prevailing policies for supporting ‘un-economic production’, claiming that policy should support productivity, which should be ‘considered not only from the viewpoint of effective managerial use of resources but also in relation to the extent to which the production is designed to meet a known or prospective consumer need’. These ambitions underlaid the *Industries Assistance Commission Act*, legislated by the Whitlam Government to ‘improve the efficiency with which the community’s productive resources are used’ while recognising the interests of ‘consumers and consuming industries’ (*Industries Assistance Commission Act* 1973: 22.1).

Thus, it was argued that agricultural policy should support the contribution of agricultural industries to the national economy, rather than assist farmers who were deemed to be ‘unviable’ (Nevile 1971; Gray 1971). This led to the developing agricultural policy focus on maximising productivity and allocative efficiency, claimed to be in the best interests of Australian society. As expressed by Mauldon and Schapper (1974: 164), ‘society’s economic interest is for people and resources to move from less productive uses to more productive uses, rather than to remain in their traditional uses’. This portrays farms as resources, farmers as responsible for maximising the productive use of those resources, and allocative efficiency as essential in transitioning resources from the least productive farmers to the most productive farmers. Mauldon and Schapper (1974: 164) suggest that the extent of the situation:

> calls for assessments of actual and potential economic viability of individual farm businesses. It calls for assessments of actual and potential economic viability of individual farm businesses. It calls for assessments of prospective economic returns to farm resources in the event of their reallocation to other farm businesses or to other sectors.

Such assessments are claimed to dispassionately determine the economic prospects of farm businesses responding to the widespread problems of farm viability which the authors describe. LeCouteur (1971: 13) argues that policy should aim to create ‘production units [farms] which can be self-sufficient in the long term’, which also required identification of what constituted a ‘viable production unit’. This language decouples farmers from the land and from farming, thereby constituting a more complete ‘economisation’ of farming. It also signals an important shift in the dominant strand of thinking about Australian agricultural policy, making distinctions between efficient and inefficient, viable and unviable, good and bad farmers. These distinctions are made easier through the reductionist perception of farms as production units, and farmers as atomised individuals tasked with maximising the productive use of farm resources. LeCouteur (1971: 10) suggests that farmers who are likely to be self-sufficient are those who exhibit 'sound farm management' practices, by 'fully utilising the latest technology to achieve economies of scale'. Similarly, Mauldon and Schapper (1974: 49) highlight the gulf between the farmers who 'fail', and the 'other farmers [who] survive this competition and continue to prosper […] They seek opportunities for profit and growth'.

This shows an emerging discourse around farm failure, positioning farmer values, attitudes and decision making as the key cause of farm viability problems. Farm efficiency, productivity and competition are presented as 'modern' approaches to farming and agricultural policy, contrasting with measures such as producer-controlled marketing boards that Campbell describes as 'an anachronism in modern, Western societies' (1979: 197).

Early to mid-1980s: constructing individualism, efficiency and choice as policy truths

These developing discourses of farmers and the agricultural sector can be observed in policy documents centred on the debate around wheat marketing deregulation. The Industry Assistance Commission's 1983 report, 'The Wheat Industry', helped shape the public debate (IAC 1983). It portrays regulation as overly complex, burdensome and unnecessary (IAC 1983: i), saying that: 'This tangled web of legislation which surrounds wheat marketing was designed, apparently, in response to perceived problems associated with unfettered market forces'. This problematises wheat market regulation and the initial basis for adopting it. The report also criticises statutory marketing, contending that it increases marketing costs, creates inefficiencies, and minimises the choices available to growers. It positions efficiency as a central policy goal in wheat marketing and makes a shift towards the policy ambition of maximising growers' choice.

Freeing up the market to put money in growers' pockets

The period following the publication of the 1983 IAC report coincided with relatively poor returns for growers, resulting in increased concerns about the viability of wheat farming *per se*. At a meeting of 500 farmers in the New South Wales town of Moree in September 1984, 'growers were warned that wheat production was now largely unprofitable and that many could be squeezed out in the near future' (*Australian Financial Review* 1984[1]). Collective organisation was said to be contributing to what were framed as escalating and prohibitive costs, with John Hyde, former Liberal Member of Parliament, and Peter Urban of the Bureau of Agricultural Economics (BAE) contrasting these costs with the money that growers may have saved had deregulation been implemented (*The Land* 1984a; *The Land* 1984b). Urban claimed that regulated export markets cost growers $68 million that year (*The Land* 1984c); while Grain Growers of Australia argued that the oil seeds, sorghum and barley marketing boards lost $8.6 million between 1980 and 1984 (The Weekly Times 1985). Alan Pearlman, Secretary of Grain Growers of Australia Limited, explained that, at an upcoming meeting, 'we will be telling grain growers […] that we want to free up the market in Australia to put more money in their pockets […] The inefficiencies and poor performance of the Australian monopoly system is almost scandalous' (*Australian Financial Review* 1985; *The Land* 1984b).

Similarly, John Elliott, then owner of IXL Elders, questioned the benefit of maintaining the AWB, stating:

> I think there is an opportunity for people like ourselves to be helping to get the farmer a better return. Because if you work on commission as we would be, you do have a desire to really seek out the market, and you have got a financial interest in making sure that you do get something done (Grain FA 1984).

Through this period, a substantial discursive shift can be observed. The collective focus of statutory marketing is challenged in terms of its capacity to maximise efficient resource use; and the central focus of wheat marketing is framed narrowly in terms of costs and prices. Growers are encouraged to think of themselves as individuals and to be primarily concerned with the 'money in their pockets'. Because statutory wheat marketing had been popular among most wheat growers – and remained popular for many – this was a concerted effort to shift to a discourse that sought to individualise wheat growers and encourage farmers' rational self-interest.

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[1] Public Records Office Victoria (PROV), VA 1057, Grain Elevators Board, VPRS 9698, P1, Historical Information and Reference Collection.

