MEANS AND ENDS: MACROECONOMIC THEORY AND THE AUSTRALIAN LABOR PARTY'S SOCIAL DEMOCRATIC IDEOLOGY

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ABSTRACT

This thesis contributes to the existing academic debate concerned with the ideological continuity (or discontinuity) of the Australian Labor Party (ALP). However, while much of this debate is primarily concerned with whether or not successive federal ALP governments have adhered to a form of socialist ideology, this thesis pursues a related but distinct line of ideological enquiry. It assesses the relative influences of Keynesian and market liberal macroeconomic theories upon the policy-making and ideology of successive federal ALP governments. The scope of this study spans the period since the macroeconomic controversy between these two theories began during the Great Depression and the period of the Scullin Labor Government (1929-1932). This analysis provides new insights into our understanding of the continuity which has existed in ALP ideology over time, and thereby adds to the existing literature on this subject.

The thesis argues that although successive federal ALP governments have been periodically influenced by either Keynesian or market liberal theories, all have sought to use these theories to uphold the ALP's key ideological objective of attempting to improve the living standards of the Party's traditional constituency: defined as working people and their dependents. However, this thesis also establishes that while Keynesian and market liberal theories have offered successive federal ALP governments with cogent policy tool kits, designed to avoid or ameliorate the capitalist economy's business cycle, the policy application of either theory has presented these governments with recurring and significant policy challenges. The challenges most consistently encountered in the implementation of Keynesian policies have been those associated with the timely deployment of cost-effective stimulatory public works programs, and those associated with overcoming the perceptions that Keynesian policy interventions are futile, wasteful, inefficient and inflationary. In relation to market liberal policies, this thesis argues that the Hawke Government's implementation of the market liberal policies of fiscal and monetary restraints, and financial market deregulation, facilitated and then significantly contributed to the depth of the severe recession experienced during the early-1990s. Moreover, it is argued that this episode revealed that when timely and effective Keynesian stimulatory action is not taken, market forces can be slow to produce an employment recovery.

This thesis concludes that although key Labor politicians believed that market liberal policies were not inconsistent with the ALP's social democratic ideology, they have proven less reliable in maintaining the macroeconomic and employment stability required to improve the living standards of the Party's working constituents. The evidence assessed in this thesis alternatively suggests that the Rudd Government's successful handling of the Global Financial Crisis provides a valuable case study for the ongoing usefulness of Keynesian macroeconomics. While the effective implementation of Keynesian policies presents ongoing challenges for future federal ALP governments, this thesis concludes that there are strong grounds on which to defend Keynesian policies, given their capacity to both protect Australian workers' job security in times of crisis, and facilitate sustainable economic growth over the longer-term.

DECLARATION

I certify that this work contains no material which has been accepted for the award of any other degree or diploma in my name, in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. In addition, I certify that no part of this work will, in the future, be used in a submission in my name, for any other degree or diploma in any university or other tertiary institution without the prior approval of the University of Adelaide.

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Signed ....

Date ....

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CHAPTER ONE
ASSESSING THE IDEOLOGICAL CONTINUITY OF THE AUSTRALIAN LABOR PARTY: THE ROLE OF MACROECONOMIC THEORY

This thesis is an addition to the existing academic debate concerned with whether the Australian Labor Party (ALP)[1] has maintained ideological continuity, or whether the Party has betrayed its ideological roots. As this chapter establishes, this debate has until now been divided between two sides. One side has argued that the ALP was until at least the mid-1970s predominantly influenced by a socialist ideological tradition, which has since been betrayed. The other side has alternatively argued that the Labor Party has continuously adhered to a non-socialist ideology described as either social democratic, labourist, or a 'social harmony' ideology.[2] This thesis does not extend this analysis of the influence of socialist ideology upon the ALP. Rather, it assesses the case for ALP ideological continuity upon an analysis of the vacillating influences of two competing macroeconomic theories: market liberalism and Keynesianism. The justification for this line of ideological analysis is, however, based upon a review of the existing academic debate, as well as a review of what ALP historians have defined as the Party's formative ideological objective. A review of this academic literature forms part of the contents of this opening chapter, which also includes an explanation of the methodology used in the ideological and policy analysis of this thesis, and an outline of this thesis' central argument.

Within its review of the existing academic literature, this chapter establishes that the differences between the two sides of the ideological continuity debate have existed around a disagreement about what constitutes and defines socialist ideology, and their differing perceptions as to whether or not Labor governments have adhered to these diverse definitions. Specifically, it establishes that those arguing that the ALP has never adhered to a radical socialist ideology have defined socialism as inherently incompatible with any form of capitalism. While those who have argued that socialism has predominantly influenced the ALP are shown to have defined socialism as constitutive of the democratic values of the French Revolution: liberty, equality, and fraternity. According to this latter argument, it is the empowerment of the values of equality and fraternity, and the greater regulatory restraint of economic liberty, which provides evidence of socialist reform.

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[1] According to ALP historians, Tom Bramble and Rick Kuhn, the title 'Australian Labor Party' was not officially adopted by the Party until 1912. Prior to this date the various colonial and state Labor parties used a variety of names. See: Tom Bramble & Rick Kuhn 2011, *Labor's Conflict: Big business, workers and the politics of class*, Cambridge University Press, p. 195.
For ease of convenience this thesis will use the 'ALP', 'Labor Party' or simply 'the Party' to describe the organisation in all periods. The 'labour movement' will be used to refer to the combination of the ALP and elements of the trade union movement.

[2] Many ALP historians have defined the Party's ideology as interchangeably labourist or social democratic, while others have maintained a distinction between these two ideological terms. Peter Beilharz is a prominent example of a scholar who has maintained this distinction. See: Peter Beilharz 1989, 'The Labourist Tradition and the Reforming Imagination', in Richard Kennedy (ed.), *Australian Welfare: Historical Sociology*, Macmillan, South Melbourne, pp. 134-7, 140-2, 146-7; Peter Beilharz 1994, *Transforming Labor: Labour Tradition and the Labor Decade in Australia*, Cambridge University Press, Cambridge, pp. 22, 40-1.

An important consequence of this definitional disagreement is that these scholars have drawn differing conclusions as to whether or not the historically prominent Labor governments led by Robert 'Bob' Hawke (1983-1991) and Paul Keating (1991-1996) can be described as having fallen within the continuum of a 'Labor tradition'. As described below, those who have argued that the Labor Party has never adhered to a radical socialist ideology have also argued that despite the Hawke and Keating Governments having embraced market-oriented economic policies, for which their Labor predecessors would have objected, these governments nevertheless upheld the Labor tradition of an adherence to a social harmony ideology. The essential hallmark of this ideological adherence has been the ambition to maintain a healthy capitalist economy in the perceived shared interests of business investors and the labour force.

In disagreement with this appraisal, this chapter establishes that those claiming that the ALP was, prior to the mid-1970s, predominantly influenced by socialist ideology have argued that many of the Hawke Government's Labor predecessors, and particularly those governments led by John Curtin (1941-1945), Joseph Benedict Chifley (1945-1949) and Edward 'Gough' Whitlam (1972-1975), implemented reforms which questioned the capitalist system's assumptions of market benevolence, efficiency and equity. Consequently these governments were identified as having advocated and implemented economic reform policies designed to ameliorate this system's perceived shortcomings. Alternatively, these scholars argued that the Hawke and Keating Governments' deregulatory policies, and others designed to limit the scope of government economic interventions, were evidence that these governments were neither socialist nor in the Labor tradition.

This chapter reviews the relevant academic literature and places particular emphases on these major points of disagreement. It does so to establish the interesting and novel extension to the ideological continuity debate that the analysis of this thesis subsequently explores. For it is from these previous ideological studies of the Hawke and Keating Governments' policy records that an interesting and previously under-researched line of enquiry becomes apparent. Much of the analysis of this ideological debate has focussed upon the juncture of the Hawke and Keating Governments' embrace of market-oriented economic policies, and much of this policy analysis has referred to the broader eschewal of Keynesian macroeconomic theory and the concomitant embrace of what this thesis defines as market liberal macroeconomic theory;[3] a phenomenon which occurred throughout many developed economies during the 1970s and 1980s. Indeed, one of the important academic participants

[3] Throughout this thesis, the term market liberal is used to describe the economic theory which advocates a minimal role for government intervention in capitalist economies. Various alternative terms have been used elsewhere for this description, including: economic rationalism (in Australia); Thatcherism; Reaganomics; the 'Washington consensus'; and neoliberalism. The term market liberal is preferred because unlike many of the alternatives it is not confined to the characteristics of a particular time, place, or program, and it avoids pejorative connotations. See: John Quiggin 2012, *Zombie Economics: How Dead Ideas Still Walk Among Us*, Black Inc., Collingwood, p. 3.

in the ALP ideological debate, Tim Battin, has thoroughly analysed the various causes of this shift in the Australian economic paradigm.[4]

In so doing, Battin has made a significant contribution to the understanding of the influence of Keynesian theory and policy in Australia. Nonetheless, some significant differences in approach and focus between Battin's study and the analysis of this thesis are established later in this chapter. It is important at this juncture to emphasise in broad terms the extension to the ALP ideological continuity debate that this thesis seeks to make. For instance, it is established in this chapter that Battin's work, in addition to other studies which analyse ALP ideology, have already considered the ideological implications of the Party's adoption of either Keynesian or market liberal macroeconomic theories and policies. Indeed, assessments of the vacillating influences of these theories have been used by scholars as evidence of the Party's ideological continuity or divergence at the juncture of the Hawke and Keating Governments (see below). This thesis retraces this analytical ground, but it does so with a singular purpose, i.e. the ideological analysis of this thesis is confined to the implications of macroeconomic policy-making, which allows for a more detailed study and greater analytical clarity on this particular aspect of ideological analysis.

To clarify, with the exception of Battin's study, *Abandoning Keynes: Australia's Capital Mistake* (1997), the primary focus of which was not the ideological implications of ALP macroeconomic policy-making, ideological analyses of federal Labor governments have not firmly established the philosophical, theoretical and policy components of either Keynesian or market liberal macroeconomic theories. Chapters two and three of this thesis establish these components because it is proposed that a more precise understanding of these theories allows for a more precise assessment of whether or not, and in which instances, federal Labor governments have been influenced by either theory in their macroeconomic policy-making. Moreover, it is also proposed that this more precise assessment produces the detailed analysis required to identify both the perceived successes and recurrent shortcomings of the implementation of either of these theories' advocated policies. On this latter point, the analysis of this thesis reveals that the periodic implementation of either Keynesian or market liberal macroeconomic policies have led to widely perceived implementation problems. The historical recurrence of these perceived problems, and their subsequent influence upon, or repetition by, successive federal Labor governments has not previously been analysed. It is these empirical observations, therefore, combined with the analysis of the ideological implications of how successive federal Labor governments have responded to these perceived policy successes and shortcomings, which provides this thesis with its original contribution to the ALP ideological continuity debate.[5]

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[4] See: Tim Battin 1997, *Abandoning Keynes: Australia's Capital Mistake*, Macmillan, Basingstoke, Hampshire.

[5] Because this thesis analyses the case for ALP ideological continuity in the Australian context, and because of issues of the existing scope and length that has been necessary to undertake that task, this thesis does not include comparative ideological

This chapter proceeds with a detailed review of the existing academic literature, which begins by establishing the ALP historiographical consensus which has argued that from the foundations of the fledgling colonial Labor parties,[6] the ALP has not sought to radically replace the Australian capitalist economy within a short period, but has alternatively developed ameliorative policy measures designed to bolster the social equity of Australia's mixed capitalist economic system. This consensus is canvassed in order to establish that these policy measures were informed by the Party's formative ideological objective of improving the living standards of its traditional core constituency: workers and their dependents. The Party's commitment to this constituency is established and emphasised because it provides further justification for this thesis' line of ideological enquiry. The literature review then assesses those works focussed on the Party's ideological continuity or betrayal, followed by a methodological section which outlines how the ideological and policy analysis of this thesis has been conducted, and a final section which establishes how this thesis' central argument is substantiated in each chapter.

