CHAPTER 14

BOOM AND RECESSION

RODNEY MADDOCK AND FRANK STILWELL

THE AVERAGE AUSTRALIAN became almost twice as well off in the boom years between 1939 and 1968, and goods and services produced trebled. By contrast the economy had only doubled in size in the 30 years before 1939, and living standards had risen by just 10 per cent. Even in the long pastoral boom of the late nineteenth century, living standards went up by only about half. It seems likely that the average Australian got richer more quickly between 1939 and 1968 than at any other period in our history.

BHP turns from wartime production to postwar building. Australia to-day, *1946.*

During the depression of the 1930s economies all over the world had faltered. In Australia unemployment had averaged about 6 per cent during the 1920s, but in 1931 and 1932 nearly 25 per cent of workers were out of jobs, and the unemployment rate stayed at about 10 per cent for the next six years. Such immensity of hardship is difficult to imagine nowadays, even though the 10 per cent level was approached again in the early 1980s. In the 1930s few families had more than one income earner, so the loss of a job left most with only the dole to live on; and the dole of the 1930s bought only about a fifth of the goods that the dole buys today.

The tragedy of the depression still affected economic attitudes after 1939, provoking widespread agreement that the capitalist system alone could not be relied on to prevent a recurrence of depressions and that improved social welfare was needed to reduce the suffering of the poor.

Unemployment was still about 9 per cent when war broke out in September 1939, but the figure fell rapidly as the federal government expanded the armed forces, increased spending on roads and airports, and developed the materials necessary for defence. By the financial year 1941–42 unemployment was below 2 per cent, a rate it seldom exceeded until the mid-1970s. One worker in every five was in the forces, and 40 per cent of national spending was directed towards war purposes.

The economic war effort required the direction of central government and the co-operation of citizens. The government controlled prices, raised taxes, and set

Above.

Employees of Vactric Electrical Appliances Ltd, a British firm, assemble vacuum cleaners at a converted munitions plant in Finsbury, South Australia, in 1947. The firm hoped to attract 'key workers' from Britain.

AUSTRALIAN ARCHIVES

Enlarging the workforce. At Australia House in London, Prime Minister Ben Chifley poses in April 1949 with the Garten family, assisted British migrants.

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limits to the amount of food, clothing, fuel and building materials that could be used for non-military purposes. Government persuaded people to put their savings into war loans and directed personnel towards essential industries. Though black markets appeared, people overwhelmingly supported government control of economic activity.

The Labor party had come to power in 1941 convinced that it could manage the war more effectively than its opponents and share the burdens more equally. Curtin and his treasurer, Chifley, believed that capitalists, particularly bankers, had worsened the effects of the depression and that government had to act to stop another depression. During the war they found that under government direction the economy worked well; and as the end of the war approached, they put together a plan for the future development of the economy.

A major objective of postwar reconstruction was full employment. Experience had taught that capitalism was prone to swing from boom to bust and back again. Now, in Australia as in many other countries, governments committed themselves to preventing busts. Economic policy-makers, following the ideas of the English economist John Maynard Keynes, believed that slumps had been caused by lack of consumer demand and the withholding of resources by investors. It followed that if governments increased their own spending, there would always be a strong demand for goods and services.

What they would spend money on was another policy matter. Improving welfare (child endowment and payments to the unemployed) had become respectable. So had public housing. To finance such government expenditure the federal government relied on steady increases in income taxes. Before 1942 the states and the commonwealth had each levied income taxes. The Curtin government, concerned to pay for the war but also with an eye to the postwar period, passed bills in 1943 which gave the national government control over all income taxation. 'Pay as you go' taxes on personal incomes became the major source of commonwealth revenue. A single man on average earnings paid about 8 per cent of his wage in income taxes in 1948, 11 per cent in 1958, 18 per cent in 1968 and 22 per cent by 1978. Because non-Labor governments were committed to much the same programs as Labor governments, they were bound to continue the higher levels of taxation.

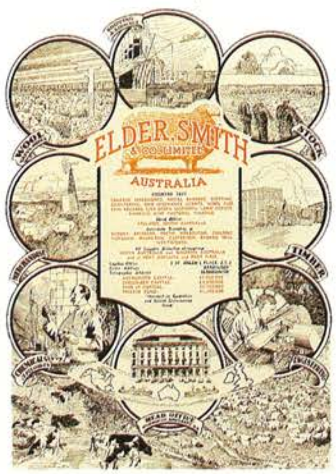
When the Labor party lost office in 1949 the new Liberal–Country party coalition government of R.G. Menzies did little to change the way the economy was managed, though Menzies arranged for the sale of Commonwealth Oil Refineries to British Petroleum and the sale of the Commonwealth's shares in the Bell Bay Aluminium Refinery and in Amalgamated Wireless (Australasia), arguing that it was the role of private enterprise to manage and develop industries that could be profitable.

In further efforts to industrialise the country, successive federal governments imported an industrial workforce from Europe, believing that the vitality of the economy and the security of defence required a larger population. People on both sides of politics aimed to consolidate the private manufacturing industry which had been boosted by the war effort. As well as continuing to use tariffs and import controls to protect firms against foreign competition, governments welcomed foreign capital and new production and management techniques. Manufacturing had employed 20 per cent of the workforce before the war, a figure that rose to 28 per cent in the late 1950s before stabilising in the 1960s.

Protection of manufacturing required political support, so rural industries and more generally rural life also had to be encouraged, for since the 1920s parties representing country people had become a permanent presence in parliaments.

In 1943 J.D. Blake urges fellow Communists to support 'full mobilisation . . . on the battle fronts and in the factories and community life'.
BOOROWA PRODUCTIONS

In 1939 Australia was short of 120 000 dwellings and 100 000 'slum houses' needed replacement, according to this brochure, published by the Department of Post War Reconstruction in 1944. The department advocated an enormous program of low-cost government housing, telling Australians that they would have to be prepared to give the federal government the 'power to act'.
BOOROWA PRODUCTIONS



Elder Smith & Co look to a bright future for the country based on the export of rural products. Australia to-day, *1948.*

Their pressure gained farmers cheap transport from state railways, loans at low levels of interest, price support for rural products in hard times, protection for butter from competition with margarine, and so on. The coalition governments from 1949 to 1972, combining the interests of rural and manufacturing groups, made sure that this compromise endured. Only at the end of the long boom, in about 1973, did pressures emerge which undermined it.