Supply chain costs and ‘inefficiencies’

Throughout the early-to-mid 1980s, farm viability concerns were connected to supply chain ‘inefficiencies’, particularly in relation to grain handling and freight. Numerous political and farming leaders described supply chain deregulation as essential to reduce growers’ costs (*Australian Financial Review* 1984; *The Land* 1984a, 1984b). For example, Michael Cock (President of the Victorian Farmers and Graziers Association), Peter Cook (Victorian Farmers Federation Grain Group), Trevor Flugge and Clinton Condon (Australian Wheat Board) and Don McGauchie (representative of Grains Council of Australia at the time) made particularly strident arguments supporting deregulation (*The Australian* 1989; *The Weekly Times* 1986; Australian Wheat Board 1986a, 1986b; *Stock and Land* 1986a; Cock 1986; *Australian Financial Review* 1984). Cock (1986) stated his view that:

> The rail transport system has become the biggest parasite of all time…If eventually we can return to a real market based price system, efficient producers like Australian farmers, without government intervention, might win out under fair trading terms (Cock 1986).

Farm lobby groups claimed that the rail transport ‘monopoly’ led to ‘featherbedding jobs for railway workers’ (*The Weekly Times* 1989), arguing that subsequent inefficiencies were being underwritten by the performance of the farm sector, ultimately undermining growers’ returns (*The Australian* 1989; Australian Wheat Board 1986a).

Through intense public lobbying, representatives in the farm sector sought to accelerate arguments for deregulation in industries associated with agriculture. These arguments reproduced the emerging policy truth of competition as being critical to achieving ‘fairness’ and decreasing farmers ‘costs’ (*Australian Financial Review* 1984; Cock 1986; *The Weekly Times* 1989; Australian Wheat Board 1986b). This activism is reflected in McGauchie’s statement that:

> The railways are using their monopoly powers to extract quite a rip-off. If we can break some of these monopolies down, it will create opportunities to improve the competitive position of farmers (*The Australian* 1989).

Although this opposition to regulation and monopolies contrasts with McGauchie’s continued support for statutory wheat marketing (*The Weekly Times* 1992; *The Australian* 1988), the adoption of these arguments by farm lobby groups further entrenched discourses of competition and efficiency as unequivocally 'good' policy ideas within agriculture.

The slump experienced by the wheat industry, persisting throughout 1985 and into earlier 1986, led to frequent protest actions by growers (*The Age* 1986). In one instance, a truck driver from Canonundra was charged with dumping 23 tonnes of wheat outside Parliament House (*The Age* 1986). At the hearing, Magistrate John Dainer stated 'I think every right minded person in Australian community has a lot of sympathy for the farmers'. Indeed, farmers were positioned as both the victims of Federal Labor Government policy and its primary opponents, with an editorial in *The Land* (1986a) stating: 'There is no doubt that the farming sector is not getting the justice it deserves […] Farmers are being crucified by government policies keeping interest rates up to support the Australian dollar and hold down inflation'. Similarly, Katherine West stated in the *Weekend Australian* (1986):

> This year's political agenda will be set by the most vehement opponents of Labor's corporate state, the increasingly militant farmers. If the Hawke government is to be removed at the next election, it is the farmers who will lead the putsch.

Minister for Primary Industries, John Kerin, and Prime Minister Bob Hawke each contributed pieces to *The Mail-Times*, responding to this crisis (1986a; 1986b). According to Kerin, governments could 'seek to create the best possible economic environment […] so that farmers both know what the market signals are and have the opportunity to respond'. Similarly, Hawke stated that 'Our objective has been to secure for Australia an environment which will permit and encourage efficient competitive Australian industries […] to promote efficient marketing and production processes within the rural sector' (*The Land* 1986b). Hawke and Kerin each framed 'protectionist' policies by other nations as the central cause of declining farm profitability in Australia, while repositioning the role of government as focusing on creating an economic environment promoting competition and efficiency, thereby enabling producers and consumers to respond to market signals.

Fostering self-reliance and efficiency

Throughout the 1980s, exit rates of farmers increased (Barr *et al.* 2005). Exit rates of young farmers grew sharply while the numbers of young farmers entering the industry declined (Barr *et al.* 2005). The pressure on farmers, and the exhortations for them to improve efficiency, is highlighted by a 'D. Dodles' in a letter to the editor published in Stock and Land (1986b) which stated:

> Inefficiency is a word being thrown around the nation to describe many farmers […] I am one of these inefficient farmers and would like someone to point out where I can improve my cash flow and not say 'double your numbers' or 'get big or get out'.

This highlights how inefficiency is both portrayed as a problem caused by regulation but is also conceptualised as an individual failing, rather than a result of structural factors. This is emphasised by focussing on self-sufficiency and self-reliance, as in the Federal Governments' 1986 'Economic and Rural Policy Statement' which detailed the government's response to the crisis:

> We will respond positively to the serious difficulties farmers are facing and work hard as a government both to help those in immediate need and to restore the sectors long term viability. We will do all that we can to maximise the farm sectors contribution to lifting our overall national economic performance (Commonwealth Government 1986: 8).

The solution to the crisis of farm viability is portrayed as being to facilitate farmer exits, which the Commonwealth Government claimed 'can improve resource allocation and add to the sector's long term productive capacity, particularly where farmers are heavily overcapitalised or too small to be viable in the longer term' (Commonwealth Government 1986: 37). Farmer exits are thereby framed as a necessary step to enhance the contribution of farming to the nation's economic performance. This discourse prioritises self-reliance, individualises farmers and shifts responsibility from governments to individuals and communities. At the same time, it rationalises these shifts by claiming that such measures would ultimately serve the nation.

Late 1980s: free markets, commercial independence, and self-interest

The IAC's 1988 inquiry into the Wheat Industry continued to develop the notion of growers' choice through free markets as being central to farm viability and profitability, claiming that statutory marketing limited the 'ability of growers to seek out new markets' (IAC 1988: 3). Under the heading 'Removing Regulatory Impediments', the report states:

> In the Commission's view, the most significant contribution which the Government can make to improving the wheat industry's competitiveness, in a manner which ensures that the benefits are broadly spread throughout the community, is to remove those impediments which impede growers and buyers of Australian wheat from responding flexibly to market opportunities.

Market signals and market opportunities, stymied through the 'regulatory impediments' imposed by statutory marketing, are related back to growers' capacity to exercise choice and flexibility (Department of Primary Industries and Energy 1988: 3). Enhancing growers' ability to respond to markets was argued by minister Kerin to be a central responsibility of government, claiming that 'There is a need to shape the direction of the nation's grains industry towards a future where commercial independence, maximum efficiency and marketing flexibility will be key criteria' (Department of Primary Industries and Energy 1988: 2).