Literature Review: Assessing ALP Ideological Continuity

<u>The ALP's Ideological Foundation and Early Policy Development</u>

Although scholarly accounts of the Party's ideological foundation and early policy development derive from divergent socialist and liberal ideological perspectives, there exists amongst them a broad consensus that within the Party's formative decades it developed policies to ameliorate the perceived inequities of the Australian capitalist economic system, rather than having developed a program for this system's socialist replacement. Verity Burgmann's study, *'In Our Time'* (1985), is interesting in this context. Her account documents the foundational influence of various socialist groups upon the fledgling colonial Labor parties, wherein she identifies the widespread influence of Karl Marx's theory of the surplus value of profit,[7] which she argues underpinned these groups' advocacies for the

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and policy analyses with other national social democratic and labour parties. For good scholarly examples of comparative studies which have documented the reciprocal ideological and policy influences between the British and Australian labour parties, as well as their policy divergences, and common ideological and electoral challenges, see: Andrew Scott 2000, *Running on Empty: 'Modernising the British and Australian labour parties'*, Pluto Press, Annandale; Carol Johnson & Fran Tonkiss 2002, 'The third influence: the Blair government and Australian Labor', *Policy and Politics*, January, Vol. 30, No. 1, pp. 5-18; Shaun Wilson & Ben Spies-Butcher 2016, 'After New Labour: political and policy consequences of welfare state reforms in the United Kingdom and Australia', *Policy Studies*, Vol. 37, No. 5, pp. 408-25.

For a short article which offers important insights into how the reciprocal ideological influences and policy transfers between the British and Australian labour parties should be conceptually understood and analysed, see: Rob Manwaring 2016, 'From new labour to Rudd/Gillard: dilemmas, lesson-drawing and policy transfer', *Policy Studies*, Vol. 37, No. 5, pp. 403-7.

Andrew Scott has also published an analysis of the policy successes of the Nordic labour and social democratic parties – those based in Sweden, Finland, Denmark and Norway. Within this study Scott investigates key examples of how these parties have implemented policies which have contributed to innovation and economic prosperity, while maintaining these nations' relatively equitable distributions of income. See: Andrew Scott 2014, *Northern Lights: The Positive Policy Example of Sweden, Finland, Denmark and Norway*, Monash University Publishing, Clayton.

6 The ALP was separately established in what now constitute state branches of the Party. This occurred in 1891 in the former British colonies of New South Wales, Victoria, Queensland, and South Australia, prior to the federation of Australia in 1901, and in the states of Western Australia (1901) and Tasmania (1903), subsequent to the establishment of the federal ALP. For introductory scholarly accounts of the establishment and early development of these various Labor Party state branches, see the contributions made in: D.J. Murphy (ed.) 1975, *Labor in Politics: the state Labor parties in Australia 1880-1920*, University of Queensland Press, St Lucia.

7 This theory argues that the property owning class usurps through profits the larger share of the value created by labour in the production process. See: Verity Burgmann 1985, *'In Our Time': Socialism and the Rise of Labor, 1885-1905*, George Allen & Unwin, Sydney, pp. 5-7, 58, 97, 122-3, 177.

collective acquisition of the means of production, distribution and exchange.[8] However, Burgmann acknowledged and also lamented that the colonial Labor parties and the wider Australian liberal democratic system failed to facilitate these socialist influences.[9] Burgmann defined the 'set of pragmatic responses' which ultimately triumphed within the ALP as 'Laborism', and was critical of these influences for having derived from colonial liberal values.[10]

Other Marxist-influenced socialist critics of the ALP have similarly noted the Party's labourist foundation. Humphrey McQueen has, for instance, argued that because a widespread acceptance of a working class consciousness never sufficiently existed in Australia to threaten the legitimacy of the liberal capitalist economy, the Labor Party had no chance of ever constituting a socialist party.[11] According to McQueen, the Labor Party sought only ameliorative practical reforms to the existing capitalist economy, under the premise of the shared interests thought to exist between labour and capital. For McQueen, this policy approach placed the Party firmly under the Australian radical liberal tradition.[12] Furthermore, despite the existence of a rhetorical commitment to socialism in the Labor Party's formative years, McQueen argued that no program of nationalisation was designed to 'subvert capitalism by stealth'. Alternatively, state economic interventions were very often designed to assist the capitalist system, through direct state assistance for private industrial enterprises and developmental public works.[13]

Most other non-socialist accounts of the Party's ideological foundation and early policy development have also denied the dominant influence of socialist ideology. Bede Nairn's seminal history of the foundation of the New South Wales (NSW) Labor Party, *Civilising Capitalism* (1973), argues in conjunction with many other studies that the fledgling Party sought to reform the colony's capitalist system in the interests of trade unions through an adaptation of the colony's existing radical liberal tradition.[14] In this context, Nairn argued that those socialist influences which did proliferate within the

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[8] *Ibid.*, pp. 58, 61-7, 98-9, 110, 121-5, 129-30, 150-3, 157, 160, 166-9, 173-5.
[9] *Ibid.*, pp. 195, 197-8.
See also: Terry Irving 1983, 'Socialism, working-class mobilisation and the origins of the Labor Party', in Bruce O'Meagher (ed.), *The Socialist Objective: Labor and Socialism*, Hale & Iremonger, Sydney, pp. 35-8.
[10] Burgmann, '*In Our Time'*, p. 195.
[11] Humphrey McQueen 1970, 'Laborism and Socialism', in Richard Gordon (ed.), *The Australian New Left: Critical Essays and Strategy*, William Heinemann Australia, Melbourne, pp. 43-7, 54, 59.
[12] *Ibid.*, pp. 49-50, 56-9; Humphrey McQueen 1972, 'Glory Without Power', in John Playford & Douglas Kirsner (eds), *Australian Capitalism: Towards a Socialist Critique*, Penguin Books, Ringwood, p. 347.
[13] Humphrey McQueen 1970, *A New Britannia*, Penguin Books, Ringwood, pp. 194-202. Here McQueen made the qualification that from the time of the 1890s depression the labour movement did champion the nationalisation of the banking industry.
[14] Bede Nairn 1973 [1989], *Civilising Capitalism: The Beginnings of the Australian Labor Party*, Melbourne University Press, Carlton.
See also: L.G. Churchwood 1960, 'Introduction', in R.N. Ebbels (ed.) 1960, *The Australian Labor Movement 1850-1907: Extracts from contemporary documents*, Australasian Book Society, Sydney, pp. 32-3; Robin Gollan 1960, *Radical and Working Class Politics: A Study of Eastern Australia, 1850-1910*, Melbourne University Press, Carlton, pp. 170-92, 206-8; D.J. Murphy 1975, 'Introduction: The Labor Parties in Australia', in Murphy (eds), *Labor in Politics*, pp. 4-7; Frank Bongiorno 1996, *The People's Party: Victorian Labor and the Radical Liberal Tradition 1875-1914*, Melbourne University Press, Carlton, pp. 1-2, 6, 22-5, 29-30, 36-7, 109-11, 113-4, 189-91; Nick Dyrenfurth 2011, *Heroes and Villains: The Rise and Fall of the Early Australian Labor Party*, Australian Scholarly Publishing, North Melbourne, pp. 16-7, 30-2, 39-40, 58-60.

labour movement only constituted minor foreign incursions into a movement and wider social context which accepted the liberal capitalist system.[15] Party historians Brian Fitzpatrick, Robin Gollan, and D.W. Rawson have echoed Nairn's assessment of the limited influence of socialist ideology.[16] Rawson concluded that:

> If socialism is taken to involve the public ownership of at least the larger industries, it can at least be said that Labor governments have never seemed likely to establish a socialist system within their expected terms of office, nor have they shown much interest in trying to do so.[17]

Indeed, many other Party historians' assessments of the ALP's colloquially named 'socialist objective' have agreed that the various state and federal parties' official objectives only briefly expressed an unambiguous state socialist commitment to a thorough-going program of nationalisation for all major industries.[18] As Rawson has explained, while the federal Party's objective did advocate for the nationalisation of the nation's principal industries within the relatively short period of 1919-1927,[19] the Blackburn Declaration of the 1921 Federal Conference effectively clarified that the Party 'does not seek to abolish private ownership even of any of the instruments of production where such instrument is utilised by its owner in a socially useful manner and without exploitation'.[20] It has also been widely documented that subsequent amendments and qualifications to the Party's federal objective have been inserted over the succeeding decades to diminish its socialist proclivities.[21] In addition, Rawson argued that while Labor's early platforms advocated a broad range of specific proposals for the nationalisation of certain industries and the establishment of state-run enterprises, the fulfilment of these measures by Labor governments has been far less extensive than formally stated, and where they were established these state-run industries were often implemented to reduce consumer prices through increased market competition, and not to undermine or replace the capitalist system itself.[22] Moreover, the broader reforming emphases of the Party's early state and federal platforms has provided ALP historians with

[15] Nairn, *Civilising Capitalism*, pp. 7, 20, 36-7, 70, 130-1, 154, 163-5, 168-72, 182-6, 190, 193-4, 259.
See also: Peter Loveday 1975, 'New South Wales', in Murphy (eds), *Labor in Politics*, pp. 62-6.
[16] Brian Fitzpatrick 1944, *A Short History of the Australian Labor Movement*, 2nd edn, Macmillan, South Melbourne, p. 156; Gollan, *Radical and Working Class Politics*, pp. 151-3, 193-4; D.W. Rawson 1966, *Labor In Vain? A Survey of the Australian Labor Party*, Longmans, Croydon, p. 9.
[17] Rawson, *Labor In Vain?*, p. 61.
See also: Bron Stevens & Pat Weller 1976, 'Introduction', in Bron Stevens & Pat Weller (eds), *The Australian Labor Party and Federal Politics: A Documentary Survey*, Melbourne University Press, Carlton, pp. 9-10; Troy Bramston 2011, *Looking for the Light on the Hill: Modern Labor's Challenge*, Scribe, Brunswick, pp. 140-5.
[18] See: Rawson, *Labor In Vain?*, pp. 9-10; Murphy, 'Queensland', in Murphy (eds), *Labor in Politics*, pp. 141-3; Loveday, 'New South Wales', pp. 67-70; Raymond Markey 1988, *The Making of the Labor Party in New South Wales 1880-1900*, New South Wales University Press, Kensington, pp. 232-3, 254; Bongiorno, *The People's Party*, pp. 147, 153, 156-7, 160, 162; Gollan, *Radical and Working Class Politics*, pp. 171-2; Ian Turner 1965, *Industrial Labour and Politics: The Dynamics of the Labour Movement in Eastern Australia 1900-1921*, Hale & Iremonger, Sydney, pp. 53-4.
[19] See for instance the socialist objective adopted by the Labor Party at the Federal Conference of 1919, in Brian McKinlay 1990, *Australian Labor History in Documents*, Vol. 2: The Labor Party, Collins Dove, Sydney, p. 72.
[20] Quoted in, Rawson, *Labor In Vain?*, p. 68.
See also: Turner, *Industrial Labour and Politics*, pp. 223-6.
[21] See: John Reeves & Gareth Evans 1980, 'The Evolution of the Socialist Objective 1890-1980', in Gareth Evans & John Reeves (eds), *Labor Essays 1980*, Drummond, Richmond, pp. 155-63; Gareth Evans 1983, 'Reshaping the socialist objective', in O'Meagher (ed.), *The Socialist Objective*, pp. 64-6; Bramston, *Looking for the Light on the Hill*, pp. 187-8.
[22] Rawson, *Labor In Vain?*, pp. 67-9.
See also: Murphy, 'Queensland', pp. 161-2, 184, 186, 190-1, 193, 198-200; Queensland Labor Party Election Manifesto 1898, in McKinlay, *Australian Labor History in Documents*, Vol. 2, p. 24.

further evidence of the Party's acceptance of the confines of the capitalist system. These platforms sought practical reform of this system's most inequitable features, including proposals for factory and other industrial legislation, increased educational services, and pensions for the aged and orphans.[23]

The other component of the ALP historiographical consensus of importance to the ideological analysis of this thesis, concerns the Party's formative, populist understanding of those who constituted its core constituency. Party historian, Raymond Markey, has explained that: 'As an ideological category, populism depicts political ideals, rhetoric, or programmes which idealize "the people", asserting their welfare and capacity against the corrupting ruling élites, such as "monopolists", financiers or the "Money Power"'.[24] In this context, Markey noted that the Party's populism cut across class divisions, as it idealised small-scale enterprise, particularly farmers, in addition to employed wage earners.[25] Many Labor Party historians have similarly emphasised the Party's cultivation of a broad appeal to all working wealth producers, encompassing not only unionised skilled and unskilled labourers, but also members of white-collar occupations, professionals, small producers and farmers, all of whom were identified as adding value within the productive process. In this conception, the Labor Party was believed to be the advocate for all those who worked, and was explicitly opposed to the interests of the 'monopolists', the 'middlemen', the landlords, the squatters, the 'speculators', the 'usurers', the 'trusts, rings and combines', and any others who simply profited from their ownership of capital.[26] Consequently, during the Party's formative years it was widely identified to have constructed its constituency as amongst 'the masses' or simply 'the people', as against the selfish 'class' interests of the minority of exploitative wealth owning capitalists.[27]

It needs to be emphasised that the exclusivity of this populist conception of the Party's traditional constituency has not escaped the attention of ALP historians. In his account of the establishment and early development of the Victorian Labor Party, Frank Bongiorno emphasised that Labor's support for productive wealth producers, 'excluded and marginalized those who were not involved in paid work. The unemployed, recipients of charity, housewives, Aborigines and the young were often invisible in

[23] See: New South Wales Labor Party platform, 6 April 1891, Progressive Political League of Victoria platform, and Special General Council of the Australian Labour Federation platform, *The Worker*, 7 March 1891, in McKinlay, *Australian Labor History in Documents*, Vol. 2, pp. 9-11; Loveday, 'New South Wales', pp. 23-4; Murphy, 'Queensland', pp. 145-6; Rawson, *Labor In Vain?*, pp. 10, 63; Fitzpatrick, *A Short History of the Australian Labor Movement*, pp. 146-7; Bongiorno, *The People's Party*, pp. 153-4; Gollan, *Radical and Working Class Politics*, pp. 172-3.