Immediately after the war the Chifley government tried to control private spending on consumer goods in order to free resources for investment and future growth. Labor's policy of austerity provided the basis for early postwar growth, and Labor won the first postwar election in 1946. But by 1949 it could not muster enough electoral support for the continued inconvenience of this policy. Menzies' coalition then had a run of very good luck. The Liberal–Country party government took office as a boom induced by the Korean War began a new wave of prosperity, and rode this wave through the 1950s and into the 1960s. In doing so they persuaded enough voters that they were the natural managers of prosperity.

Menzies faced two periods of economic difficulty provoked by problems with the balance of payments. As Australia bought from the world more than it sold, there was a chronic balance of payments problem. All postwar governments welcomed foreign investment partly because it helped to balance the Australian economy's account with the rest of the world. Towards the end of the Korean War foreign demand for Australian goods dropped, and so export revenues, especially those coming from wool sales, fell sharply. But imports continued to rise. The government responded by imposing controls on the quantity of imports, and also by making it more difficult to borrow money. This caused a rise in unemployment to 3 per cent in 1952. Import controls remained, in modified form, until the end of 1960, when the government thought that it could deal with the excess of imports over exports. The continuing inflow of foreign capital and the development of promising trade opportunities with Japan seemed to officials in Canberra to be solving the problem. But in mid-1961 the balance of payments worsened and the government tightened credit again to lower the demand for imports. Unemployment again jumped from 2 to 3 per cent, and at the election of 1961 Menzies only just managed to stay in power.

BHP advertises its contribution to Australian well-being. Refrigerators, kitchen sinks, cars and many other products used the company's steel. Australia to-day, *1955.*

Exports boomed during the 1960s, foreign capital flowed in, and the excess of import payments over export payments was kept comfortably close to balance. As the European Economic Community caused traditional markets to shrink, Australian exporters turned to Japan. Economic growth, more rapid now, depended less on exports such as wool and wheat or on manufactures, and more on coal and iron and other metals. The domestic demand for manufactured products grew quickly as the population increased and standards of living rose. Migrants settled in and established homes, and the economy was further stimulated by people born in the baby boom just after the war. The number of people aged fifteen to nineteen increased by 30 per cent between 1961 and 1966, and a teenage market appeared. These postwar babies became adults and entered the workforce in a society much richer than the one in which their parents had grown up. The demand for cars, houses and household goods increased accordingly.

Because the economies of other large nations with which Australia traded enjoyed an economic boom, their demands for Australian products increased. The prices at which Australian goods sold in the immediate postwar years were high, especially wool prices during the Korean War. When prices fell, Australian export revenues remained strong only because the goods exported became more diverse. Initially the overseas sales of manufactured goods rose, and then during the 1960s coal, iron and nickel sales grew strongly. From 1900 to 1960 wool sales had generated about a third of export earnings. This proportion fell to less than a fifth by 1971, partly because of competition from synthetic materials. Export income was increased by a shift in trade away from Europe and towards the Pacific region, especially towards Japan and the USA.

While the primary industries performed strongly, so too did the manufacturing industries. Having contributed 17 per cent of national production in 1928–29, they grew to a peak of 28 per cent in the late 1950s. Government policies fostered their development. Much of the workforce came from immigration, and much of the managerial skill and production techniques were also imported. Without migration Australia's population in 1976 would have been about ten million, and production would probably have been 30 per cent lower.

Capitalists, including foreign multinational corporations, were keen to invest in Australian manufacturing and mining partly because protection from competition with exported goods helped them make profits. During the depression Australia had raised tariffs to protect local manufacturing industries. It was common before the war for tariffs in most countries to equal about 25 per cent of the value of the product. Some nations reduced their protection under conditions of postwar prosperity. The USA reduced tariffs from 37 per cent of the value of protected products in 1925 to 7 per cent in 1970. For Canada the figures were 23 per cent to 14 per cent, and for Sweden 16 per cent to 7 per cent. The influence of manufacturing interests in Australia's coalition governments was too strong for the government to fully accept the recommendations for lower tariffs coming out of multilateral trading negotiations.

Federal tariffs were not the only protection. During and after the war, shortages of many goods guaranteed a local market for domestic production; and as we have seen, from 1952 to 1960 the government imposed quotas on imports. By 1970 average tariffs protecting manufacturing in Australia were 23 per cent, compared to 14 per cent in Canada, 12 per cent in Japan, 9 per cent in the USA and 8 per cent in the European Economic Community. Protection made it cheaper for many foreign companies to produce goods here than to export them to Australia. Foreign investment accounted for about 3 per cent of all investment in Australia from 1900 to 1939 but rose to around 10 per cent after the war. By 1968 well-known international companies were producing most Australian cars locally, and most of the chemicals we used, the tobacco we smoked, the drugs we took, and the breakfast cereals we ate.

The capital market changed its structure during the postwar boom. New financial institutions developed to service the areas in which demand expanded—finance companies for durable consumer goods, building societies for houses, merchant banks for corporate borrowing. Their rise was encouraged by the regulation of banks—restrictions on how they could hold their assets and on the rates of interest they could charge. The Commonwealth Bank, founded in 1912, had become a more important instrument of government policy during the depression, and in 1945 some of the government's wartime controls over credit were consolidated in legislation which gave the Commonwealth Bank, as Australia's central bank, control over foreign exchange dealings and powers to specify the reserves and lending rates of the private banks. In 1959 the government took these regulatory duties away from the Commonwealth Bank and created the Reserve Bank with further powers over the funds of banks.

Rural industries such as wheat growing prospered after World War II. Pest control and other technological developments improved both the quality and quantity of harvests. Photographs by Ray Joyce.
WELDON TRANNIES

As employers, the three levels of government—federal, state and municipal—only kept pace with other employers. Government employment as a percentage of total employment grew only from 18 to 19 per cent from 1945 to 1970; public expenditures as a proportion of all buying of goods and services went up only from 19 to 21 per cent in the same period. But the balance of financial power between federal, state and local governments shifted. As prices and wages steadily increased, income tax brought in increased revenue because the rates prescribed did not allow for inflation. By contrast, the states found it difficult to raise the revenues they needed to provide their services. Whereas the federal government could spend 33 per cent of the total amount spent by all levels of government in the 1920s, it was responsible for 48 per cent of all government spending in 1969–70.