Kerin's quoted statement reinforces the emphasis on the capacity of growers to exhibit efficient use of resources and rational choice-making to support their own independence. A similar view can be seen in the IAC's reference to the 1982 Balderstone report to the Minister for Primary Industry (Balderstone *et al.* 1982: 88, cited in IAC 1988: 103) which stated that: 'The most appropriate system for agricultural commodities exposes producers and consumers to the prevailing market forces and at the same time possesses sufficient flexibility to be able to react to these forces'. Similar reference to 'market forces' occurs repeatedly in discourses around the farm sector throughout this period, as almost having a mythical power. At the same time, private grain trading companies are argued to offer great benefits to farmers, 'because of greater marketing efficiency resulting from the commercial disciplines to which traders are exposed' (IAC 1988: 112). The BAE contends that 'private grain merchants […] would have greater incentive to identify and select less costly marketing channels' (1983, cited in Victorian Government 1987: 42). Throughout policy discourse during the late 1980s, private enterprise is portrayed as being critical to ensuring a viable farm sector and improving farmers' fortunes, while farmers are encouraged to prioritise their own self-interest through making choices which benefit them.

Free markets are conceptualised as being apolitical (IAC 1988: 112), while regulation is described as political. In January 1989, Lindsay Criddle of the Grains Council of Australia spoke to *The Land* (1989) from a grains conference in the United States, claiming that:

> What Australian growers have to do is look after themselves […] We have to get all our structures away from politics and operate them on a commercial basis […] It is abundantly clear our structures are based on a political ideology rather than commercial cost effectiveness.

This statement emphasises commercial discipline and cost-effectiveness as depoliticised and disinterested notions, forming the best basis for rational policy making. Criddle reinforces the shift towards supposed self-interest, which itself is framed as a rational response for Australian farmers to take, as opposed to the longstanding focus on collective marketing.

Critique of waterfront 'inefficiencies'

Throughout the late 1980s and early 1990s, farm lobby groups such as the Grains Council of Australia and NFF continued to reproduce discourses of competition, efficiency and free markets, particularly in their sustained criticisms of the 'inefficiencies' of Australian ports (*The Courier Mail* 1989; *The Northern Times* 1988; *The Weekly Times* 1988; Hollings 1989). As Lindsay Criddle argued, 'inefficiencies on the waterfront cost grain growers $30 million more than it should, due to overmanning on the wharves' (*The West Australian* 1988). Statements such as this position farmers as being unfairly burdened by 'inefficient' collectivist policies and practices in other industries. As Criddle claimed, farmers were being 'screwed by over-manning rorts and feather bedding by waterfront unions', stating that 'At the end of the day, it is the growers who have to pay' (*The Land* 1988). Criddle argued 'The time for action has come […] The time is right to get stuck into the whole waterfront mess and it is appropriate for the grains industry, which is so dependent on port efficiency, to take the lead' (*The Northern Times* 1989). Similarly, Don McGauchie claimed that the 'grains industry' was 'fed up with the governments' delays in reforming the heavily unionised waterfront' (*The Courier Mail* 1989). As NFF Transport Director, Peter Barnard, argued: 'You'd have to be wearing very, very dark glasses indeed not to see the inefficiency when a grain ship is being automatically loaded and there are as many as 20 waterfront workers just standing around (*The Weekly Times* 1988). Barnard stated that the NFF was 'considering a joint venture with a major stevedoring company – on the condition that they will spearhead reform in work practices' (*The Weekly Times* 1988).

Ultimately, McGauchie, as President of the NFF, formed P&C Stevedores with Paul Houlihan in the late 1990s to circumvent unionised labour and contest the Maritime Union of Australia's control of Australian ports, leading to one of the most significant industrial relations disputes in Australia's history (McGauchie 1998; Houlihan 1998). According to Houlihan (1998), this intervention was made possible through the Howard Government's introduction of the *Workplace Relations Act* in 1996:

> You had the establishment of the Australian Workplace Agreements that meant that you could employ labour on the waterfront, or anywhere else for that matter, without being roped in to the existing industry standard. That meant that there then was the legal capacity to employ labour on the waterfront separate to, mind you, it had to be lined up with, but nonetheless separate to the terms and the conditions of the Stevedoring Industry Award.

Farm lobby groups continued to push for reform in areas such as industrial relations, in industries which were effectively outside agriculture, claiming that competition and efficiency were essential to support the farmer. Constructed as a self-reliant and resilient battler, 'the farmer' was held to be a pinnacle of Australian strength, hard work and resilience (*Stock Journal* 1992). This is further illustrated by farm lobby groups' ongoing focus on government subsidies provided to the motor vehicle industry, with some farm representatives claiming that agriculture was effectively subsidising such 'uncompetitive' sectors (*The Mercury* 1992; *The Canberra Times* 1992). As then NFF president Graham Blight stated in relation to the perceived generosity of these subsidies:

> Why should we continue to keep picking up the cheque? If [Australian based motor vehicle manufacturers] can't compete they've got to get out altogether.

Farm lobby groups active through this period sought to reproduce discourses espousing the virtues of 'free' markets to argue for reduced government intervention and market deregulation in other sectors and industries. This furthered the legitimisation of the concepts of competition and efficiency in agricultural policy, including wheat marketing and farm assistance. This influence was articulated by Australian politician Tony Abbott, later claiming that:

> Economic reform was an act of faith two decades ago. Now, Australians know it works. Twenty years ago, the impetus for reform came largely from the National Farmers Federation whose members were tired of

> subsidising inefficiency. Rural Australia can claim much of the credit for the prosperity Australia as a whole now enjoys (Abbott 2000).

Farm lobby groups such as the NFF lobbied for deregulated markets, the dismantling of government-controlled monopolies and for substantial reforms to industrial relations. McGauchie (1998) rationalised this persistently pro-market lobbying, stating:

> It hasn't always been popular, even among the farming community and probably less so today than ever, that NFF has taken the sort of approach that it has taken. Yet when you recognise that we export some 20 billion dollars' worth of product and import about 2 billion worth of agricultural products, it is easy to see why we recognise the need to open this economy up as much as we have attempted to.