[24] The 'money power' constituted a derogatory term the labour movement of the late-nineteenth and early-twentieth centuries used to describe the private banking industry and financial institutions.

[25] Markey, *The Making of the Labor Party in New South Wales*, p. 14.

The influence of populist ideology in having framed the ALP's formative constituency as inclusive of all working wealth producers has also been identified within Peter Love's influential study on this subject: Peter Love 1984, *Labour and the Money Power: Australian Labour Populism 1890-1950*, Melbourne University Press, Carlton, 35-6.

[26] See: Turner, *Industrial Labour and Politics*, p. 45; Murphy, 'Queensland', p. 183; Bongiorno, *The People's Party*, pp. 5, 35-6, 111-2, 189-91, 194-7, 208-9; Dyrenfurth, *Heroes and Villains*, pp. 20, 42; Albert Métin 1901 [1977], *Socialism Without Doctrine*, Russell Ward (trans), Alternative Publishing Co-operative Ltd, Chippendale, p. 41.

[27] See: Bongiorno, *The People's Party*, pp. 110-1, 208-9; Dyrenfurth, *Heroes and Villains*, pp. 30-2, 58-60, 62-3, 72-5, 140-4; Geoffrey Marginson 1970, 'Andrew Fisher – The Views of the Practical Reformer', in D.J. Murphy, R.B. Joyce & Colin A. Hughes (eds), *Prelude to Power: The Rise of the Labour Party in Queensland 1885-1915*, Jacaranda Press, Milton, pp. 187-90.

the language of labourism'. Bongiorno and fellow Labor Party historian, Nick Dyrenfurth, have also noted that the Labor construction of 'the people' was exclusively constituted of productive men, and only included their wives and families as dependents.[28] It is beyond the scope of this thesis to assess whether the Labor Party was established upon a commitment to also assist vulnerable and disadvantaged members of the Australian community through such policies as those designed to provide adequate welfare assistance.[29] Importantly, however, this thesis accepts this (albeit highly masculine) conception of the ALP's traditional constituency, and it accepts the widespread identification amongst ALP historians of the labourist or social democratic ideological objective of attempting to improve the living standards of this constituency, and most particularly of working people and their dependents.[30]

The Party's commitment to this constituency is established because it provides part of the justification for this thesis' line of ideological enquiry. For if it is accepted that the ALP is interested in developing policies which are designed to improve the material living standards of its traditional constituents, then it should also be accepted that part of these efforts include developing policies designed to achieve and maintain the benevolent conditions of macroeconomic prosperity, and particularly the conditions of low inflationary full employment. According to this logic, much can be learned about how the ALP's ideology has developed over time by analysing the apparent changes in its macroeconomic policy.

Socialist Ideology and the Labor Party Tradition

That part of the ALP historiographical consensus which assessed that within the Party's formative decades it developed ameliorative policy measures designed to bolster the social equity of Australia's mixed capitalist economic system, rather than having sought its replacement, has been broadly accepted by those political scientists who have assessed the case for ALP ideological continuity. However, there has not existed amongst them a broad consensus concerning whether the ameliorative policies pursued by successive federal Labor governments have constituted socialist reforms. The following passages explore this debate, with the aim of establishing and justifying the line of ideological enquiry pursued in this thesis.

The academic argument that the ALP has both maintained ideological continuity, and never been predominantly influenced by socialist ideology, has since the 1970s been prosecuted by many scholars

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[28] Bongiorno, *The People's Party*, pp. 5-7; Dyrenfurth, *Heroes and Villains*, pp. 111-2.
See also: R. Neil Massey 1994, 'A Century of Laborism, 1891-1993: An Historical Interpretation', *Labour History*, Issue 66, May, pp. 48-9.

[29] For insight into the development of Australia's patriarchal system of wealth distribution, see: F.G. Castles 1985, *The Working Class and Welfare: Reflections on the Political Development of the Welfare State in Australia and New Zealand, 1890-1980*, Allen & Unwin, Sydney.

[30] See: Graham Maddox 1978, 'The Australian Labor Party', in Graeme Starr, Keith Richmond & Graham Maddox (eds), *Political Parties in Australia*, Heinemann Educational Australia, Richmond, p. 167; Nairn, *Civilising Capitalism*, p. 6; James Jupp 1982, *Party Politics: Australia 1966-1981*, George Allen & Unwin, North Sydney, pp. 138-9; Bongiorno, *The People's Party*, p. 5; Dyrenfurth, *Heroes and Villains*, p. 67.

at least broadly influenced by a Marxist understanding of class exploitation. Their argument has been that notwithstanding the efforts made by the Curtin, Chifley and Whitlam Governments to regulate the economy and expand social welfare programs, the Labor Party has never been interested in transforming the nation's capitalist economic system into a socialist economy wherein investment capital would not be predominantly organised and controlled by private business investors. Alternatively, the ALP has in their view acted to ensure the efficient management of the capitalist system in the apparent shared interests of labour and capital.[31] As one of the adherents of this argument explained:

> Of course, a handful of members of a few Labor governments have professed anti-capitalist convictions, but these governments have never wished to pose a challenge to the capitalist system. The basic ideological consensus between political office-holders [whether of the ALP or non-Labor parties] has not precluded genuine differences between them – on issues such as the degree of state intervention in economic and social life – but these differences have never been allowed to bring into question the validity of the capitalist system.[32]

Carol Johnson has provided the most detailed example of this type of socialist critique, much of which was contained within her study, *The Labor Legacy* (1989). Johnson coined the term 'social harmony' ideology to describe the ALP's ideological adherence to the perspective that the classes of labour and capital share the same interest in a prosperous capitalist economy, 'in which private enterprise plays the central economic role and in which state economic activity is largely constrained and shaped by the role of the private sector'.[33] Johnson's study compared the ideological approach of successive federal Labor governments. She acknowledged that those led by Curtin, Chifley and Whitlam implemented many reforms which were designed to humanise capitalism by regulating market forces or expanding social welfare and other public services. Alternatively, Johnson identified that the Hawke Government deregulated many previously established market regulations and reduced many social welfare and other public expenditures. However, Johnson concluded that the ambition to achieve a prosperous capitalist economy was common to each period of Labor government.[34] Johnson consequently described these Labor governments as social democratic 'in the modern, less radical sense of the term', and not as constitutive of an earlier European social democratic tradition which sought cumulative reforms designed to create a socialist society.[35] As Johnson summarised: 'The reforms implemented by Labor governments are not designed to move incrementally towards a new, socialist, form of society. They are merely designed to improve capitalism'.[36] Johnson's subsequent

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[31] See: John Playford 1972, 'Who Rules Australia?', in Playford & Kirsner (eds), *Australian Capitalism*, pp. 123-33; Kelvin Rowley 1972, 'The Political of Australia Since the War', in Playford & Kirsner (eds), *Australian Capitalism*, pp. 302-5; McQueen, 'Glory Without Power', pp. 359-76; Bramble & Kuhn, *Labor's Conflict*, pp. 6-24.
[32] Playford, 'Who Rules Australia?', p. 124.
[33] Carol Johnson 1989, *The Labor Legacy: Curtin, Chifley, Whitlam, Hawke*, Allen & Unwin, Sydney, p. 1.
[34] See: *ibid.*, pp. 14-27, 51-75, 95-108; Carol Johnson 1986, 'Social Harmony and Australian Labor: The Role of Private Industry in the Curtin and Chifley Governments' Plans for Australian Economic Development', *Australian Journal of Politics and History*, Vol. 32, Issue 1, April, pp. 39-51; Carol Johnson 1990, 'Labor Governments Then and Now', *Current Affairs Bulletin*, October, pp. 4-13.
[35] Johnson, *The Labor Legacy*, p. 1.
[36] *Ibid.*, p. 108.

ideological analysis of the most recent federal Labor governments has included the Rudd and Gillard Governments (2007-2013) within this broad ideological continuum.[37]

The Labor Legacy documented many examples of how successive federal Labor governments have underestimated the difficulties encountered in attempting to achieve greater social equity while ensuring a favourable business investment climate, as well as those encountered in attempting to convince both wage earners and business investors that their policies would best ensure the type of economic stability, industrial development, and social equity from which both classes would benefit. Johnson argued that the Curtin, Chifley and Whitlam Governments' attempts at restructuring Australian capitalism through reforms designed to enhance the system's efficiency, all encountered widespread business opposition, while these governments' efforts at ensuring a healthy investor climate also led to policies of wages restraint and limited their development of egalitarian welfare policies. Johnson concluded that these governments' economic and social welfare policies ultimately pleased neither business nor labour.[38] In this context, Johnson also conceived of the limitations which applied to social democratic reforming governments more generally. She argued that they necessarily 'find themselves having to promote the development of a healthy private sector or risk severe disjunctions in the economy which can harm their working class supporters'.[39] Indeed, this is an important point which has been emphasised by many arguing that the ALP has never constituted a socialist party. According to this argument, under a capitalist system, business interests control the direction and level of investment, the type of job creation, and ultimately the measure of economic prosperity for which governments are held responsible. Under a capitalist economic framework, business investors hold all the trump cards and their interests must be accommodated, or at least not significantly threatened, or else governments risk a potential capital strike or similarly adverse economic consequences.[40]

Importantly for the ideological and policy analysis of this thesis, in acknowledging that the Hawke Government shifted further to the right in its advocacy for policies of wages restraint and public sector expenditure cuts than had its federal Labor government predecessors, Johnson argued that these policies were primarily the result of the apparent breakdown in confidence which occurred around

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[37] See: Carol Johnson 2011, 'Gillard, Rudd and Labor Tradition', *Australian Journal of Politics and History*, Vol. 57, No. 4, December, pp. 562-79. Johnson made this assessment notwithstanding her observations of the important differences which existed between: Prime Minister (2007-2010, 2013), Kevin Rudd's willingness to explicitly identify examples of market failure, critique neoliberal ideology, and implement Keynesian interventionist policies in response to the Global Financial Crisis; and Prime Minister (2010-2013), Julia Gillard's much greater use of market-oriented policies - including within public service provision - designed to empower social mobility, social inclusion, and individual responsibility.

[38] Johnson, *The Labor Legacy*, pp. 1-2, 8-9, 25-50, 54-5, 58-60, 63-91.

[39] *Ibid.*, pp. 6-7.

It should be noted that Johnson did not conclude that socialist reform of the nation's capitalist economic system was impossible, if pursued through the nation's parliamentary democratic institutions. Rather, Johnson argued that the ALP was ideologically opposed to replacing private control of profits and investment, and that for a genuinely socialist program to be made feasible, a broad-based democratic mobilisation beyond the parliamentary system and into the realm of the workplace would be required. See: Carol Johnson 1991, 'A Reply to Maddox and Battin', *Australian Journal of Political Science*, Vol. 26, No. 3, pp. 546-7.

[40] See: Playford, 'Who Rules Australia?', pp. 148-51; Rowley, 'The Political of Australia Since the War', pp. 304-5.