The most notable change in the structure of the Australian economy during the boom was the declining importance of agriculture. More than 20 per cent of national production had been agricultural in the 1940s, but the contribution fell to below 10 per cent by the 1970s. The number of people working in rural industries fell only slightly, but they declined from about 20 per cent of the workforce to below 10 per cent. As chapter 5 shows, many children of country families left the bush for manufacturing and service industries in the cities.

Rural industries prospered after World War II because prices were high. Their output rose, and governments encouraged them to expand. After the Korean War growth was slower. The Country party secured many benefits for rural communities without significantly increasing their output. Production did rise more rapidly after 1960, when wheat, cotton and a variety of summer grain crops flourished. Productivity benefited from the use of new technologies: control of rabbits, improvement of pastures and animal breeding, and greater use of machinery, fertilisers and trace elements. The replacement of horses with tractors meant that land used for the production of fodder was now free for growing commercial crops. The main exception to this pattern was the dairying industry: the agricultural policies of the European Economic Community reduced the market for Australian dairy products. Margarine became more popular, and restrictions on its sale were relaxed. But whether prosperous or in decline, rural industries used less labour.

These developments were matched by increases in the proportion of the workforce engaged in manufacturing and services. The metal manufacturing, motor vehicles and chemical industries employed many migrants. There were structural differences in the impact of these expanding industries: new jobs were created in cities dependent largely on manufacturing. Since the motor vehicles, footwear and textiles industries were among the most heavily protected in Australia, they remained larger than they would otherwise have been. Had they faced direct competition with imports, other types of manufacturing might have developed instead.

Among the service industries, there was no change in the proportional value of 'building and construction', 'transport and communication', 'wholesale and retail trade', or 'public administration' within the economy as a whole. The biggest gains were made in 'finance and property'. Where firms had once employed their own accountants, advertising people and garage maintenance staff, they tended now to buy these services from specialist companies.

Mining played only a small part in the boom until the 1960s. Gold, traditionally the country's largest mineral product, was mined only in small amounts. Iron ore, coal and nickel were to fuel new growth. Their largest market was Japan. In 1938 the Australian government had refused to allow the overseas sale of iron ore, mainly because of fear that Japan would use it in a possible attack on Australia. By

Australian primary industry has undergone periods of great prosperity as well as periods of great hardship. Increasing understanding of problems such as soil erosion and salinity has enabled farmers to plan their crops more effectively.
NSW DEPARTMENT OF PRIMARY INDUSTRY

1957, however, Japan was flourishing economically and the desire for trade prevailed. A trade treaty was signed, and in 1963 the two countries agreed not to impose any trade restrictions on each other unless those same restrictions were applied to all their other trading partners. Australian exports of wool, agricultural and mineral goods were expected to gain from these arrangements. In 1966–67 Japan became the largest customer for Australian exports, and by 1968 the value of Japanese imports of Australian minerals exceeded the value of the wool bought.

Menzies and his colleagues attributed Australia's long period of prosperity to their good management. Others attributed it more to good luck, an idea popularised in Donald Horne's *The lucky country* in 1964. In retrospect it is clear that the postwar boom in the Australian economy depended on an international

The Victorian premier, Henry Bolte, addressing an investment symposium in Melbourne in 1965. Until the 1970s Melbourne was generally regarded as the centre of Australian finance. Since then an increasing number of foreign merchant banks have been set up in Australia, and most of these have chosen Sydney as their headquarters.
FAIRFAX PHOTO LIBRARY

situation favourable to countries such as Australia. It had been important that Australia and other industrialised countries could buy cheap raw materials, including oil, from poorer countries. Trading had been made secure by stable international financial arrangements, including the Bretton Woods agreement of 1944 which provided for fixed rates of exchange between currencies. The political settlements arranged late in World War II had left a relatively stable territorial division between the capitalist and communist countries (except where new Asian, African and South American nations vacillated in their global allegiances), and this also helped give stability to international trade.

In 1963 Menzies set up a Committee of Economic Inquiry to advise the government on the conditions needed for continued economic growth. The committee consisted of two university economists (Sir John Crawford and P.H. Karmel) and three businessmen (D.G. Molesworth, K.B. Myer and James Vernon). It delivered its report, known as the Vernon report, in 1965, arguing that greater government planning and the provision of guidelines for industrial development were urgently needed. Without them, the report foresaw difficulties—either an unfavourable balance of payments or a growth in inflation. Menzies, backed by Treasury officials, rejected the report, opposing the idea that government should guide development any more than it was doing already.

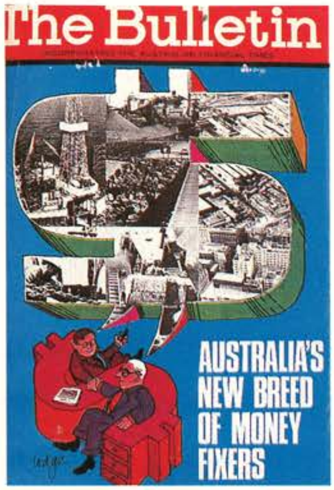
The economy continued to be buoyant for a few more years. Its rate of growth at the end of the decade was still high—about five per cent per year—and the proportion of the workforce unemployed still averaged about two per cent, the level of the 1950s and early 1960s. A serious balance of payments problem was averted by the increased foreign investment which the mining boom attracted. Conventional indicators showed a buoyant economy—perhaps a little too buoyant, as the rate of inflation was creeping up. But on the whole the judgment of Menzies and his successors, or the luck of the 'lucky country', seemed to be holding.

As the 1960s ended and the 1970s began, economic problems emerged. While changed international conditions were the source of many of these problems, developments within Australia added to their adverse effects. The price of oil and other raw materials rose rapidly. Worried by the depletion of their main asset, and newly aware of their collective economic strength, the oil producers raised prices in 1971, and again, more sharply, in 1973. By 1980 the price of oil had increased tenfold in ten years. Other resources needed by industrialised nations also became more expensive as recently decolonised nations acted politically to increase their prosperity. The defeat of the USA in Vietnam destabilised international trade; for if the self-appointed global policeman could not maintain order, third world countries such as those in OPEC (Organisation of Petroleum Exporting Countries) could assert their economic interests more boldly. And to add to the problems of industrialised nations, agreements on aid and investment that had tended to work to their advantage were being questioned and renegotiated.