The lobbying was claimed to be focused on ensuring that growers can maximise their returns through cost reductions said to result from opening all parts of the supply chain to market competition. The independent, self-reliant farmer is contrasted with constructions of lazy, inefficient and selfish unionised workers on the waterfront, and the inefficient and costly government-controlled rail and freight networks. This symbolism was used by farm lobby groups in their attempts to push for greater deregulation and reform in sectors supporting agriculture. It created a discourse that marginalised those farmers who did not perceive themselves as entrepreneurial and who supported collective marketing because of the solidarity among growers that it encouraged. The discourse also legitimised the actions of the Australian government, particularly during the Howard government period, in encouraging greater structural adjustment and deregulation of statutory marketing, all in the name of supporting farmers to become more entrepreneurial and market-oriented (O'Keeffe 2019).

1990s: shaping the business-minded farmer

In the early 1990s, environmental factors such as more drought undermined the viability of many Australian farmers. The capacity to respond to drought, among other challenges, was increasingly portrayed in policy discourses as an individual responsibility of farmers. This is exemplified by the repeated assertion that 'fitness' in farming is related to the capacity of farmers to be efficient, and to withstand challenges such as drought without relying upon government support (*The Australian* 1994; *The Age* 1994; *The Weekend Australian* 1992). This conceptualisation of self-reliance in terms of economic 'fitness' and commercial performance is referred to in the report of the Drought Policy Review Taskforce inquiry, citing McInnes *et al.* (1990: 9):

> self-reliance recognises the primary responsibility of individual producers for the commercial performance of their enterprises and for ensuring agricultural activity is carried out in an economically and environmentally responsible manner. This concept also recognises that governments should not intervene to distort market prices or outputs.

This definition constructs good commercial performance as an economic responsibility. As ALP Federal Government minister Simon Crean stated in relation to the 1992 National Drought Policy, the intention was to 'encourage farmers to move away from a "handout mentality"', adding that 'There is no point delaying the inevitable for the farmer who will never make it' (*The Weekly Times* 1992). NFF President Graham Blight stated in response:

> To qualify for drought assistance under the [Rural Adjustment Scheme], farmers must be judged to have sound long term prospects in farming. Those who do not fall into that category will not be eligible for drought assistance [...] That is discriminatory and inconsistent with [...] the Government's commitment to social justice (*The Weekly Times* 1992).

Such reservations aside, farm lobby groups generally legitimised neoliberal tenets of self-reliance, allocative efficiency, and competition, increasingly deployed by governments to rationalise the lack of support provided to farmers and rural communities impacted by drought, declining populations and reduced services. These discourses reproduced the IAC's rationalisation of farming, with economically responsible farm practice frequently couched in terms of productivist farming methods (including farm consolidation, exploiting economies of scale and using technological inputs), developing a business-minded, market-focused orientation and encouraging farmers to be self-reliant and risk-averse (Anderson and MacDonald 1999; Industry Commission 1996; Department of Primary Industries and Energy 1996; NFF 1993; Burdon 1993). Economic failures of farms are interpreted as caused by farmers' personal incapacity to adopt these economically responsible practices.

According to then Minister for Primary Industries and Energy, John Anderson, farm failure results from outdated work practices, poor management and under-investment in new plan equipment (*Sydney Morning Herald* 1996a). CSIRO scientist Dean Gaetz put it more stridently, saying that farmers who experienced difficulty were 'idiots who didn't learn', and who had 'not made sound business decisions' (*Sydney Morning Herald* 1996b). Based on such views, farm exits are deemed essential for transitioning 'bad' farmers out of the industry and creating a 'younger and fitter' rural sector (*The Australian* 1994), thereby helping Australia to 'fully capitalise on its resource base and provide higher living standards' (Industry Commission 1996: 28). It is a discourse that constructs entrepreneurialism as central to the 'good farmer' identity, building on earlier notions of self-sufficiency and self-reliance but now differentiating between the 'good farmers' who were able to adapt to the changing economic and policy environment and the 'bad farmers' whose exit from the industry should be accelerated to create a more prosperous farm sector.

As Don McGauchie (1998) explained at the 1998 conference of the HR Nicholls Society:

> Competition is not an end in itself. It is not a virtue of itself. It is something that we have to do in order to have more jobs and to have better jobs for the majority of our people. Of course, in that whole process we run into what I think is one of the great paradoxes and that is you have to shed jobs often to create new jobs. If you are going to continue to evolve the economy in a modern way so often you have to shed many jobs in order to open up the new ones that are there. Otherwise, of course, we would all be subsistence farmers. The logic is so obvious and yet it is not always clear to people who have to live through it.

This statement describes job losses through economic restructuring caused by competition as a necessary part of the evolution of economies – a logic that reflects 'obvious' common sense thinking integral to 'modern' policy making. Such examples illustrate how competition and efficiency came to be developed as policy truths, both in agriculture and more generally.

The 'Agriculture – Advancing Australia' package, implemented by the Howard Government, further extended the construction of good farmers as business-minded, entrepreneurial and self-reliant. Reflecting on this policy approach, Howard government minister Warren Truss (2000) said:

> The government has assisted farmers to enhance their skills in such key areas as risk management, business planning and natural resource management. The modern farmer must be part producer, part market analyst and part natural resource manager […] The AAA package has helped farmers to improve their business and risk management skills and to become more self-reliant.

These skill development programs, such as the Farm Management Deposits program and the Farm Business Improvement program, aimed to develop farmers self-reliance through skill development (Howard 1997; Truss 2000; Department of Agriculture, Fisheries and Forestry 2004). The construction of presumed skills such as business development, risk management and marketing as integral for the good farmer highlight the type of farmer that is being constructed in this process.

Conclusions

This article has sought to contribute to the existing literature on neoliberalism by analysing how its key values and ideas influenced policies and practices in the Australian wheat industry during the last three decades of the Twentieth Century. It shows that the discourse constructing the 'good farmer' as self-reliant and entrepreneurial and 'good policy' as maximising efficiency through free markets are closely interlinked. Each of these constructions was made possible through the network of discourses, including government reports, comments in rural press by farmers, politicians and industry leaders, government policy and reports and publications by industry groups.