Keynesian macroeconomic theory. This breakdown in confidence was identified to have particularly centred on the theory's perceived inability to cope with the simultaneous occurrence of both high rates of unemployment and inflation (stagflation), and the evident process of deindustrialisation. 'Keynesian economics', Johnson explained, had been crucial because it 'had offered an economic rationale for Labor's traditional commitments to social welfare and the expansion of the public sector'. 'Once Keynesian economics was rejected', a process which Johnson acknowledges had begun in the latter months of the Whitlam Government, 'the conservative tendencies in Labor's consensus politics came to the fore'. As Johnson concluded, 'The real break with Labor tradition would have come if the government had responded to the crisis in a left-wing direction, for example by arguing for substantial controls over private investment'.[41] According to this argument, Keynesian economics provided the Labor governments led by Curtin, Chifley and Whitlam, with a convenient interventionist policy tool kit designed to uphold the Party's social democratic ideology. Once Keynesian economics had been discarded, however, it was not surprising that more conservative, market-oriented policies were adopted, which although non-interventionist, were not considered by Johnson to be in conflict with the Party's social democratic ideology.

Those who have challenged the allied contentions that the ALP has never been predominantly influenced by socialist ideology, and that the ALP has consequently maintained ideological continuity, have not argued, however, that the ALP has consistently pursued a program for the swift overthrow of the capitalist system.[42] Their argument has alternatively centred on their disagreement regarding the definition of socialism, and their contention that the ALP has pursued incremental reforms which could have over time cumulatively undermined the nation's economic system 'beyond recognition as "capitalist"'.[43]

According to Graham Maddox, Marxist socialism, as understood as a form of economic organisation whereby the means of production, distribution and exchange are placed under collective ownership, should not be understood as the only form of socialism. Maddox alternatively argued that socialism, properly defined, prioritises more than just the value of collectivism, but also the democratic values of the French Revolution: liberty, equality, and fraternity.[44] Maddox explained that socialists have been critical of the capitalist system's privileging of economic liberty above the other democratic values, and he recounted how the ALP had been traditionally critical of unregulated markets, wherein the

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[41] Johnson, *The Labor Legacy*, pp. 95-6.
See further: pp. 98-108; Johnson, 'Labor Governments Then and Now', pp. 9-10.

[42] See: Maddox, 'The Australian Labor Party', pp. 221-5, 232-3; Graham Maddox 1989, *The Hawke Government and Labor Tradition*, Penguin Books, Ringwood, pp. 180-1.

[43] Graham Maddox & Tim Battin 1991, 'Australian Labor and the Socialist Tradition', *Australian Journal of Political Science*, Vol. 26, No. 2, July, pp. 182, 184.

[44] Maddox, *The Hawke Government and Labor Tradition*, pp. 155-6, 187-92.
It is important to acknowledge that the democratic values of the French Revolution did not include – amongst others – women, who 'enjoyed civil rights but not political rights', and did not attain the right to vote until 1944. See: Jack R. Censer & Lynn Hunt 2001, *Liberty, Equality, Fraternity: Exploring the French Revolution*, Pennsylvania State University Press, University Park, p. 55.

liberty offered to working people might only amount to the 'freedom to starve'. He emphasised in this context that the market interventions the Party advocated appropriately concentrated on rectifying this imbalance by alternatively facilitating the freedom of working people from economic insecurity.[45] While Maddox acknowledged that many other ideologies have influenced the ALP, he argued that socialist ideology provided the Party with its most influential and dynamic catalyst for progressive policy action:

> There may have been a Labor Party without socialism, but it would have been a very different Labor Party – certainly not the one that brought the two-party dynamic to Australian politics and laid the foundation of a social democracy. Throughout the first half of the century socialism informed and inspired the Labor leadership and … Labor reformism right down to 1974 was underpinned by a feasible interpretation of democratic socialism.[46]

According to Maddox and Battin the Labor governments led by Curtin, Chifley and Whitlam, upheld a socialist commitment to public enterprise, financial regulation, and various social reforms. Maddox believed that these reforms were predicated against the excessive individualism identified with unregulated market capitalism and promoted the values of a more co-operative, egalitarian community.[47] Alternatively, both Maddox and Battin agree that the direction of policy changed under the Hawke Government. Socialist policies were discarded in favour of a form of 'consensus' politics in which the market-oriented policies of their Liberal/National coalition opponents were championed and implemented. For instance, Maddox argued that notwithstanding some valuable reforms, such as the introduction of the Medicare public health system, and from 1987 the extension of support payments to Australia's poorest families; the Hawke Government broadly eschewed the Party's former partisan commitment to fight for the interests of the community's most economically vulnerable. Maddox identified significant public sector expenditure cuts (including in the areas of health, education, and social welfare), cuts in the levels of real wages, financial market deregulation, and privatisation of government-run enterprises, as evidence of the Hawke Government's eschewal of socialism. Maddox attributed the motivation for these policy initiatives to the Hawke Government's desire to please conservative opinion, and particularly that of the business community and financial markets.[48] In making this judgment, Maddox acknowledged that the Hawke Government confronted severe economic challenges created by the significant reduction in the nation's terms-of-trade.[49] However, Maddox was critical that these economic considerations overshadowed all others, i.e. the social, cultural, intellectual, spiritual and physical dimensions of public policy, so that under the

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[45] *Ibid.*, pp. 172-86.
[46] *Ibid.*, p. 163.
See also: Battin, 'Keynesianism, Socialism and Labourism, and the Role of Ideas in Labor Ideology', p. 41.
[47] Maddox, *The Hawke Government and Labor Tradition*, pp. 141-8, 156, 158-60; Maddox, 'The Australian Labor Party', pp. 261-3, 269-72; Maddox & Battin, 'Australian Labor and the Socialist Tradition', pp. 185-6; Tim Battin 1994, 'Keynesianism, Socialism, and Labourism, and the Role of Ideas in Labor Ideology', *Labour History*, Issue 66, May, p. 39.
[48] See: Maddox, *The Hawke Government and Labor Tradition*, pp. 2-3, 7, 9-11, 17-24, 32-8, 44-52, 55, 60-1, 64-6, 83-4, 89-137, 197-200.
[49] This term refers to the ratio between the prices a nation receives for its exported goods and services and the prices paid for its imported goods and services. See: John Black 2002, *Oxford Dictionary of Economics*, 2nd edn, Oxford University Press, Oxford, p. 464.

Hawke Government economic prosperity became the only end which policies were designed to achieve, rather than having been conceived as the means by which other ends, concerned with equality and community wellbeing, might also be achieved.[50]

For Maddox and Battin the motivations which underpin policy decisions provide important clues for whether policies are designed to undermine or reinforce the capitalist value of competition. According to this tool of assessment, the Chifley Government's ultimately unsuccessful attempt at bank nationalisation can be identified as having been designed to garner financial resources in the public interest and under public control (see chapter five). Alternatively, the Hawke Government's decision to deregulate financial markets through the floating of the nation's currency exchange rate, the removal of international exchange controls, and the introduction of foreign banks into the Australian domestic market (see chapter seven), are identified as having empowered private (including speculative) financial interests, which were not established to uphold the public interest. According to this analysis, the governments led by Chifley and Hawke were identified as having travelled in 'opposite directions'.[51] The former was perceived to have used government economic interventions to achieve socialist reforms, the latter to have empowered the capitalist system and to have betrayed the ALP's socialist tradition.

Importantly for the ideological and policy analysis of this thesis, Battin argued that Keynesian theory complimented the objectives of socialism. He argued that the interventionist policies made feasible by Keynesian theory contributed to the achievement of socialist objectives, and particularly the empowerment of social and economic democracy and the reduction of economic inequality.[52] Battin used the term 'Keynesian social democracy' to describe this combination of Keynesian economics and socialist ideology, and defined its presence according to the following policy commitments:

a) an unequivocal commitment to full employment;
b) an acceptance that public sector expenditures are not inherently undesirable and contrary to the vitality of a prosperous private sector;
c) the use of fiscal policy to manage the aggregate demand of the economy;
d) a commitment to the social wage; and
e) a requirement for some collective control of investment.[53]

Battin argued that the Hawke and Keating Governments did not maintain any of these policy commitments. The Hawke Government did not use fiscal policy to manage aggregate demand, but

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[50] See: Maddox, *The Hawke Government and Labor Tradition*, pp. 62-3, 192-3.
[51] Maddox & Battin, 'Australian Labor and the Socialist Tradition', pp. 185-7, 189-90; Battin, 'Keynesianism, Socialism, and Labourism, and the Role of Ideas in Labor Ideology', pp. 35-8.
[52] Tim Battin 1993, 'A Break from the Past: The Labor Party and the Political Economy of Keynesian Social Democracy', *Australian Journal of Political Science*, Vol. 28, No. 2, pp. 231-2.
[53] *Ibid.*, pp. 232-3.

alternatively and knowingly allowed demand at various times to fall below that required to achieve full employment; the Hawke Government embraced the mantra of the monetarist 'crowding out' theory (see chapter two), which argued that public sector expenditures are inherently inefficient and wasteful; the Hawke Government's commitment to social wage increases contained within the original Accord agreement with the Australian Council of Trade Unions (ACTU) was reneged on; and these governments failed to garner collective control over investment funds.[54] In this context, Battin argued that the discarding of Keynesian macroeconomic theory by the Hawke and Keating Governments provides evidence for the concomitant eschewal of socialist ideology and the betrayal of Labor's ideological tradition.

As we have seen, Johnson perceived that the declining influence of Keynesian theory did not represent a fundamental break with the Labor Party's social harmony ideology, but rather a policy shift to a more right-wing version of this ideology. Johnson believed that it was not surprising that once Keynesianism had been rejected, the ALP embraced more conservative policies in response to economic crises. These policies, she argued, had always formed part of the Party's social harmony ideology, i.e. wages restraint and restraint of public sector expenditures. Indeed, Johnson pointed to the precedent of the severe public sector restraint introduced by the Scullin Labor Government (1929-1932), amidst the economic hardships of the Great Depression (see chapter four). Johnson drew the conclusion that this level of public sector austerity had been implemented 'before Keynesian economics gained widespread adherence for strategies against recession which happily aligned humanitarian provision, government and private sector'. Consequently there was no surprise for Johnson that a subsequent Labor government would implement similar public sector restraint in the face of similar (though less severe) economic crises.[55] In this account, the policy changes associated with the eschewal of Keynesian economics were considered significant, but also in keeping with the Labor Party's social harmony ideological priority of ensuring a prosperous capitalist economy.

The influence of Keynesian macroeconomics has been identified, therefore, as a useful analytical guide in the assessment of ALP ideology. The theory's influence has been identified as either evidence of the Party's adherence to socialist ideology, or merely evidence of the use of a convenient economic policy tool kit, which appeared for a time to offer economic policies in the interests of both labour and capital. The theory's eschewal has alternatively been identified as either evidence of the betrayal of the Party's socialist ideological tradition, or merely the discarding of a set of economic policies thought to have been discredited because of Keynesian theory's apparent inability to offer feasible solutions to adverse macroeconomic conditions. The importance of macroeconomic theory and policy to the assessment of ALP ideological continuity has therefore been established, and it is this avenue of ideological enquiry which this thesis extends. The following sections on this thesis' methodology,

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[54] See: *Ibid.*, pp. 235-7.
[55] Johnson, 'Labor Governments Then and Now', p. 10.

chapter outline and argument, explain how this line of ideological enquiry is prosecuted throughout this thesis.

Methodology

As was outlined earlier, the singular focus of the ideological analysis of this thesis is confined to the implications of macroeconomic policy-making. The reasons why this is considered a fruitful line of ALP ideological enquiry have been explained with regard to the existing academic literature. Some important points about the traditional confines of macroeconomic theory, as compared with the broader concerns of microeconomic theory, need to be established. At its simplest macroeconomics has traditionally been concerned with those economic variables which describe the aggregate of economic activity in an economy. These variables include: total employment and production, consumption levels, investment levels, the rate of inflation, and wage outcomes. As economist John Black has explained, macroeconomics:

> also asks what causes booms and slumps in the short run, and what determines the long-term growth rate of the economy. … Macroeconomics considers how these matters can and should be influenced by government through monetary and fiscal policies. It is contrasted with microeconomics, which is concerned with micro questions, such as the incentives operating on individuals and firms in the economy, the organization of production, and the distribution of incomes.[56]

As chapters two and three detail, because the major theoretical and policy differences between market liberal economists and John Maynard Keynes (1883-1946) have centred around the causes of the capitalist economic system's business cycle (see chapter two), the policy analysis of this thesis is confined to those policies which have been traditionally identified as having affected macroeconomic stability and prosperity. As chapters two and three establish, these policy areas include: fiscal and monetary policies; various financial regulations; and wages policies. The focus upon these macroeconomic policy levers justifies this thesis' ideological analysis of federal Labor governments, as it is at this level of government, within Australia's federal distribution of powers, that the policy decisions which affect macroeconomic variables are predominantly made.