The United States, facing the problem of paying for its Vietnam War effort with falling gold reserves, decided in 1971 that US dollars would be no longer convertible into gold at the fixed rate which had been maintained since 1944. This policy added to the world money supply and caused prices of traded goods to rise rapidly. Inflation rates rose.

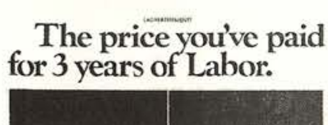
In Australia manufacturing industries were often inefficient. Protected by tariffs and other restrictions from competition with imported goods, they had lacked incentives to use the most productive technology and management methods. Unable to compete on world markets, Australian manufacturers had therefore relied on small and in some cases diminishing local markets. The whitegoods industry, for example, making refrigerators, washing machines, and so on, faced a smaller market as the formation of new households slowed down. Profits and investment were lower in manufacturing than in other parts of the economy. Wages were relatively high, as the demand for labour had usually outstripped the supply during the boom, strengthening the bargaining position of employees. Investors were tempted to put their money into enterprises requiring less labour and less bargaining with a powerful labour movement.

In 1970 the Bulletin *chose to focus on 'the new breed of money fixers' who made money out of managing their own and other people's funds rather than by starting up manufacturing or building enterprises.* Bulletin, *15 Aug 1970.*



The drift of investment away from manufacturing continued throughout the 1970s, despite the fears expressed by some (including, for example, the government committee known as the Jackson committee, which reported in 1975) that Australia needed to maintain its own industrial base. The best prospects for local and foreign investors were in other industries. Mining was one. In mining the workforce was small and could be bought off with 'sweetheart' deals between employers and employees made without reference to the Arbitration Commission. Property speculation also involved little direct contact with labour and promised enormous capital gains. Record amounts of capital flowed into Australia in 1970–72—over \$3000 million in two years, compared with an average of \$600 million per year in the previous decade. Some was speculative, particularly in the share trading frenzy of the mining boom. Major mineral discoveries announced by small new companies created conditions in which fortunes were quickly won and lost before a hole was dug. Urban property attracted similar speculative interest, with worrying results. By the mid-1970s more than 15 per cent of city office space in Sydney and Melbourne was vacant. Yet houses were still in short supply. Speculative investment gave the appearance of prosperity, but it added little to the productive capacity of the economy.

Advocates of a major rethinking of economic policy were hardly heard outside the universities and senior levels of the bureaucracy. Neither under Gorton (1968–71) nor McMahon (1971–72) was the coalition government responsive to the new situation, and bolder government intervention was actually rejected by Prime Minister McMahon. 'Economic planning in the more formal integrated sense', he said in 1972, 'is not in the best interests of the Australian economy ... Economic growth is best fostered by a predominantly free enterprise environment ...' His 1972 budget, on the eve of an election, introduced measures intended to soak up unemployment; but the tenor of economic policy was 'steady as she goes'.



Advertisement for the Liberal Party of Australia in the federal election campaign of 1974–75. Sydney Morning Herald, *19 Nov 1975.*

The Labor party told electors at the end of 1972 that accumulated problems demanded greater government intervention and economic planning. Gough Whitlam's ALP government, however, faced increasingly severe economic problems and limited powers to deal with them. Inflation was a major problem as prices for incoming goods rose and demand for exports fell. Whereas in 1970 the consumer price index (the measure of inflation) was rising at 5 per cent per year, in 1973 the rate of inflation was 13 per cent. The Australian constitution prevented the government from taking direct action to limit rises in prices and incomes, and when Whitlam sought this power through a referendum in December 1973, he was effectively opposed by both business and trade unions. Inflation intensified in 1974, rising to 17 per cent, jeopardising the success of the government's reform program in areas such as urban policy, health, education, and social security. To encourage economic growth, and to mount its new programs, the Whitlam government spent a higher proportion of the nation's income than any previous ministry. Its reforms were attacked as irresponsible by the opposition and some economists, who recommended reduced government spending as an antidote to inflation. Whitlam hoped also that government spending would reduce unemployment, which had increased from 1.7 per cent in 1970 to 5 per cent in 1975. On the advice of monetarist economists, however, he was forced in the 1975 budget to abandon the expansionary approach in order to reduce inflation, and to reduce the commonwealth deficit even at the expense of reform.