The growing influence of mainstream agricultural economists on policy making from the 1970s onwards contributed to the emergence of concepts such as efficiency and competitive markets as central values around which agricultural policy should be focused, and to the marginalisation of alternative perspectives. As is evident in the work of Mauldon and Schapper (1974) and LeCouteur (1971), the construction of farms as 'units of resources' sought to minimise the significance of farmers themselves. What mattered was the productive use of farmland and that these resources were controlled by the most productive operators to ensure maximum benefit for the farm sector and the broader Australian economy. Thus, the exits of 'unviable' farmers from the industry was framed as beneficial outcome of good policy making. As previously noted by Pritchard (2005), this represented a radical departure from post-World War II agricultural policy, which created the framework for the larger-scale deregulation and privatisation initiatives that were implemented extensively in Australian agriculture, as well as other industries, throughout the 1980s and 1990s.

The IAC's influence was particularly significant in the shift from collectivist-policies, such as statutory wheat marketing, towards the focus on 'free markets' evident in agricultural policy making. For example, the IAC (1983, 1988) claimed that collective wheat marketing undermined industry efficiency, restricted growers' choice and reduced growers' capacity to seek maximum prices for their grain. Arguments supporting collective wheat marketing had previously emphasised the need to protect growers but, in a context where allocative efficiency and the exits of less-efficient farmers had become key policy objectives, that former ambition was framed as being counterproductive. As this study shows, throughout the 1980s, farm lobby groups reproduced these constructions, pointing to the need to reduce 'costs' arising from other industries, such as transport and the ports, which were perceived to be undermining the viability of individual farmers. In this regard, reforms promising greater competition, efficiency and productivity through deregulated markets were positioned as essential measures to address the continuing economic malaise that was said to have been created by 'protectionist' policies. These reforms were posited to be inevitable, representing common sense thinking that would ultimately 'put more money in growers' pockets'.

The changing constructions of the farmers themselves is integral to this analysis. From the 1970s onwards, policy discourses created distinctions between the good farmer – framed as being modern, self-reliant, business-minded and entrepreneurial, and wanting choice and control over how they sell their wheat – and the bad farmer destined to depart the industry. As these ideas became more entrenched in the 1990s, policies such as the 'Agriculture – Advancing Australia' package sought to connect government support to farmers' demonstrated capacity to be 'business-minded'. Alongside concepts of competition, individualism and efficiency in policy making, such constructions were used to depict farm viability issues and farm failures as resulting from individual farmers' incapacity to act rationally and demonstrate modern, entrepreneurial decision making. Farmers were conceptualised less in terms of their relationships with communities or with the land, but as individuals whose potential for longevity in the industry and, by extension, longevity in their communities, was determined by their capacity to be competitive and conduct themselves as self-reliant individuals. This 'modern' conception of the 'good farmer' was positioned as an essential response to the inevitable opening up of markets to global competition.

These constructions also contributed to de-legitimising policies with more collectivist characteristics, such as statutory wheat marketing, that were portrayed as helping bad farmers to remain in the industry, at the expense of good farmers, the nation and the consumer. Deregulation was thereby framed as an essential measure, serving to both facilitate allocative efficiency and support the entrepreneurialism of good farmers. In the name of supporting the overall productive capacity of the farm sector, farmers (particularly smaller-scale farmers) were marginalised in the dominant discourse and many of them effectively structured out of the industry.

Farm lobby groups performed a significant role in facilitating this shift. Claiming to support improved economic prospects for farmers, farm lobby groups reproduced the neoliberal discourses of competition, efficiency and self-reliance, legitimising these discourses in Australian policy making. 'The farmer' was constructed as an independent individual who was being unfairly punished by unionised labour and government monopolies; and this construct was used by farm lobby groups to argue for deregulation, privatisation and industrial relations reform. Ultimately, this served to further entrench policy 'truths' of rationalisation, competition and entrepreneurialism within agriculture and beyond, with governments, most notably the Howard Government, aiming to facilitate accelerated deregulation and structural adjustment in the name of encouraging allocative efficiency and productivity growth. Such policy shifts undermined the viability of many smaller farmers and rural communities.

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REVIEW ESSAY

RESPONSES TO THE SOCIO-ECOLOGICAL CRISIS: PLANETARY HEALTH, CLIMATE CHANGE AND COVID-19

Hans A. Baer

The world system and many of the nation-states within it are in the midst of a socio-ecological crisis. It is presently manifesting itself in many ways: climate crises of various sorts (heat waves, droughts, wildfires, torrential rains, floods, and polar vortexes); environmental degradation, including pollution of the air and seas; increasing concentration of wealth alongside on-going poverty; armed conflicts and refugees; the COVID-19 pandemic and vaccine nationalism; and signs of a new cold war, with the US, UK and China, perhaps Australia, being the principal actors. While the seven books reviewed in this review essay do not touch upon all these points, they address a broadly common theme, namely redressing the deepening global ecological and social crisis.

The essay juxtaposes two books written by iconic global celebrities with two others by international political economic contributors. The two celebrities' books are *Life on Our Planet* by naturalist David Attenborough and *What Can I Do?* by film star Jane Fonda. The more explicitly political economic works are *Climate Crisis and the Green New Deal* by Noam Chomsky and Robert Pollin and *Corona, Climate, Chronic Emergency* by Andreas Malm. Having considered these, attention then turns to three books by Australian authors – Marian Wilkinson's *The Climate Club*,

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Rebecca Huntley's *How to Talk about Climate Change*, and John Wiseman's *Hope and Courage in the Climate Crisis*. All have appeared during the COVID-19 pandemic; and all address the climate crisis, albeit in markedly different ways.