As has been outlined, chapters two and three of this thesis canvass the major philosophical, theoretical and policy differences between market liberal economists and John Maynard Keynes. The reasons for the selection of these two strands of macroeconomics, and of each economic theorist chosen, requires explanation. In the period since the English economist John Maynard Keynes began publishing his highly influential macroeconomic and popular works in the early-1920s, both Keynesian and market liberal theories have competed for orthodox prominence regarding both their diagnoses of the causes of the capitalist system's business cycle, and their ameliorative policy solutions. This theoretical and policy prominence, which has existed throughout much of the developed world and in Australia since

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[56] Black, *Oxford Dictionary of Economics*, 2nd edn, p. 282.

this period, is established throughout this thesis, and provides justification for the selection and analysis of these macroeconomic theories.

This thesis takes as its understanding of Keynesian economics the theoretical principles and policies advocated by John Maynard Keynes. Although this may appear a non-controversial methodological selection, the fact that this thesis does not focus on analysing the post-Keynesian economic tradition, requires substantiation. Although Battin's work (referred to above) expressed a clear understanding of Keynes' major contributions to macroeconomic theory, Battin's understanding of broader Keynesian perspectives explicitly surpassed what Keynes himself actually advocated.[57] Battin extended what he identified as the more radical implications of Keynes' critique of the market liberal faith in market equilibrium (see chapter three), to include within Keynesianism his understanding of a social democratic commitment to the welfare state and significant institutional reforms designed to facilitate public sector control of investment for the maintenance of full employment.[58] In so doing, Battin included within his definition of Keynesian social democracy the theories and policies of some of Keynes' more radical followers, whom he identified as post-Keynesians, and in particular the theories and policies of Keynes' one-time colleague, Michal Kalecki (1899-1970).[59] Battin's research has added significantly to our understanding of the relationship between Labor policy and post-Keynesian perspectives. However, this thesis takes a different approach. Battin's definition of Keynesianism is not replicated within this thesis, because its analysis seeks to alternatively contribute new insights through the comparison of successive federal Labor governments' policies with a traditional understanding of Keynesian economics.

On the market liberal side, three economists from the Austrian and Chicago schools of economic thought have been selected as the subjects for analysis. These economists are: the Austrian school's Ludwig von Mises (1881-1973) and Friedrich von Hayek (1899-1992), and the Chicago school's Milton Friedman (1912-2006). Their selections are justified according to both their prominent influence on macroeconomic theory and policy in the period since the 1930s, and because their work has provided the essential principles which have underpinned the market liberal critique against Keynesian interventionist policies. These points are substantiated within chapter two, and throughout this thesis' analysis of federal Labor governments' macroeconomic policy-making.

Important points need to be established at this juncture regarding the definitional conception of ideology, and social democratic ideology in particular. At the conceptual level, Iain MacKenzie has defined ideology to include 'an account of social and political reality ... by providing a description of society, an intellectual map, which enables us to position ourselves in the social landscape', as well as

[57] For instance, Battin acknowledged that Keynes' policy advocacy sought to alleviate macroeconomic instability, not to acquire government control of resource distribution. See: Battin, *Abandoning Keynes*, pp. 63-4.
[58] *Ibid.*, pp. 9, 24-9, 153-4.
[59] *Ibid.*, pp. 8, 15-6, 22, 66-70, 126, 178-9, 200, 238.

embodying 'a set of political ideals aimed at detailing the best possible form of social organisation'.[60] For MacKenzie, ideology provides its adherents with a perspective on how to interpret the world, as well as a vision of an improved society from which policies can be designed to either enact beneficial reforms, or prevent destructive change. MacKenzie also explained that ideology provides the conceptual framework from which to understand 'contrasting interpretations of *essentially contested concepts*, where an essentially contested concept is one which does not, and could not, have an agreed meaning [original emphasis]'.[61] In other words, many of the subjective assessments people make of the world can only be usefully understood according to the ideological values which underpin them. They cannot be objectively justified or defended.

In the Australian context, Bruce O'Meagher has defined political party ideology as constituting ends and means, whereby:

> Political ends comprise shared values and ideals, critiques of the existing social, political and economic order, and visions of what should replace that order; political means, on the other hand, comprise theories about political action and political and social change (or preservation) and programmes of action directed towards such change or preservation.[62]

Here O'Meagher's definition offers a useful description of how various characteristics of an ideology can be understood as constituting either ideological ends or means; a distinction which is of crucial importance to this thesis' epistemological understanding of ideology and its analysis. However, while O'Meagher's dichotomy offers analytical clarity, this thesis does not accept that the policy means used to achieve ideological ends or objectives define the ideology of a political party. In this sense, this thesis proposes that it is the ideological ends which define a party's ideology, such as the social democratic/labourist objective (referred to above), and not the means employed, i.e. Keynesian or market liberal macroeconomic theories. This understanding that social democratic ideology is open to policy change, despite being defined by a constant ambition to improve the living standards of working people and their dependents, has resonance with many scholars who have analysed the changing nature of social democratic ideology in the European context in recent decades.[63]

Returning to O'Meagher's useful insight, this thesis accepts his conclusion that: 'All political parties, whether or not they are conscious of or prepared to admit the fact, are thus imbued with ideology'.[64]

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[60] Iain MacKenzie 2003, 'The Idea of Ideology', in Robert Eccleshall, Alan Finlayson, Vincent Geoghegan, Michael Kenny, Moya Lloyd, Iain MacKenzie & Rick Wilford (eds), *Political Ideologies: An Introduction*, 3rd edn, Routledge: Taylor & Francis Group, New York, p. 2.
[61] *Ibid*., p. 7.
[62] B.D. O'Meagher 1983, 'Introduction: Labor ideology and socialism', in Bruce O'Meagher (ed.), *The Socialist Objective: Labor and Socialism*, Hale & Iremonger, Sydney, p. 3.
[63] See for instance: Andrew Gamble & Tony Wright 1999, 'Introduction: The New Social Democracy', in Andrew Gamble & Tony Wright (eds), *The New Social Democracy*, The Political Quarterly in association with the Fabian Society, Blackwell Publishers, Oxford, pp. 2-4. See also: pp. 1-9. Gamble and Wright argued (p. 2) that social democratic ideology maintains a constant advocacy 'for reforms of economic and social institutions which counter injustice and reduce inequality'. This closely resembles this thesis' understanding that social democratic ideology is defined by a constant ambition to improve the living standards of working people and their dependents.
[64] O'Meagher, 'Introduction: Labor ideology and socialism', p. 3.

This understanding of ideology raises some important issues concerning its empirical observation and analysis. Most particularly, the study of ideology has been identified as inherently biased, and therefore incapable of totally rational or value-free observance.[65] Despite these limitations, however, Andrew Vincent has argued that although: We examine ideology as fellow sufferers, not as neutral observers', and there is 'no way of excluding our own presuppositions', so as to 'compare or validate' our own conceptions of ideologies 'with some definite external thing', 'we can [however] compare worlds. ... We can both belong and also, to a degree, distance ourselves in the very fact of theorizing self-consciously'.[66] This thesis adopts this epistemological approach to the examination of ideology. In this context, this thesis does not accept the later Marxist conception of ideology as 'false consciousness' - used to obfuscate capitalism's inherent inequalities and injustice. Rather, it is assumed in this thesis that ideology can be identified and include ideas for which a scholar undertaking the analysis might agree, and ideas with which they disagree.[67]

Attention now turns to what constitutes empirical evidence of ideology in the Australian political party context. Here the approach of Andrew Vincent is once more instructive. Vincent has suggested 'that ideology can be found in phrase mongering as well as in the most abstract philosophical or scientific thought', with 'immensely sophisticated theorizing' expressing 'the same basic ideas ... [as found] in the crudest form of sloganizing and propaganda'. As such, Vincent reasoned, 'we should not, in consequence ... always expect to approach ideologies as coherent constructs'. Rather, as a result of what Martin Seliger has conceptualised as the distinction between the '*fundamental* and *operative* level of ideology [original emphasis]', one should expect that the 'principles, beliefs and prescriptions' of the fundamental ideology would often be tempered when actively applied, due to such contingencies as technical implementation considerations.[68]

Vincent was, however, also cognisant that the pragmatic contingencies of which Seliger referred are often themselves perceived through an ideological lens. '[T]he perception of contingencies still relates to ideological views. ... All perceptions of the necessity of contingencies are conceptually mediated'.[69] This acknowledgement has been replicated by other scholars in the field of party political analysis. Carol Johnson, has for instance acknowledged that 'conceptions of pragmatism can themselves be ideologically shaped'.[70] With specific reference to the study of ALP ideology, Johnson noted that:

> ... one should not overstate the degree to which politician's statements are purely shaped by expediency. Not only do many politicians have deeply held beliefs but considerations of expediency generally occur within the boundaries of ideological frameworks which determine, influence or restrict competing

[65] See: Lindy Edwards 2013, *The Passion of Politics: The Role of Ideology and Political Theory in Australia*, Allen & Unwin, Sydney, pp. 3-4.
[66] Andrew Vincent 1992, *Modern Political Ideologies*, Blackwell, Oxford, p. 20.
[67] Carol Johnson 2000, *Governing Change: Keating to Howard*, University of Queensland Press, St. Lucia, p. 13.
[68] Vincent, *Modern Political Ideologies*, p. 17.
[69] *Ibid.*, p. 18.
[70] Johnson, *Governing Change*, p. 10.

> options. Politician's conceptions of "expediency" and "pragmatism" are themselves intensely ideological.[71]

The analysis of this thesis seeks to ascertain the influence of competing macroeconomic theories on federal Labor governments. These theories are underpinned by divergent philosophical principles, and offer competing diagnoses for the occurrence of adverse macroeconomic circumstances, and offer competing ameliorative policy solutions. While the appeal of either of these theories may be attributed to the empirical verification of their theoretical analyses or policy effectiveness, policy-makers may also be attracted to these theories' ideological presuppositions. The analysis of this thesis is therefore appropriately underpinned by an understanding of how the ideological beliefs of key policy-makers and their advisers can shape and constrain federal Labor governments' understandings of viable policy options.

Accordingly, much of the macroeconomic policy analysis of this thesis is informed not only by an analysis of official ALP policy documents, speeches, and various other forms of policy defence, but also autobiographical and biographical material which provide valuable insights into the ideological and policy backgrounds of key federal Labor government cabinet ministers, and where relevant, senior public servants. For those governments whose cabinet papers have been made accessible to the public, analysis of these is also included where they provide insight into the theoretical and ideological underpinnings of policy decisions. The valuable insights of secondary academic and popular studies are also included to supplement the primary materials analysed.

This approach has been followed, because it is proposed that to understand the underlying ideological motivations which underpinned the macroeconomic policy decisions of successive federal Labor governments, the ideological predispositions of key policy-makers must be understood and established. This analytical approach does not discount the influence that various other factors have had upon macroeconomic policy-making. For instance, in keeping with other studies which have also assessed the influence of economic theories on Australian policy-making,[72] the policy analysis within this thesis acknowledges the influence of such factors as: bureaucratic structures and advice, advice emanating from international inter-governmental institutions, and exogenous economic circumstances. However, the respective influences of these factors are not ranked in order of importance for each period of federal Labor government. The purpose of this thesis' ideological analysis is rather to assess the vacillating influence of Keynesian and market liberal macroeconomic theories upon the policy-making of federal Labor governments, and to assess what these vacillating influences reveal about the

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[71] Johnson, *The Labor Legacy*, p. 3.
[72] See for instance: Battin, *Abandoning Keynes*; Greg Whitwell 1986, *The Treasury Line*, Allen & Unwin, Sydney; Alex Millmow 2010, *The Power of Economic Ideas: The Origins of Keynesian Macroeconomic Management in Interwar Australia 1929-1939*, Australian National University E Press, Canberra.

development of ALP ideology. The following section outlines how the central argument of this thesis is substantiated in each chapter.

Chapter Outline and Argument Summary

As has been outlined throughout this chapter, chapters two and three establish the philosophical, theoretical and policy components of both market liberal and Keynesian macroeconomic theories. Chapter two establishes the libertarian philosophical influence which underpinned the economic theorising and policy advocacy of Mises, Hayek and Friedman. This ideological background is established in order to affirm the individualist ontology from which these economists developed their macroeconomic theorising, which argued that the capitalist economy's business cycle is not an inherent function of a *laissez-faire* economy, but rather the result of various government economic interventions. Consequently, and with few exceptions, chapter two establishes that these market liberal economists favoured the avoidance of all interventionist macroeconomic policies.