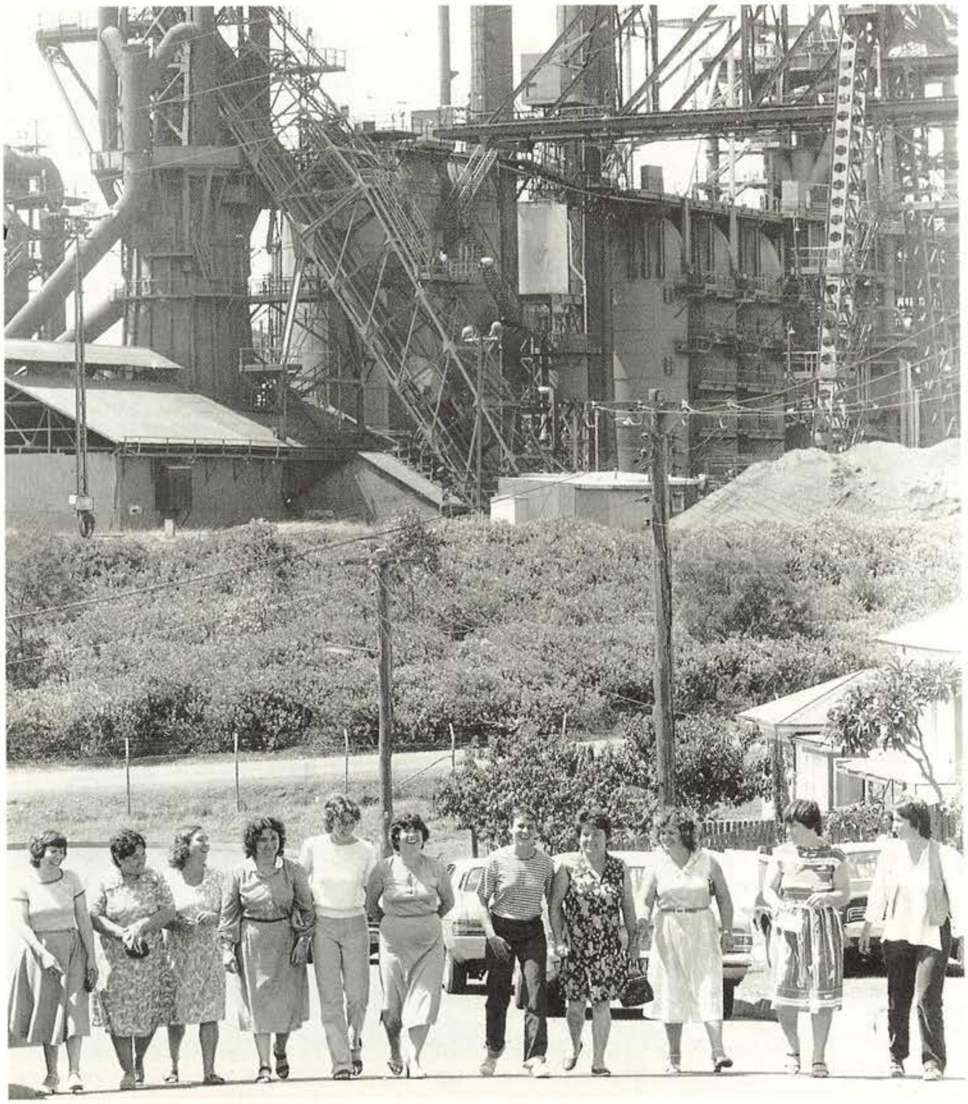
During the Whitlam era there was some redistribution of the nation's incomes to wage- and salary-earners because wage increases outstripped productivity increases. The rate of growth of average weekly earnings was unprecedented, reaching 25 per cent per annum in 1974. The granting of equal pay to women, and the 'wages explosion' flowing from major wage increases for public servants in 1974, both contributed to this rise. In another attempt to reduce inflation the Whitlam government in 1975 introduced wage indexation. Wages should increase in line with price rises, no more and no less; no more because it was commonly believed wage rises caused inflation, and no less because the government wanted to reduce the number and severity of strikes. But hostile economists and journalists argued that large wage gains were now being consolidated by wage indexation at a level detrimental to profits and to economic recovery.

The new government of Malcolm Fraser tried to control inflation by restricting the rate of growth of the money supply, and by further cutting government spending. Labor's comprehensive health insurance system financed by general government revenue was effectively dismantled, and the government sought to turn some public enterprises over to the private sector. Fraser argued that, like a household, a national economy must get itself out of difficulties through spending less. But government deficits were much harder to deal with than those of households. Policies devised to reduce government deficits and bring down inflation created unemployment. After 1976, the official rate of registered unemployment varied between 5 and 7 per cent, and those figures did not take account of concealed unemployment of people who, for one reason or another, had stopped looking for work. Some 10 per cent of the workforce was unused. And many who were employed were 'skidding' (to use a new word coined for the times) in jobs that required less skill than they had to offer.

Frank, Gillian, Rebecca and Martin Crabtree of Dapto, near Port Kembla in New South Wales, were casualties of the recession in the steel industry, 1982. Photograph by Gary McLean.
FAIRFAX PHOTO LIBRARY

What made it so difficult for government to manage the economy? Australia was rich in resources, natural and human. There were new mineral discoveries in the 1970s. The workforce continued to grow through natural population increase, immigration and the greater number of part-time jobs taken by married women. But the mobilisation of these resources depended on decisions made by private investors, and the investments yielding the highest profits in the late 1970s were usually those creating the fewest jobs, or even reducing the number of positions to be filled. Much of manufacturing continued to be bypassed by investors. In the last three months of 1977, for example, only $10 million out of $150 million foreign investment went into manufacturing, while $91 million went into primary industries, mostly mining. Many investors were withdrawing their money altogether from Australia. Apart from those whose presence was merely speculative, there were others who preferred to establish manufacturing enterprises in east and southeast Asia. Australian workers whose jobs were now done in Asia found it difficult to get new ones, especially if they were old or very young or lacking in skills. Recession weeded out the less-efficient industries. Some moved, others were shut down.

Australia's problems had much to do with the way other governments were coping with the economic recession and with how large overseas companies were behaving. Many corporations found that they could take advantage of differences



Women facing 'retrenchment' from the Australian Iron and Steel Company's works in Port Kembla demonstrate in protest, 1983. Photograph by Peter Solness.
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Below.
An embittered Alf Blackman, unemployed after the closure in 1984 of Sydney's Riverstone Meatworks, where he had a worked as a beef butcher for more than ten years. 'The live exports are taking our jobs away,' he complained, adding that high taxes were 'breaking the country'.
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Iron-ore pellets from the Mount Newman Mining Co await shipment at Port Hedland, Western Australia, 1981. Photograph by Kevin Diletti.

among countries in the cost of labour and resources, and they divided various stages of their operations between different countries. By producing in a number of nations, companies could engage in 'transfer pricing', an accounting device by which the prices paid among the subsidiaries and affiliates of a company are set to reduce their reported profits, and so minimise taxes and strengthen pleas for government assistance. Some third world countries co-operated eagerly with multinational corporations, usually by setting up 'free-trade zones' where the firms were guaranteed cheap and strike-free labour for manufacturing operations, especially those involving routine process work. In Australia the labour movement was too powerful for any government to offer such prospects. Many companies, especially those that had lost protection when tariffs were cut in 1973, pulled out.

But some of the restructuring of the world economy favoured Australia. Mineral exports had increased in value eight times in the 1960s, and accounted for 28 per cent of all Australian exports by the beginning of the 1970s. Demand for minerals went on growing. Income from exports of coal and alumina grew tenfold in the 1970s and from iron ore fourfold. The prospect of a resources boom seemed to the Fraser government likely to make up for the decline in exports of rural goods and the poor performance of industry. In a world of rising energy costs and a new sense of the scarcity of non-renewable energy resources, Australia was an energy-rich country. It could export coal and uranium, could approach self-sufficiency in petroleum and natural gas, and could generate cheap electricity for such energy-intensive processes as aluminium smelting.