Let's begin with David Attenborough because of his unparalleled status as a public advocate for the environment. Part One of his book presents a 'witness statement', reflecting the on state of life on Earth at various points during his life. He observes that, when he was age eleven in 1937, world population was 2.3 billion, carbon in the atmosphere stood at 280 parts per million, and remaining wilderness constituted 66 percent of the world's land area. In 2020 at age 94, the environmentally relevant data are strikingly different: world population has more than trebled to 7.8 billion, carbon in the atmosphere has risen to 415 parts per million, and remaining wilderness has shrunk to just 35 percent of the world. Attenborough, who has criss-crossed the planet with his film crews seemingly countless numbers of time – ironically, emitting considerable greenhouse gases in the process – argues that the natural world is fading due to human activities, exacerbated by 'runaway' economic growth. He observes that the first view of Earth from Apollo 8 altered the way that humans perceive their planet and themselves, although not necessarily always for the better.

In Part Two of the book on 'What lies ahead', Attenborough states: 'When the global ecological breakdown does finally settle and we reach a new equilibrium, humankind for as long it continues to exist on this Earth might be living on a permanently poorer planet' (p.105). I could not agree more. So, what is to be done? In Part Three on 'A vision for the future: how to rewild the world', Attenborough makes a statement that for a moment made me think that he might be a closet eco-socialist. He boldly argues that humanity 'must learn not only to live within the Earth's finite resources, but also how to share them more evenly too' (p.128). His solutions include moving beyond growth, switching to clean energy, engaging in regenerative agriculture, rewilding the seas, taking up less space, rewilding the land, and drastically reducing population. How Attenborough plans to achieve these aims within the parameters of global capitalism mystifies me and I doubt it can be achieved, despite his best intentions, especially not by teaming up in the Earthshot project with Prince William who, as a royal, must have a huge ecological footprint.

Jane Fonda's book focuses specifically on climate change and its personal implications, as it's *What Can **I** Do?* title signals. She says that, given that gravity of the climate change crisis, she has had a strong urge to transform herself once again, going beyond the efforts she had made since the 1970s to be an environmental activist, having installed a windmill at her ranch in 1978, solar heating and electricity at her Santa Monica house in 1981, and reduced her consumption of red meat. While it entailed a fair amount of jetting back and forth across the United States – which Fonda admits was not a particularly environmentally sustainable activity – she decided to join forces with the likes of Greenpeace once again, teaming up with Bill McKibben, Naomi Klein, and others in several 'Fire Drill Fridays' rallies and teach-ins during 2019 in Washington, DC. The 'Fire Drill Fridays' movement supports a Green New Deal, opposes new fossil fuel extraction, and calls for the phasing out existing fossil fuels with a just transition to clean renewable energy. Fonda's book has numerous pictures, including one of her being arrested, along with crisp, short statements from various celebrities and climate activists on the need to take climate action.

For people who still have not quite wrapped their heads around the seriousness of the socio-ecological crisis, Fonda's book incorporates many facts about the impact of climate change on the oceans, water resources, health, forests, migration, and women. It also considers the relationship between militarism, agriculture, and excessive plastic consumption and the ecological and climate crises. Moreover, it engages with concepts such as environmental justice and a just transition for workers being displaced from fossil fuel industries to renewable energy industries. The final chapter of the book urges people, particularly Americans, to speak to others about the gravity of climate change, vote for climate leaders, and organise 'Fire Drill Fridays' rallies. Fonda's political positioning, like Greenpeace and the 'Fire Drill Fridays' movement, is in the mainstream of the climate movement with its emphasis on tweaking capitalism by making it more socially just and environmentally friendly. It does not join with the climate justice activists' more radical call for 'system change, not climate change' that seeks to transcend capitalism by trying to shift to an alternative political economy based upon a blending of eco-socialist and eco-anarchist principles.

The third book under review is by the renowned public intellectual Noam Chomsky, writing in tandem with Robert Pollin, political economist at the

University of Massachusetts. Prior to writing his sections of *Climate Crisis and the Global Green New Deal*, Chomsky had only fleetingly touched upon climate change in short commentaries, but this new book engages more deeply with the topic. Chomsky's co-author Pollin is particularly critical of William Nordhaus, who received the Nobel Prize in Economics in 2018 for his research on the economics of climate change, describing his approach as being 'utterly sanguine about accepting the risks we would face allowing the global mean temperature to rise by 4^{o} C by 2150' (p. 23). Indeed, many climate scientists are now arguing that, if the world does not rapidly reduce greenhouse emissions, a four-degree warmer world would be reached in 2100, not 2150.

In commenting on the Australian bushfires in late 2019 and early 2020, Chomsky observes in the book that, after the Australian prime minister 'returned grudgingly from a vacation to assure his constituents that he felt their pain', the 'opposition labor leader toured the coal plants, calling for expansion of Australia's role as world champion coal exporter and assuring the country that this was quite consistent with Australia's serious comment to combating global warming' (p.12). Chomsky argues that a revival of the labour movement is essential for a variety of reasons, including addressing the environmental crisis, noting that Tony Mazzocchi, head of the Oil, Chemical and Atomic Workers International Union, had been a 'harsh critic of capitalism as well as committed environmentalist' (p.50). However, while sympathetic to efforts to transcend capitalism, Chomsky asserts that the immediacy of the climate crisis requires addressing it within the 'framework of state-capitalist systems' (p.58): hence his endorsement of a Green New Deal as an interim strategy. Pollin argues that a viable Green New Deal would require large-scale public investment, public ownership, and stringent regulation of emissions.

On the question of eco-socialism, Chomsky does not view it as a viable political project at the present time, seeing it rather as providing a forum for 'sharpening ideas' about what a future society might look like. Differently, his co-author Pollin asserts that 'eco-socialism and the Green New Deal are fundamentally the same project' (p.146). Contrasting with the relative dynamism of climate movements in advanced capitalist societies, he argues that the movements in most low- and middle-income countries operate at more modest levels, although conceding that this situation could quickly change.

How does the COVID-19 pandemic fit into the picture? Chomsky fleetingly remarks that the pandemic is 'virtually all-consuming' but believes that 'it will pass, perhaps at horrendous cost, and there will be recovery' (p.139). It is a position that contrasts significantly with that taken by Andreas Malm, the author of the fourth book under review here. Indeed, Malm's *Corona, Climate, Chronic Emergency* differs from each of the three books already reviewed because it addresses the pandemic front and centre, analysing the complex interaction of global capitalism, climate change, and COVID-19. Malm observes that, of the ten countries with the most deaths from COVID-19 as of late March 2020 (the USA, Italy, China, Spain, Germany, France, Iran, UK, Switzerland, and Netherlands), only Iran and Switzerland were not among the countries most responsible for the cumulative CO_2 emissions that have occurred since the middle of the 18th century.