Chapter three establishes that contrary to the assessment of these market liberal economists, John Maynard Keynes argued that a *laissez-faire* capitalist economy is inherently prone towards cyclical bouts of instability, which require various regulatory measures and other forms of government economic intervention to rectify. This theoretical analysis was underpinned by his liberal ideological vision for a 'middle way' form of regulated capitalism. Keynes argued that periodic bouts of deficient demand caused recessionary economic conditions, which could be avoided or ameliorated through the timely implementation of counter-cyclical fiscal stimulation, and in particular the deployment of public works. Keynes also championed the implementation of several measures of financial market regulation to militate against the occurrence of speculative investment, including his proposal for the 'socialisation of investment', and his Keynesian colleagues favoured the regulation of wage rates to prevent wages under the conditions of full employment from stifling investment or creating inflationary pressure. Chapter three establishes that beyond these measures, Keynes did not challenge the theoretical assumptions or policy advocacy of market liberal economists. Consequently, it is these macroeconomic policies which form the basis of the subsequent policy analysis of successive federal Labor governments.

Chapter four provides the background context of the ALP's foundational, populist opposition to the 'money power' and establishes the similarities between the Party's consequent ambition to regulate the banking industry and Keynes' advocacy for the 'socialisation of investment'. Chapter four also establishes how the development of Keynes' macroeconomic theorising influenced the Scullin Government to advocate a proto-Keynesian program of demand stimulation, designed to protect its working constituents from the ravages of the Great Depression, but which was thwarted by the combined opposition of the Australian and London banking industries, the Australian economics profession, and the conservative-dominated Senate. The remainder of this chapter establishes two key points of relevance to the subsequent analysis of federal Labor governments. It establishes the significant influence Keynesian macroeconomics subsequently had upon younger Australian economists, many of whom would assume senior and influential positions within the Commonwealth public service; and it canvasses the insights of one of these economists, E.R. Walker, who presciently documented the criteria which should govern the successful deployment of Keynesian stimulatory public works, and which provides this thesis with a useful measure of the success or otherwise of the stimulatory public works programs subsequently deployed by federal Labor governments.

Chapter five establishes the Curtin Government's consolidation of plans for the implementation of Keynesian macroeconomic management, which formed part of this government's wider plans for the post-war reconstruction of the economy following the Second World War. It establishes that the acceptance of Keynesian macroeconomic management amongst important sections of the Commonwealth public service and economics profession had transformed since the period of the Scullin Government, and that this greatly assisted in lending legitimacy to the planning of Keynesian policies. However, notwithstanding this widespread institutional support, chapter five also canvasses several implementation problems, either experienced or anticipated during the Chifley Government's period in office, with regard to Keynesian policies. Specifically, the attempts made to restrain inflationary pressures through financial regulation, and fiscal and wages restraint, proved politically unpopular. Efforts aimed at ensuring an international commitment to principles of Keynesian macroeconomic management proved unsuccessful, and the deployment of public works, as recommended in the Curtin Government's seminal White Paper, *Full Employment in Australia* (1945), were anticipated to encounter significant and perhaps intractable implementation problems.

Chapter six establishes that by the time the Whitlam Government was elected to office in December 1972, the nation had experienced a long post-war economic boom, the strength and longevity of which had convinced Whitlam that the macroeconomic debate had been resolved in favour of Keynesianism. Furthermore, Whitlam believed that Keynesian macroeconomic management could be appropriately administered through the advice of public sector experts, removed from the political fray. However, the experience of macroeconomic crises under his government's stewardship placed the competing diagnoses and policy solutions of market liberal and Keynesian macroeconomic theories firmly back on the government's agenda.

The argument prosecuted in chapter six is that for most of the period of the Whitlam Government there did not exist decisive political leadership with regard to the formulation of macroeconomic policy. Instead, the fiscal implementation of the government's social reform program largely dictated fiscal policy priorities for the majority of the Whitlam Government's period in office. This policy influence operated outside of the advocacy of either Keynesian or market liberal theories. However, chapter six does acknowledge that during the fiscal year 1974-75, the Whitlam Government did implement a program for the deployment of stimulatory public works under the Regional Employment Development Scheme (REDS). It is identified that this scheme adhered to many of the criteria established by both Keynes and E.R. Walker, with regard to the successful deployment of stimulatory public works. This observation notwithstanding, however, chapter six also argues that not enough expenditure was committed to the REDS and other stimulus measures to effectively arrest the evident increase in unemployment. Moreover, chapter six concludes by establishing the Whitlam Government's final and decisive adoption of a market liberal diagnosis of the adverse stagflationary conditions Australia was at that time experiencing. This diagnosis involved the acceptance that its own excessive expenditures, and the wider economy's excessive wage rates, were responsible for the prevailing conditions of both very high levels of inflation and the rising rate of unemployment.

Chapter seven canvasses the Hawke Government's shift from the implementation of an identifiably Keynesian-influenced policy platform, to the implementation of a market liberal macroeconomic agenda which sought to stimulate private sector investment through the redistribution of resources away from the public sector and wage earners and towards the private sector, through fiscal and wages restraints. This chapter establishes that during the Hawke Government's first term in office (1983-1984), its macroeconomic policies were broadly underpinned by the Keynesian-influenced Statement of Accord, agreed between the federal ALP and the ACTU prior to the 1983 federal election. This macroeconomic policy platform advocated a Keynesian counter-cyclical fiscal policy, supported by a centralised policy of cooperative wages restraint. Chapter seven establishes, however, that this platform was subverted from the Hawke Government's first year in office by the implementation of market liberal policies. From the latter-part of 1983, the Hawke Government implemented various policies of financial deregulation, including: the floating of the nation's currency exchange rate; the abolition of exchange controls; the abolition of several banking regulations; and the introduction of foreign banking competition. From the end of its first term, the Hawke Government also adhered to the market liberal advocacy for fiscal restraint, and when confronted with severe current account deficit problems from the mid-1980s, the government responded with a concerted agenda of fiscal, monetary, and wages policy restraints, designed to reduce domestic consumption demand for imported goods, and redistribute resources to productive private sector investors.

However, and in accordance with the core argument of this thesis, chapter seven and chapter eight also argue that the Hawke and Keating Governments – like their federal Labor government predecessors - implemented those macroeconomic policies which they believed best facilitated the ALP's social democratic objective of attempting to improve the living standards of workers and their dependents. In this context, Keynesian policies were eschewed because they were considered by key cabinet ministers to have been both ineffective and redundant. Chapter seven explains that from the mid-1980s the

Hawke Government believed that it was only through the greater empowerment of competitive financial markets and a restrained public sector and wages system, that macroeconomic prosperity could be restored, because these measures promoted a more efficient distribution of resources, facilitated greater levels of investment and employment, and thereby established the foundations for better standards of living.

Chapter eight argues that the Hawke Government's implementation of the market liberal policies of fiscal and monetary restraints, and financial market deregulation, facilitated and then significantly contributed to the depth of the severe recession experienced during the early-1990s. Moreover, chapter eight also argues that the Hawke and Keating Governments' largely non-interventionist market liberal policy responses to this recession revealed the problems which can be encountered when timely and effective Keynesian stimulatory policies are not taken to avoid or alleviate growth in unemployment. Without this type of Keynesian response, market forces proved slow to produce an employment recovery. In this context, it is also argued that the Keating Government's implementation of its modest stimulatory program, *One Nation* (1992), proved ineffective. The *One Nation* program's expenditures were too modest, poorly targeted, and ill-timed to deliver an effective stimulus to the economy. Their composition did not adhere to either the fiscal stimulatory principles enunciated by Keynes (outlined in chapter three), or the criteria devised for the successful deployment of stimulatory public works established by E.R. Walker in the 1930s (see chapter four). This chapter thereby concludes that in spite of the recessionary economic circumstances encountered, the Keating Government, like the Hawke Government before it, did not seriously consider that the private sector required significant fiscal stimulatory intervention.

In providing an overall assessment of the Hawke and Keating Governments' record of macroeconomic management, chapter eight acknowledges that both the Hawke and Keating Governments made significant efforts to shield society's most disadvantaged from the inequitable consequences of market distribution. However, in spite of these efforts, the overall assessment of the Hawke and Keating Governments' broadly non-interventionist macroeconomic policies concludes that these governments failed to facilitate and maintain the prosperous conditions of low inflationary full employment, from which the ALP's traditional working constituents directly benefit. Any discernible improvement in broad macroeconomic variables which were evident by the late-1980s – and particularly the discernible improvement in the unemployment rate – was subverted by the deep and long-lasting recession of the early-1990s; one of the chief legacies of which was a stubbornly high level of unemployment, not significantly reduced for the remainder of the Keating Government's period in office.

Chapter eight concludes that the macroeconomic experience of the Hawke and Keating Governments reveals the risks social democratic governments confront when they place too great a trust in the resource distribution of the private sector to determine the pace of economic activity, the level of investment and employment, and ultimately the living standards of workers, their dependents and society's most disadvantaged. It is argued that in spite of the Hawke and Keating Governments' belief that they were implementing those macroeconomic policies which most feasibly upheld the long-term material interests of the ALP's working constituents, a large amount of evidence exists to suggest that these governments' faith in market liberal policies to deliver full employment prosperity was misplaced.

Chapter nine establishes that prior to the 2007 federal election, both Prime Minister, Kevin Rudd (2007-2010, 2013), and Treasurer, Wayne Swan (2007-2013), objected to the philosophy and policy advocacy of market liberalism, and instead advocated for various government interventions to facilitate macroeconomic prosperity, and uphold the ALP's social democratic objective. In accordance with this ideological predisposition, chapter nine argues that Rudd and Swan did not believe that the next major round of economic reform should include an extension of the pro-market reforms implemented by their Commonwealth Government predecessors, but should rather centre around targeted public sector investments in those areas which they believed drove future productivity growth: economic infrastructure, and human capital. Chapter nine therefore establishes that under Rudd's leadership the federal ALP advocated and then implemented increased public sector investments in economic infrastructure, most notably through the establishment of the National Broadband Network (NBN), and in human capital through increased expenditures on research and education funding, and the alleviation of skills shortages through targeted investments in vocational training.

Chapter ten then argues that Rudd and Swan's long-standing ideological belief in the legitimate role governments have in intervening to facilitate improved economic outcomes, was evident in the Rudd Government's subsequent Keynesian response to the Global Financial Crisis (GFC). Chapter ten acknowledges that the Rudd Government's Keynesian policy responses to the GFC were both informed and supported by the Commonwealth Treasury, as well as key international intergovernmental institutions, including the OECD and IMF. Indeed, the policy advice the Rudd Government received from Treasury is particularly notable, because it reversed the strident market liberal advice the Hawke and Keating Governments had received during the early-1990s recession. Rather than expressing an aversion to Keynesian fiscal intervention, senior Treasury officials shared the Rudd Government's desire to avoid a repeat of the burgeoning numbers of long-term unemployed, as well as the permanent skill atrophy, and business failures, prevalent during this period. In acknowledging these sources of institutional support, however, chapter ten also argues that the Rudd Government, and in particular Prime Minister Rudd and Treasurer Swan, were already ideologically amenable to Keynesian policy solutions to the crisis, as evidenced by their long-standing advocacy for government intervention to solve economic problems (canvassed in chapter nine). Confronted with the largest international economic downturn since the Great Depression, the Rudd Government's evident concern for the plight of workers and their dependent families, and the acceptance amongst its most senior cabinet ministers that Keynesian policy interventions can provide an effective stimulus to aggregate demand, meant that the Rudd Government was ideologically predisposed to protect jobs through Keynesian methods.

Chapter ten also emphasises how closely many of the Rudd Government's stimulatory public works programs complied with the general principles outlined by Keynes (see chapter three), and the criteria devised by E.R. Walker in the 1930s (see chapter four). Moreover, chapter ten acknowledges that the design of the Rudd Government's fiscal stimulatory interventions were identified by the IMF, the OECD, and many prominent economists, including the 2001 Nobel Prize-winning economist, Joseph Stiglitz, as having been largely responsible for Australia's success in avoiding both a technical recession and a significant increase in the nation's unemployment rate. This appraisal forms the conclusion of this chapter's overall assessment of the Rudd Government's Keynesian response to the GFC. Observation of the key macroeconomic variables has confirmed that the Australian economy successfully negotiated its way through the crisis, and based upon Treasury's estimations, it is argued that the Rudd Government's various fiscal interventions can take much of the credit. Based upon this analysis, chapter nine concludes that the Rudd Government's Keynesian response to the GFC offers a valuable case study in how successful Keynesian policies can be, if implemented in a timely manner, in maintaining high levels of employment amidst serious macroeconomic crises.