Fraser cultivated optimism. In 1980 he said the investment in minerals industries 'will add to our national product, to income and to wealth, and all Australians stand to benefit from being members of a wealthier society'. He was wrong. The overseas demand for minerals proved to be less than anticipated. Some projects were cancelled, among them the Rundle shale-oil scheme in Queensland. Planned aluminium smelter projects in New South Wales, Victoria and Western Australia were postponed. The extraction of natural gas from the Northwest Shelf in Western Australia proved more difficult than anticipated. People stopped talking about a resources boom by the early 1980s, and some observed 'resources gloom'.

The growth in mining did not provide enough jobs to compensate for jobs lost in manufacturing. Workers whose skills were no longer in demand lived in capital cities, usually far away from new mining ventures. Sydney and Melbourne gained smaller shares of population and employment growth because they were not increasing as fast in their ability to provide work. The decline of manufacturing employment hit particularly hard the heavy industrial centres of Wollongong, Newcastle and Whyalla. Adelaide and Geelong, relying on vehicle production, were also badly affected. The industrialised region of Australia is concentrated in a horseshoe-shaped ring of towns from Newcastle, through Sydney and Wollongong, down to Victoria's Latrobe Valley, Melbourne, Geelong, Adelaide and the 'iron triangle' of Port Pirie, Port Augusta and Whyalla. This crescent was the area worst affected by the structural changes in the economy.

Other states had better luck. Capital flowed into Queensland and Western Australia, attracted by abundant mineral resources and governments eagerly hospitable to multinational capital and ready to undermine the power of trade unions. New strains appeared in the fabric of federation as state governments bid against each other to attract new investment, offering low royalty payments on mineral exports or cheap electricity for aluminium smelters. Individual states made national economic management more difficult by developing stronger trading and investment connections with foreign countries than with other parts of Australia.

Malcolm Fraser, out of office and out of parliament in 1984, gives advice to business.
FAIRFAX PHOTO LIBRARY

Below.
Stamp prepared by the federal Department of Trade and Industry to promote exports.

How effectively did the Fraser government respond to recession? Senior members of the Fraser cabinet openly stated that recovery must include a redistribution of wealth from labour to capital, and government policy sought to lower the share of wages and salaries in national income. The arbitration system, embodied centrally in the Commonwealth Conciliation and Arbitration Commission, continued to be the main determinant of wage rates. Its importance was even greater after wage indexation made all award wages subject to the one central decision. Linking wage rises directly to price rises was a policy disagreeable to the Fraser government, which repeatedly put it to the Commission that wage rises should be held below price rises. The bench came to accept this view, convinced that employers could not afford to pay larger increases. Twelve of the eighteen national wage decisions between 1975 and 1981 gave less than full indexation, and the share of wages and salaries in national income fell from 65.5 per cent in 1975 to 61.3 per cent in 1980. Workers were being made to bear the costs of economic crisis. Taxation was made less progressive. Speculative incomes proved hard to tax: legal avoidance and illegal evasion became rife, helped by some decisions of the High Court. Meanwhile, international companies were able to arrange their affairs so as to minimise their Australian tax liabilities. These developments placed a higher

As seen from the Left, Malcolm Fraser responds to the 1982 recession in much the same way as the US president, Ronald Reagan, welcoming the slump because it would lower wages and keep the working class in their place.
ANU ARCHIVES OF BUSINESS AND LABOUR

share of the total tax burden on lower- and middle-income groups and created revenue problems for the government.

The Fraser government found it hard to carry out its own policies. Despite the recommendations of a 'razor gang' which reported in 1981, and the fact that the government was ideologically uncomfortable with big spending, government expenditure went on increasing. The number of unemployed people, pensioners and other welfare recipients grew steadily. By 1983 one in four Australians was dependent on commonwealth welfare money, and it became politically attractive for some members of the government and some supporters to thunder publicly about welfare cheats. The government was also frustrated in its attempt to set an upper limit on the money supply, which required restriction on foreign investment. Encouraging exports remained its best hope. If the domestic economy could not be managed so as to provide economic growth and job-creation, a solution had to be sought in overseas markets. 'Export-led recovery' was the government's catch cry, following its earlier calls for a 'consumer-led recovery' and an 'investment-led recovery'. Minerals and the products of energy-intensive processing were the things Australia was good at making.

The resource boom was essential to this economic strategy. Without it there were only vague hopes that a redistribution of income from labour to capital, combined with public sector cuts, might somehow restore the vitality of Australian capitalism. By the early 1980s, this policy, while a boon to mining and rural interests, had not solved the problem of unemployment and had hardly reduced the rate of inflation. In the late 1970s inflation had fallen below 10 per cent, but it was creeping up again in 1981 and 1982. Registered unemployment continued to grow, jumping sharply in 1982 to about 10 per cent of the workforce. More and more people concluded that Fraser's policies were socially damaging as well as economically ineffective. The result was the coalition's defeat in March 1983.

The Commonwealth Employment Service reported an average of twenty registered unemployed persons per unfilled vacancy. During the long boom it had been plausible to think that anybody who wanted a job could find one, and as unemployment rose the term 'dole bludger' was often used as if the old conditions still applied. Some people, noticing more married women in the workforce, said that women were taking men's jobs. Others blamed the continuation of