Moreover, capitalist-driven deforestation and food production has resulted in zoonotic spill-over from animals to humans, in many cases starting with bats and intervening wild animals, such as pangolins sold in 'wet markets' such as the one in Wuhan, China. Initially, the major epicentres of COVID-19 were generally rich cities, such as New York, London, and Hong Kong, but megacities in the Global South, including in India, Brazil, Peru, and Mexico, subsequently became epicentres of the pandemic, a scenario that is still playing itself out before our eyes. Dependence on food from other regions and countries also varies enormously internationally: EU countries source over half of their land-based consumption from other regions of the world – over 80 percent in the case of the Germany. At the high end of capitalist developed countries, Japan sources 92 percent of its land-based consumption from other regions; while, at the low end, the USA sources only 33 percent of its land-based consumption from other regions, largely because of its enormous land mass.

Transport arrangements are also significant influences on the spread of diseases and environmental impacts. Whereas during the nineteen century and first half of the twentieth century, steam-powered trains and ships diffused infectious diseases around the world, aeroplanes have become the principal transport modes doing so, as happened with the SARS epidemic in 2003 and with COVID-19. In the case of the latter, cargo ships and cruises ships have played a pivotal role in disseminating COVID-19, with some infected passengers completing their journeys home on airplanes. As Malm observes, ‘By late January 2020, the virus had become an unstoppable sponger on the global aviation network’ (p.74). Prior to the lockdowns of most aeroplane flights around the world, aviation was contributing 5-6 percent of greenhouse gases and increasing at roughly five percent per annum (Baer 2020). Of course, flying is an activity that affluent people, particularly businesspeople, politicians, celebrities, and even high-status academics, do more than most others.

Malm argues that the three coronavirus epidemics might be the by-products of climate change. SARS appeared in the wake of a drought in Guangdong; MERS first appeared in rain-free Jedda; and SARS-COV-2 erupted amid the worst drought in Wuhan area in 40 years. The combination of infectious disease epidemics and climate change suggests humanity has entered an era of chronic emergency. In contrast to COVID’s impact on conventional aviation, Malm observes: ‘One form of aviation boomed; by mid-March, bookings with private jet operators in the US had increased tenfold, as clients took their families and private doctors to vacation houses secluded far from contagious masses’ (p.92). Conversely, self-isolation and social distancing is impossible to achieve in slums.

Malm posits that humanity faces two options, the first flowing ‘deeper into catastrophe’ and the second entailing transformation into ‘another form of socialism, one that recognises that time is up and another decade or even year of this status quo is intolerable’ (p.121). He acknowledges that social democratic approaches, such as those unsuccessfully promoted by Bernie Sanders in the US and Jeremy Corbyn in the UK, can play a role in addressing the socio-ecological crisis, but sees the need for more systemic change and more immediate solutions. Malm advises moving away from meat consumption, arguing that a shift toward global veganism ‘would give some room back to wild nature and disengage the human economy from the pathogen pools’ (p.130). He adds that ending wildlife trade is not only the responsibility of China but many more nations around the world. Malm does not simply call for some sort of eco-socialism but for an *ecological Leninism* that would ‘subject the regions of the economy working towards catastrophe to direct public control’ (p.151). He distances himself from classical Marxists who have viewed socialism as a social formation of unlimited abundance. Invoking Lenin's passion for wild nature, Malm calls for, in a figurative sense, 'ecological war communism' that would require 'learning to live without fossil fuels in no time, breaking the resistance of dominant classes, transforming the economy for the duration, refusing to give up even if all the worst-case scenarios come true, rising out of the ruins with the force and compromises required, organising the transitional period of restoration, staying with the dilemma' (p.167). He leaves it to others to figure out how humanity might transition from the existing capitalist world system that exploits both people and nature to the required situation of this ecological war communism.

As well as these four contrasting books, three others by Australian authors warrant attention, especially from local readers. These have been written by investigative journalist Marian Wilkinson, social researcher Rebecca Huntley and social scientist John Wiseman. All three books provide illuminating insights into the topsy-turvy world of Australian climate politics.

Wilkinson's contribution is *The Climate Club,* a highly readable book that discusses in detail the machinations of the self-designated Greenhouse Mafia. Its origins hark back to the days of Prime Minister John Howard, but it has continued to exert major influence through the decade of Abbott, Turnbull and Morrison governments. As Wilkinson shows, an alliance of climate sceptics, politicians, business leaders, particularly from the mining and fossil fuels industries, and think tanks such as the Institute of Public Affairs collaborated to ensure only a minimalist response to climate change. It undermined efforts of the ALP governments led by Rudd and Gillard to take effective climate action; and has since reinforced the party's reluctance to challenge the coal mining industry. Such inactions or minimalist actions on climate change have earned Australia the dubious status of a 'climate laggard' compared to various other countries, such as Germany, the UK, and particularly the European Union. Wilkinson pays less attention to the politics of dissent. While her book discusses Greenpeace and the climate action advocacy work of actors such as Al Gore and his collaborative work with Don Henry, the former director of the Australian Conservation Foundation, it does not give much consideration to the disparate climate movement, often operating 'under the radar' of mainstream climate politics but still influential in shaping the views and actions of many Australians concerned about climate change.

Nevertheless, as a study of the insidious uses of political economic power, her book makes for a captivating and enlightening read.

Rebecca Huntley, a social researcher who has done work for various environmental NGOs, decided to become a climate activist when prompted by her children's concern about climate change and moved by the likes of Greta Thunberg and the school climate strikers. She attended Al Gore's Climate Reality Project in Brisbane in 2019 and subsequently completed her book *How to Talk About Climate Change in a Way That Makes a Difference*. For what it is worth, in my role as a climate scholar-activist, I did the CRP training, which was co-sponsored by the Australian Conversation Foundation, in Melbourne in 2014; and I came away convinced that Gore is the ultimate green capitalist, believing that climate change simply can be contained by turning to renewable energy sources and carbon pricing of some sort. In an engaging manner as a climate communicator, Huntley explores the emotional resistance among her fellow Australians to discussing climate change. However, while referring to various drivers of climate change, such as fossil fuels, meat production, the internal combustion engine, consumption, and lifestyle, nowhere in her book does she mention the 'elephant in the room', the overarching driver of climate change, namely global capitalism. The closest she gets is a fleeting mention of the need to 'encourage the countless venal politicians and greedy corporations to make decisions based not on short-term profits and self-interest but on the long-term interests of "ordinary people"' (p.159). While more progressive politicians are indeed capable of acting in this manner, corporations merely act according to the dictates of capitalist logic in their profit-making activities, notwithstanding much hype about corporate social responsibility.