Chapter ten acknowledges that the Building the Education Revolution (BER) schools public works program bolstered employment in the regionally-dispersed construction industry, and thereby significantly contributed to the retention of important workforce skills, as well as the maintenance of apprenticeship training. It is also acknowledged, however, that program reviews of both the Home Insulation Program (HIP) and BER program identified serious shortcomings with regard to the HIP's inadequate safety regulation design and compliance, and some instances within the BER program of excessive costs, and failure to meet value-for-money outcomes. Interestingly, however, an important finding established by separate investigations into both of these programs found that if those state and Commonwealth government agencies, given responsibility for the planning and implementation of these programs, had greater access to technical expertise relevant to the management of public works, then the HIP and BER program would likely have avoided or lessened the severity of these shortcomings. Chapter ten therefore concludes that a key recommendation of the BER Implementation Taskforce's *Final Report* should be given serious consideration by Commonwealth, state, and territory governments: that the public sector should recruit a greater number of technically qualified graduate engineers, in order to restore the public works capacities of Australian governments, and thereby equip them to better manage the deployment of stimulatory public works programs in the future.

The conclusion is also reached, however, that lower quality public works projects may still have to be tolerated when deployed for stimulatory purposes. On this point, it is notable that the assessments of senior public servants under the Rudd Government reflected the earlier concerns expressed by the Chifley Government and their advisers in the late-1940s, with regard to the difficulties involved in effectively planning lists of public works projects for stimulatory use. Their conclusions were essentially the same: the planning of shovel-ready, high quality public works, cannot likely be planned in advance, or delayed for stimulatory deployment.

Nevertheless, chapter ten firmly concludes that the Rudd Government's successful handling of the GFC provides a valuable case study for the ongoing usefulness of Keynesian macroeconomics for federal Labor governments. Whereas the Hawke and Keating Governments' market liberal policies precipitated and then prolonged a damaging recession in the early-1990s, one of the chief legacies of which was a stubbornly high rate of unemployment which remained above 8 percent for the remainder of the Keating Government's period in office, the Rudd Government's Keynesian response to the GFC avoided both a damaging recession and a high rate of unemployment. It is from this position that this chapter concludes that Keynesian policies provide federal Labor governments with the macroeconomic demand management policies needed to facilitate the conditions of low inflationary, full employment prosperity, from which the ALP can attempt to fulfil its social democratic objective of improving the living standards of its working constituency and their dependents.

This chapter structure and content establishes the following conclusions. Although the author is not influenced by a Marxist socialist ideology, this thesis supports the argument of ALP ideological continuity originally identified by the Party's socialist critics. It is argued that federal Labor governments have consistently adhered to a social democratic ideology. The analysis of federal Labor governments' macroeconomic policies suggests that although these governments have been periodically influenced by two competing and incompatible macroeconomic theories, all federal Labor governments have sought to uphold the Party's ideological objective of improving the living standards of the Party's traditional core constituency: working people and their dependents. They all implemented those fiscal, monetary, wages, and financial regulatory policies they believed would best facilitate sustainable low inflationary employment growth, from which to underpin improved living standards for the ALP's working constituency, while also upholding key measures of a social safety net. In this context this thesis argues that while the economic policy means adopted by successive federal Labor governments have differed, the Party's broad ideological objective has remained unaltered.

In addition to the argument for ideological continuity, this thesis also argues that successive federal Labor governments have learnt from their predecessors' policy-making experiences. For instance, chapter five establishes that the Curtin and Chifley Governments' adoption of Keynesian policies had been heavily influenced by their experiences – and those of their public service policy advisers – of the human suffering and economic waste associated with the Great Depression, and the policy ineffectiveness of the Premiers' Plan, which had been reluctantly implemented by their Scullin Government during this period (see chapter four). It is also established in chapters seven and eight, that although the Hawke and Keating Governments alternatively concluded that market liberal macroeconomic policies provided a more feasible method of increasing private sector investment and employment, this conclusion similarly drew upon the policy-making experiences of their Whitlam Government predecessors (see chapter six). It is argued that part of the reason the Hawke and Keating Governments upheld policies of fiscal and wages restraints throughout most of their period in office, was because of their desire to avoid the crowding out of private sector investment which they believed had occurred under the Whitlam Government. Finally, as chapter ten establishes, the Rudd Government and their Treasury advisers were also heavily influenced by the experience of the human suffering, loss of workforce skills, and the waste of idle capital and labour resources, which had accompanied the significant rise in unemployment which occurred during the early-1990s recession.

This thesis also argues, however, that some key lessons from the policy-making experiences of earlier federal Labor governments were subsequently forgotten. Most notably, the Hawke and Keating Governments discarded or were not aware of the pertinent criticisms Keynes had made of unfettered market forces, which had previously influenced the policy-making of the Curtin and Chifley Governments. For instance, Keynes' scepticism of financial markets' inherent tendency to engage in speculative, inefficient activity, had underpinned his advocacy for several measures of financial market regulation, including the 'socialisation of investment' (see chapter three). These insights were reflected in the Curtin Government's 1945 banking reforms, which had been designed to facilitate a high and stable rate of investment through direct regulatory controls (see chapter five). Notwithstanding Keynes' theoretical insights, however, the Hawke and Keating Governments eagerly embraced the deregulation of financial markets, believing that the removal of financial regulatory impediments, including the introduction of foreign banking competition, would facilitate a more efficient distribution of finance capital to enterprising firms and businesses, and thereby assist in creating greater employment opportunities for the ALP's working constituents. Therefore, and in combination with these governments' policies of fiscal and wages restraints, and other policies designed to facilitate greater market distribution (see chapter eight), the Hawke and Keating Governments disregarded one of Keynes' central conclusions: that unfettered markets tend towards a state of employment equilibrium below that of full employment. In other words, according to Keynes, financial markets had to be significantly regulated in order to ensure the efficient distribution of finance capital, and a high level of employment.

Moreover, as chapter eight establishes, the speculative financial activity associated with the late-1980s investment boom was not only facilitated by the Hawke and Keating Governments' financial deregulatory reforms, but it also required the intervention of a severe corrective monetary policy, which precipitated the early-1990s recession. This recession revealed that if Keynesian stimulatory action is not taken to avoid or alleviate a contraction in demand, market forces can be very slow in producing a recovery in investment and employment levels. In this context, while the Hawke and Keating Governments rejected the insights and policy advocacy of Keynesian macroeconomics, its own policy-making experience revealed the risks social democratic governments confront when they place too great a trust in the resource distribution of the private sector to determine the pace of economic activity, the level of investment and employment, and ultimately the living standards of workers, and their dependents.

Accordingly, this thesis concludes that although market liberal non-interventionist policies are not inconsistent with the Party's social democratic ideology, they have proven less reliable in maintaining macroeconomic stability, with consequent adverse effects on the living standards of the ALP's working constituents, and particularly during times of recession and recovery. Moreover, this thesis also concludes that the Rudd Government's successful handling of the GFC provides a valuable case study for the ongoing usefulness of Keynesian macroeconomics for federal Labor governments. This thesis therefore argues that the ALP would be well advised to advocate and plan for the long-term implementation of Keynesian macroeconomic management. However, this course of action would also entail some significant policy and political challenges.

For instance, the difficulties involved in implementing and administering a policy of cooperative wages restraint, capable of restraining inflationary wage pressures under the conditions of full employment, remains a key challenge. Chapter five establishes that although the Chifley Government proved successful in restraining inflationary wage pressures during its period in office, it did not succeed in obtaining broad workforce support for this policy. Conversely, chapter six establishes that under the Whitlam Government significant and inflationary nominal and real wage increases were allowed to proliferate, largely because the government proved unsuccessful in convincing wage earners that the provision of increased social wage benefits, associated with the implementation of its social reform program, meant they no longer required large wage increases to improve their living standards. Chapters seven and eight establish that the Hawke and Keating Governments did manage to constrain inflationary wage pressures, and that this was achieved through a cooperative, centralised system of wages restraint, negotiated with the trade union movement under the Accord process. However, rather than having merely restrained inflationary wage pressures, chapter eight reveals that the Accord process actually reduced average real wages for an uninterrupted six year period, at significant cost to the living standards of the ALP's working constituents. Chapter nine also reveals that prior to the GFC, the Rudd Government had not implemented a credible policy to ameliorate inflationary wage pressures in the context of an economy confronting capacity constraints. This thesis concludes, therefore, that the challenge of establishing an effective cooperative policy of wages restraint, particularly in the context of declining trade union membership, presents an ongoing challenge for future federal Labor governments.

As noted above, the Rudd Government's timely and effective deployment of stimulatory public works projects revealed the ongoing relevance of the basic principles outlined by Keynes, and the criteria for the effective deployment of stimulatory public works programs established by E.R. Walker in the 1930s. However, in order to restore the public works capacities of Australian governments, so that they might better manage the deployment of stimulatory public works programs in the future, the federal ALP should seriously consider advocating for the greater public sector recruitment of technically qualified graduate engineers at the Commonwealth, state and territory levels, as recommended by the BER Implementation Taskforce.

In this light, because lower quality public works projects may still have to be tolerated when deployed for stimulatory purposes, future federal Labor governments will likely confront similar criticisms of profligacy, waste and economic mismanagement, as confronted the Rudd Government. However, the analysis in this thesis provides evidence which supports the long-standing policy logic of the Keynesian position. The analysis of this thesis has suggested that future federal Labor governments can make the case that fiscal stimulatory interventions are needed to ensure the maintenance of macroeconomic stability and full employment, from which the ALP's working constituency directly benefits. Moreover, it can also be argued that it is from a position of stable economic growth that public finances are most prudently managed. In short, this thesis argues that there are strong grounds on which federal Labor governments can defend Keynesian policies, given their capacity to protect Australian workers' job security in times of crisis, and facilitate sustainable economic growth over the longer-term.

CHAPTER TWO
AVOIDING BUSINESS CYCLES THROUGH FREE MARKETS: MARKET LIBERAL MACROECONOMIC THEORY

In accordance with the focus of this thesis, this chapter establishes the philosophical, theoretical and policy components of market liberal macroeconomic theory. Chapter three establishes these components for Keynesian macroeconomic theory. In so doing, these chapters emphasise the essential theoretical conflict which exists between them: their differing perceptions of the inherent stability (or instability) of an unfettered *laissez-faire* capitalist economy. These chapters establish that this essential theoretical conflict has manifested itself in important policy disagreements over the appropriate role for government interventions, designed to avoid or ameliorate the capitalist system's business cycle.[1] These policy disagreements are confined to the areas of fiscal and monetary policies, financial regulation, and wages policies. Consequently, this chapter, and the wider policy analysis in this thesis, is not concerned with the following policy debates:

- wealth and income distribution;
- sectoral business regulation and industry assistance;
- trade regulation; or
- the level or composition of state-owned businesses (except in so far as state ownership has been administered to assist with aggregate investment and employment levels).

The market liberal positions on some of these issues are briefly canvassed in the opening sections of this chapter. However, this is done only to provide a theoretical platform from which to explain the market liberal opposition to interventionist policies designed to avoid or ameliorate the capitalist system's business cycle.

In order to establish a synopsis of the key philosophical, theoretical, and policy components of market liberalism, this chapter briefly canvasses the work of three prominent twentieth century market liberal economists: the Austrian school's[2] Ludwig von Mises and Friedrich von Hayek, and the Chicago school's[3] Milton Friedman. These three economists have been selected because of their prominent influence on macroeconomic theory and policy in the period since the 1930s, and because their work has provided the essential principles which have underpinned the market liberal critique against Keynesian interventionist policies, designed to avoid or ameliorate the capitalist system's business cycle. Fundamentally, this chapter emphasises that Mises, Hayek and Friedman opposed Keynesian

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[1] A useful and influential definition for the capitalist economy's 'business cycle' was formulated in 1946 by Wesley C. Mitchell and Arthur F. Burns: 'Business cycles are a type of fluctuation found in the aggregate economic activity of nations that organize their work mainly in business enterprises: a cycle consists of expansions occurring at about the same time in many economic activities, followed by similarly general recessions, contractions, and revivals which merge into the expansion phase of the next cycle; this sequence of changes is recurrent but not periodic'. Quoted in Geoffrey H. Moore 1982, 'Business Cycles', in Douglas Greenwald (ed.), *Encyclopedia of Economics*, McGraw-Hill, New York, p. 96.