A protestor rests during a march through Sydney's western suburbs, where unemployment is high among industrial workers, 1983.
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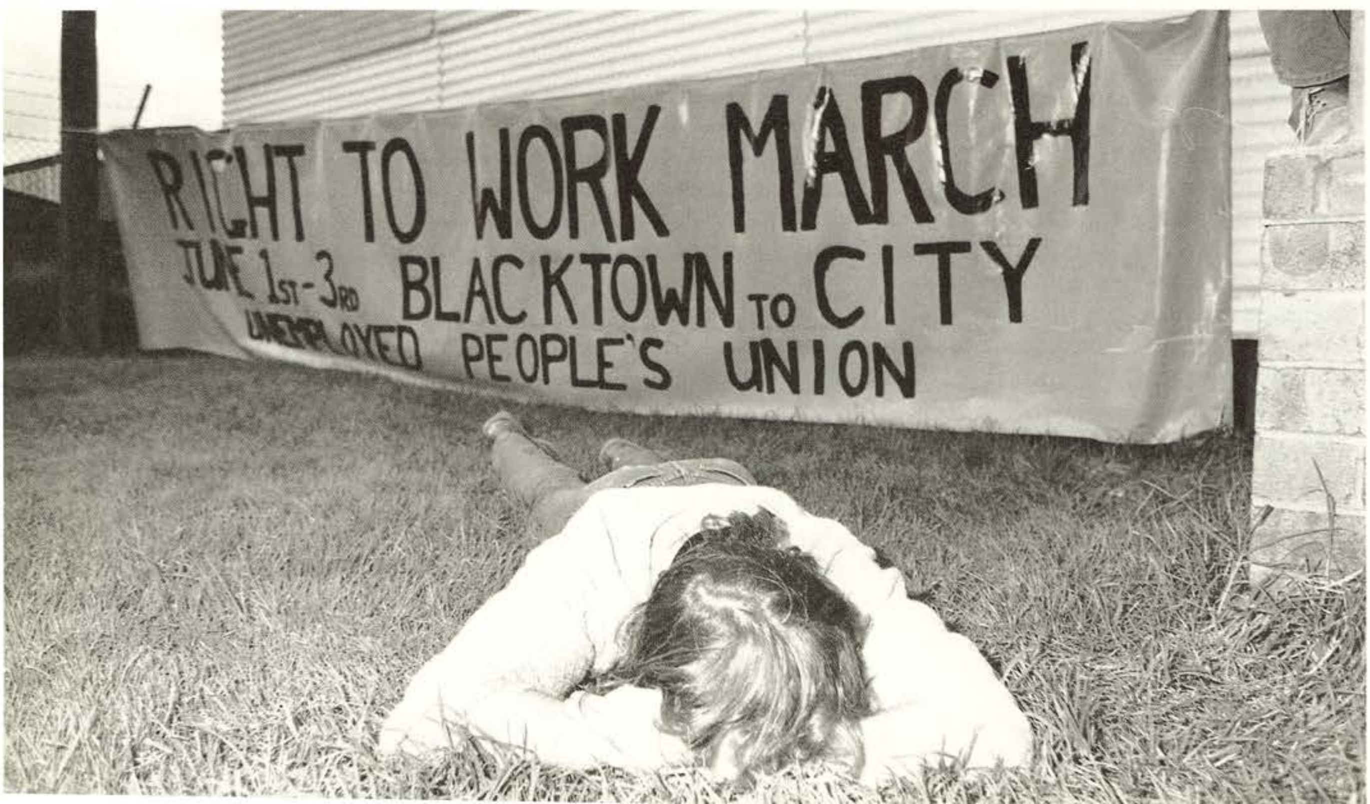


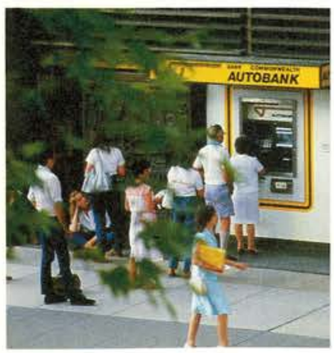
immigration, and singled out the Asians who they thought were taking work from Australians. It became common, even in the universities, to say that young people were pricing themselves out of work. Each of these explanations required the people who were suffering most to make further sacrifices.

But the blame for unemployment was not so easy to fix. Some things that had once made the economy prosperous were now making it vulnerable. The high degree of foreign control of Australian industry—second only to Canada among the major industrialised nations—exposed the country to international economic fluctuations. Multinational capitalists, in pursuit of maximum profits, could as easily forsake Australia as patronise it. Not only did this increase the volatility of the Australian economy, it also undermined national sovereignty. The Australian economy was, and is, developed but dependent.

Some changes that did make the economy more profitable failed to increase employment. Jobs were becoming scarcer not only in the ailing manufacturing sector but also in some rural and mining industries which employed fewer and fewer people as they became more efficient. Manufacturing (rising from 16 per cent to 24 per cent) and services (50 per cent to 67 per cent) provided most of the growth in jobs during the century. But when manufacturing began to reduce its demand for labour, the mineral industry created few jobs for the displaced, mining employed only 5000 more people in 1983 than in 1971, the number of people employed in manufacturing had fallen by 230 000.

Many manufacturers had acquired new technology to cut their wages bills. Whether this displacement of labour added to unemployment in the society as a whole came to be a matter of major debate. While new technology invariably abolishes some jobs, waves of technological innovation since the industrial revolution have created economic growth and therefore employment. Such changes as the use of machinery in agriculture and mining, and advances in manufacturing processes, have not in the long run increased unemployment. The service industries—the wholesale and retail trades, transport and storage, finance, building, recreation, community services and public administration—have traditionally employed the people no longer needed in other sectors of the economy. But after 1970 developments in the service sector, including computerisation, word processing and automatic banking, also reduced the numbers of new jobs.

Customers at an automatic teller machine in Canberra in 1985. The introduction of credit cards in the 1970s and of automatic teller machines and point-of-sale bank account debiting in the 1980s is often hailed as a move towards a 'cashless' society where more and more financial transactions will be with a machine rather than a human. The number of jobs in the once labour-intensive money management industries is certain to decline.
AUSTRALIAN INFORMATION SERVICE



Australians had to think in new ways about the obligation and entitlement to work. Would full employment ever be restored, or would people have to accept extensive unemployment as normal, especially among the young? Could the wealth created by working people be redistributed to those who could not work?

The new Labor government under Bob Hawke proposed to make a simultaneous assault on inflation and unemployment. Hawke's distinctive method of managing the political tensions of economic policy was to seek consensus between business, workers and government. In April 1983 he convened a 'national economic summit' of business and union leaders and officials from government organisations and lobby groups. The summit established a prices and incomes policy, including an 'accord' reached in 1982 between the Australian Labor Party and the Australian Council of Trade Unions. Union leaders agreed to restrain wage demands in return for promised increases in benefits derived from government expenditures, control of non-wage incomes, policies to keep industries viable, and programs of job creation. Whether this agreement could be sustained, and provide for economic recovery, became a central issue of political debate.