Huntley seems to be aware of social justice issues emanating from climate change, such as when she notes that: 'If you live in Zambia or Kiribati, and you know your country contributes almost nothing to global CO_2 emissions, you have nothing to feel bad about. In contrast, people living in wealthy countries know that their much valued way of life is under scrutiny because of climate change' (p.75). Unfortunately, like her mentor Al Gore, she does not elaborate upon such contradictions. Discussing the need for replacing capitalism with an alternative that is not systemically geared to the exploitation of nature is extremely difficult, of course. It is a problem that I have not fathomed how to resolve, resulting in the frustration and even anger that I often feel because of my limited ability to crack this nut, other than writing about it and presenting guest addresses in various venues. Perhaps there is a need for someone to pen a how-to-do it book along the lines of *How to Talk About Capitalism as a Driver of Climate Change in a Way That Makes a Difference.*

That thought leads into consideration of the last, but certainly not least, recent book to be reviewed in this essay. This is John Wiseman's *Hope and Courage in the Climate Crisis: Wisdom and Action in the Long Emergency* (Wiseman 2021). As a scholar and climate activist, Wiseman adopts an eclectic approach to grappling with the climate crisis, not only in Australia but world-wide. He draws upon Indigenous peoples' and First Nations' knowledge in caring for country; Greek and Enlightenment philosophy in the search for a just society and highlighting the virtues of moderation; critical theory in illuminating the patterns of domination and reconnecting with the world and the Earth; the Christian, Jewish and Islamic traditions in seeking love and care for humanity and the planet; the Buddhist, Taoist, and Confucian traditions in learning to cope with suffering and impermanence, overcoming ignorance, violence, and greed, and developing compassion and generosity; and the ecology of mind approach of Gregory Bateson and deep ecology of Arne Naess. Not surprisingly, in some places in his book there are epistemological difficulties in seeking to blend so many voices.

What about a strategy for finding a way forward? Wiseman is quite aware that various ecological Marxists, such as John Bellamy Foster, argue that, following Marx and Engels, capitalism is in a metabolic rift with nature and thus ultimately needs to be transcended by means of an ecological revolution of some sort, although there are a variety of visions of what this might entail. Wiseman asserts that the 'awkward and confronting reality is however that the speed with which the climate crisis is unfolding will probably require a timetable for emissions reduction far shorter than that required to radically transform capitalist economic, social and political relationships' (p.97). While cognisant of the limitations of the 2015 UN Paris Agreement, he has opted to place his energies in promoting a post-carbon pathway or a program of ecological modernisation, while refraining from promoting post-growth and post-capitalist pathways. Ironically, he does cite the work of Donnella Meadows who, along with her Club of Rome colleagues, called attention to the limits to growth almost a half a century ago (Meadows *et al*. 1972). Wiseman is in good company with many climate activists, including those in Green parties around the world and in the fossil fuels divestment movement, who seek to tweak capitalism by supposedly making it more socially just and environmentally sustainable. However, for eco-socialists, eco-anarchists and many Indigenous peoples and parties in the Global South - some of whom he mentions, including Vandana Shiva in India and Evo Morales in Bolivia - the struggles against capitalism and for a socially just and an ecologically sustainable alternative are one and the same. While Wiseman advocates climate justice, the call that many climate justice activists make for 'system change, not climate change' means moving beyond capitalism. The sad reality is that notion of climate justice has been domesticated by many operating within the parameters of the Framework Convention on Climate Change process which met for the 26th time in Glasgow in November 2021.

Presenting a timeline of transition from the existing capitalist world system to an alternative based on social justice, deep democracy, environmental sustainability, and safe climate is extremely difficult, probably impossible. However, the stabilisation of the Earth's eco-system needs to occur within the next two or three decades, lest large swathes of land become uninhabitable for human as well as nonhuman beings. Such a dystopian scenario is not out of the realm of possibility. Hopefully, as humanity finds itself in an increasingly critical situation, whether taking the form of gross social inequality, authoritarianism, environmental degradation, climate turmoil and raging pandemics - perhaps all of these - counter-hegemonic voices will receive a better reception than they do now and will inspire radical action.

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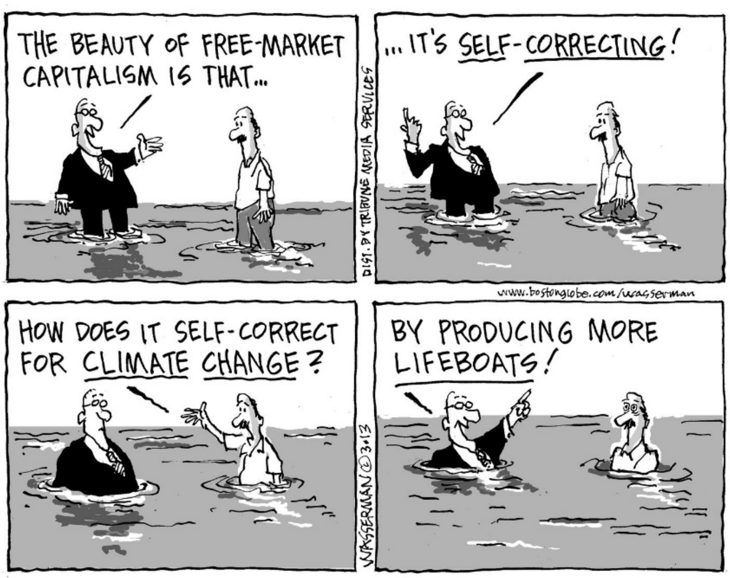

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