Economic conditions certainly improved in 1983, at least in part because of buoyancy in the American economy and the ending of a long drought in Australia.

Economic growth persisted for the next three years, the average annual increase in production being the highest for more than a decade. The accord held. In agreeing not to press for wage increases above those necessary to match rises in the cost of living, the trade unions got employers and the government to return to full wage indexation. Business people, despite reservations about the influence of trade unions over government policy, remained optimistic about their prospects and welcomed wage restraint as a means of keeping production costs predictable and in check. Inflation was at its lowest for a decade. Industrial disputes were fewer. There was even a modest growth in the number of jobs.

Ralph Willis, minister for employment and industrial relations, and Paul Keating, treasurer, at a news conference to explain the Hawke Labor government's wages policy, 1985.
FAIRFAX PHOTO LIBRARY

But the government had to do more than get the trade unions to support its incomes policy. It still had to try to reconcile union and business interests without alienating the electorate. Trade union leaders criticised the government for being slow to create jobs and to increase the social wage, but the government was struggling with the unsolved problem of raising revenue. Hawke tried to repeat the political success of the economic summit by holding a tax summit in 1985. But to keep 'consensus', he had to sacrifice a proposal to raise revenue through the introduction of a new consumption tax, and to reconsider the political costs and benefits of taxing the wealthy more heavily. Problems also developed in the foreign trade and currency relationships. The treasurer, Paul Keating, lifted many regulations on financial institutions after being persuaded that it was better to let the international value of the dollar and the level of interest rates be determined by the market than by government decisions. But when the balance of payments deficit grew in 1985—because people spent more on imported goods than Australian companies were receiving from overseas sales and investments—many traders lost confidence in the dollar. Prices of imported goods rose, and unions demanded further wage increases to offset rises in the cost of living. The Hawke government was reminded how difficult it can be in Australia to reconcile the interests of workers and employers, domestic manufacturers and international investors.

The labour market, and so the price of labour, was regulated, but the market for capital was increasingly deregulated. There were no controls on incomes that people received from interest, dividends, rents and professional fees, to match those on wages and salaries. The impacts on the Australian economy of trade, investment and currency movements remained difficult to manage. Employers and most economists urged the government to deal with the problems of trade by pressing wage- and salary-earners to accept real wage cuts. Socially, this policy placed the burden of economic recovery on many of those least able to bear it; politically, it threatened the accord. There were no easy solutions left, no obvious ways of combining social justice and political expediency with rational economic policies. When the international value of the Australian dollar fell by 30 per cent in the first three months in 1985, business people expected an increase in exports because Australian goods had become relatively cheaper in international markets. The problem was that wages had to be prevented from rising to compensate workers for the higher cost of imported goods. In September 1985 trade unions did agree to a small temporary fall in the level of real wages in exchange for a government commitment to cuts in income taxes. The accord thereby survived the strains caused by the falling dollar, but its long-term prospects remained uncertain.

Economic historians are likely to look back on 1986 as the year in which Australian society began to confront the dismal economic reality of problems far more serious than the familiar cyclical inconvenience of recession between economic booms. Despite the 30 per cent fall in the value of the dollar in 1985, Australia's balance of trade continued to deteriorate. Relative to the nation's major trading partners in western Europe, North America, southeast and east Asia, Australian living standards had been falling for 25 years. But in absolute terms they had continued to improve. Now the threat of a permanent, serious, absolute fall in Australian living standards began to impress itself on the public. In May 1986, faced with a monthly trade deficit averaging more than $1000 million and an overseas debt rising alarmingly as the dollar depreciated, the federal treasurer, Paul Keating, warned that Australia might lose its place among the wealthy industrialised nations of the world and become a 'banana republic'. In the ensuing panic the dollar fell another six cents against its United States counterpart, and although the exchange rate subsequently recovered some ground, Keating's gloomy prognosis was confirmed in August when Moody's, a major firm of Wall Street investment brokers, stripped Australia of its AAA credit risk rating.

By 1987, with international trade rivalries continuing to threaten the prosperity of Australian agriculture and international demand for coal and iron ore showing no signs of returning to the levels of the 1970s, Australia faced an overseas debt of around $100 billion and one of the largest balance of trade deficits of any country. With interests rates remaining high and the currency still apparently vulnerable, major structural changes in the economy seemed inevitable. The only question was whether rational economic planning would temper the inexorable logic of the international marketplace. In February 1987 the federal minister for finance, Senator Peter Walsh, remarked bluntly; 'The average living standard in our community must fall below that level which we had come to expect as reasonable'. This was an uncommonly candid confession for a senior politician at a time when talk of a federal election was in the air, but it typified the sense of realism that had entered economic discussion.

In Broadway, Sydney, Brett Becus and Paul Quinn, unemployed, signal to motorists, 1987.
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Yet on the eve of the Bicentenary the average income of the society continued to be high by international standards, and the economy perhaps remained sufficiently sound to permit the necessary adjustments. The spectre of a 'banana republic' might in the long run turn out to have been salutary rather than prophetic, and even in the gloomy aftermath of Keating's warning Australian people could be expected to answer differently if asked whether the economic system has served them well. Some people never had it so good as in the mid-1980s, particularly those with the means to engage in speculative investment and to derive income from interest and dividends. Until the tax reforms announced in September 1985, it had been boom time for tax avoiders and evaders. People on low incomes found that property prices and interest rates were high—too high to buy a home—and that the proportion of houses for rent was shrinking. Most welfare payments were now indexed against inflation, but as the whole welfare system was designed to make employment attractive and necessary, the benefits usually put recipients below the poverty line. Five per cent of Australians owned half the nation's personal wealth; there were 25 thousand millionaires in 1984. But in that year more than three million people depended on government cash benefits for at least three-quarters of their income, and official estimates said that one in five households were in poverty. Unemployment continued to be a major social and economic problem.

Capitalist economic development, while often spectacular, has always been uneven. It is uneven with respect to time (booms and slumps), space (uneven regional development) and class (inequality of income and wealth). Australian capitalism clearly illustrated all these characteristics in the twenty years leading up to the country's bicentenary.

Hard work. In the eighteenth inch seam, Wonthaggi State Coal Mine. *Oil by Noel Counihan, 1944.*
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