[2] For an introduction to the Austrian school of economics, which emphasises the school's epistemology as its distinguishing feature, see: Fritz Machlup 1982, 'Austrian economics', in Greenwald (ed.), *Encyclopedia of Economics*, pp. 38-43.

[3] For an introduction to the free market principles which unite members of the Chicago school, see: Colin D. Campbell 1982, 'Chicago school', in Greenwald (ed.), *Encyclopedia of Economics*, pp. 137-41.

interventionist policies because they argued that their implementation would exacerbate the adverse unemployment and inflation maladies they were designed to avoid or ameliorate, and because government economic interventions were themselves responsible for creating the maladjustments which created the business cycle in the first place. Put simply, government intervention was considered the culprit for the creation of excessive inflation and unemployment, and not the solution to their occurrence. Left unfettered, they argued that the market would alternatively deliver stable investment conditions, the most efficient use of resources, full employment, and by implication the widest prosperity. Applying this logic to the ALP's ideological objective, these market liberal economists believed that free markets would deliver improvements in the living standards of workers and their dependents.

As was established in the opening chapter, the analysis of this thesis is cognisant that ideological beliefs often shape and constrain policy-makers' understandings of viable policy options. It is similarly accepted within this thesis that the philosophical and ideological beliefs of economists informed their theoretical economic analyses and policy advocacy. Appropriately, this chapter begins its analysis by briefly outlining the key principles of the libertarian philosophy which underpinned the theoretical economic work of Mises, Hayek and Friedman.

The Influence of Libertarian Philosophy

The libertarian philosophical influence upon these economists is manifest. A cursory inspection reveals that throughout the twentieth century they performed key roles as leading libertarian public advocates.[4] In this context, it is useful to consider the political philosopher Norman Barry's synthesis that libertarians share an individualist ontology: 'It is from the concept of man as an autonomous individual, whose actions are the product of choice and purpose, that the philosophy of a free society is constructed'.[5] Given this individualist ontology, it is logical that libertarians adhere to a form of *laissez-faire* capitalism because it is 'consistent with a morality of freedom'.[6]

Whilst an individualist ontology is shared by all libertarians, Norman Barry emphasised that there exists a broad cleavage between those libertarians who have predicated their adherence predominantly upon rights-based contentions,[7] and those who have predominantly justified their libertarian adherence upon the superior material prosperity which they argue *laissez-faire* capitalism delivers. Barry

[4] For instance, all three were instrumental in the establishment of many leading libertarian journals and forums, the most prominent of which was the Mont Pelerin Society, founded in 1947. See: David Harvey 2005, *A Brief History of Neoliberalism*, Oxford University Press, Oxford, pp. 19-20.
These economists also performed key roles in the production of the *New Individualist Review*, and in the running of the leading US libertarian forum, the Philadelphia Society. See: Milton Friedman & Rose D. Friedman 1998, *Two Lucky People: Memoirs*, University of Chicago Press, Chicago, pp. 333, 335-7, 339-40, 627.
[5] Norman P. Barry 1986, *On Classical Liberalism and Libertarianism*, Macmillan, Hampshire, p. 4.
[6] *Ibid.*, pp. 7-8.
[7] Barry provides penetrative analyses into the philosophical underpinnings of the natural rights libertarian strands of: Ayn Rand's moral absolutist egoism (*ibid.,* pp. 108-31), Robert Nozick's deontological libertarianism (*ibid.,* pp. 104-6, 132-60), and anarcho-capitalism (*ibid.,* pp. 161-91).

included the three market liberal economists analysed within this chapter as amongst the latter group. In this context, Barry concluded that the philosophical foundation which has underpinned these economists' work can be summarised by two key assertions: that a) individual liberty,[8] and b) material prosperity, essentially constitute the desired ends for which humanity should strive. For these economists, these ends required no explicit metaphysical establishment or defence, but instead provided clear, unproblematic objectives which subverted political and moral disagreements, and transferred debate into mere technical economic arguments.[9]

Theory and Policy Applied to Distribution

In seeking to explain how this philosophical foundation was applied to the theoretical work produced by Mises, Hayek and Friedman, this chapter does not seek to gloss over the important epistemological differences which existed between the Austrian school economists and Milton Friedman. It is worth mentioning, for example, that Friedman's adherence to the Chicago school's 'positive economics', which broadly mirrored the techniques of empirical observation used in the natural sciences, underpinned his belief in the existence of predictive regularities in economic behavior.[10] In opposition to this conception, the Austrian school economists refuted the notion that individual behavior could be anticipated, and instead emphasised that it was the unpredictability of the actions of individual entrepreneurs, who used their unique knowledge and skills to obtain monetary profits, which underpinned the capitalist economy's dynamism,[11] and also underpinned their opposition to any form of centralised economic planning.[12]

Notwithstanding such important theoretical differences, however, it is more relevant for the purposes of this thesis to highlight the non-interventionist consensus which existed amongst them. An analysis of their shared theorising and policy advocacy follows. It begins with an account of their adherence to the general equilibrium theory's notion that unfettered markets tend towards the most efficient use of resources.

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[8] In the tradition of classical economists, Adam Smith (1723-1790) and David Hume (1711-1776), liberty is defined here in its negative sense: as applicable to the rights of individuals to equality before the law, and the ownership of their own person, labour, and property, without arbitrary interference from other individuals, groups, or the state. See: *ibid.*, pp. 32-3; Norman P. Barry 1979, *Hayek's Social and Economic Philosophy*, Macmillan, London, pp. 57-61.

[9] Barry, *On Classical Liberalism and Libertarianism*, pp. 13, 45-8; Barry, *Hayek's Social and Economic Philosophy*, p. 55.

[10] See: Milton Friedman 1979, 'The Methodology of Positive Economics', in Frank Hahn & Martin Hollis (eds), *Philosophy and Economic Theory*, Oxford University Press, Oxford, pp. 19-21, 25-7, 29-31, 34-5; Barry, *On Classical Liberalism and Libertarianism*, pp. 50, 69; Ludwig von Mises 1952 [1974], *Planning For Freedom and twelve other essays and addresses*, 3rd edn (memorial), Libertarian Press, South Holland, Illinois, pp. 108-9, 119; F. A. Hayek 1960, *The Constitution of Liberty*, University of Chicago Press, Chicago, pp. 22-4, 26, 28-35; F.A. Hayek 1967, *Studies in Philosophy, Politics and Economics*, University of Chicago Press, Chicago, pp. 161-4; F. A. Hayek 1978, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, Routledge & Kegan Paul, London, pp. 24-5, 28-9; Barry, *Hayek's Social and Economic Philosophy*, pp. 6, 8, 10, 20-1.

[11] Ludwig von Mises 1949, *Human Action: A Treatise on Economics*, William Hodge & Co., London, pp. 245-7;

[12] F.A. Hayek 1940, 'Socialist Calculation: The Competitive "Solution"', *Economica*, Vol. 7, No. 26, May; F.A. Hayek 1945, 'The Use of Knowledge in Society', *American Economic Review*, Vol. 35, No. 4, September; Ludwig von Mises 1935, 'Economic Calculation in the Socialist Commonwealth', in F.A. von Hayek (ed.), *Collectivist Economic Planning*, George Routledge & Sons, London, pp. 87-130.

The Equilibrating Market

The general equilibrium theory was initially developed by the French economist, Léon Walras (1834-1910), and took root most fervently within the Swiss, Lausanne school of economics. Its purpose was to produce 'a more exacting mathematical expression of Adam Smith's assertion that the pursuit of individual self-interest produces an optimal social outcome'.[13] In so doing, the theory sought to establish the basic principle that unfettered markets tend towards a stable position of equilibrium, in which all resources (including labour) are fully employed. This was believed to occur because under unfettered market conditions the price mechanism would efficiently adjust the monetary value of goods and services to the prevailing conditions of supply and demand.[14] Under such equilibrium conditions, the prices of goods and services would also reflect their costs, and resources (including labour) would be distributed and used in a manner which ensured that consumer demand was satisfied in the most efficient and profitable way.[15] However, despite this summation reflecting the outcome which would be anticipated under perfectly unfettered markets and not those actually experienced in the real world,[16] the Austrian economists and Friedman agreed that close approximations to unfettered markets would nevertheless usefully tend towards the position of perfect equilibrium.[17]

Welfare Expenditure and Taxation

The combination of these economists' libertarian philosophical objectives and their technical adherence to the general equilibrium theory underpinned their disapproval of extensive government tax and welfare expenditure programs. But while this doctrinaire rejection of redistributionist measures has never been adopted by any federal Labor government, it is important to briefly canvass these economists' positions in order to establish the foundations for their opposition to Keynesian interventionist policies, designed to avoid or ameliorate business cycles.

It was Hayek's commitment to the core principles of libertarianism which underpinned his conception of justice. He argued that justice involved the preservation of a liberal order, in which all individuals were left free to pursue their own ends within a society in which the rules of market exchange and property rights were upheld equitably before the law. He dismissed the concept of 'social' and 'distributive' justice as nonsense.[18] Hayek argued that this core liberal principle of equality before the

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[13] Brian Toohey 1994, *Tumbling Dice: The Story of Modern Economic Policy*, William Heinemann Australia, Port Melbourne, p. 7.
Adam Smith laid the foundation for the concept of the benevolent invisible hand of the market most explicitly within his seminal work, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776); albeit with caveats and an ill-defined role for government in the provision of public services, infrastructure, the maintenance of a progressive tax system, and various forms of market regulation. See: Jacob Viner 1958, *The Long View and the Short: Studies in Economic Theory and Policy*, Free Press, Glencoe, Illinois, pp. 214-35, 238-45.

[14] Whitwell, *The Treasury Line*, pp. 28-31.

[15] Léon Walras 1874 [1926], *Elements of Pure Economics or The Theory of Social Wealth*, edition definitive, William Jaffé translation 1954, George Allen & Unwin, London, p. 224; Whitwell, *The Treasury Line*, p. 29.

[16] Walras, *Elements of Pure Economics*, pp. 224-5.

[17] Ludwig von Mises 1949, *Human Action: A Treatise on Economics*, William Hodge & Co., London, pp. 245-7; Milton Friedman 1962, *Capitalism and Freedom*, University of Chicago Press, Chicago, p. 120; Milton Friedman 1981, *Taxation, inflation and the role of government*, Centre for Independent Studies, Occasional Papers No. 4, p. 29.

[18] Hayek, *Studies in Philosophy, Politics and Economics*, pp. 166-8, 170-5.

law was not upheld in the functioning of a progressive taxation system, commonly implemented to finance extensive redistributive welfare measures. Hayek perceived that the unjust imposition of higher tax rates upon higher income earners constituted an arbitrary and coercive redistribution of wealth, which was motivated by the vice of envy.[19] Friedman similarly expressed his abhorrence at the coercive redistribution of property involved in the imposition of extensive tax and welfare policies.[20] As an alternative, Hayek concluded that individuals should instead simply bear the material consequences of their own market performance; despite Hayek's open acknowledgment that such market outcomes do not necessarily reflect an individual's effort, application or diligence, or equate to widespread conceptions of moral merit.[21]

This conclusion was supported by these economists' belief in the efficiency of markets. Hayek and Mises reasoned that the material consequences of market distribution should be upheld because if these disparities were ameliorated by various redistributive welfare programs, then the important market incentive structure, which the price mechanism provides, would be damagingly diluted. According to this reasoning, redistributive welfare made individuals complacent, while unfettered markets spurred productive effort. In this context, Hayek and Mises also emphasised that the price mechanism serves as a useful tool in the dispersion of specific knowledge pertaining to consumer demands, which provides economic agents with the relevant information to make rational decisions as to what to produce or supply, in what quantities, and at what quality, in their quest for profits or profitable employment. The price mechanism was believed to efficiently distribute material rewards amongst market participants: investors, entrepreneurs, and wage earners; and to do so according to the sovereignty of the consumer, amongst whom the 'common man' was by far the most numerous.[22] On this point, Mises reasoned that because entrepreneurs had displayed a proven track record of using scarce capital resources to satisfy the most urgent consumer demands, they deserved the material rewards for which consumers were willing to pay. For Mises this arrangement constituted 'an economic democracy in the strictest sense of the word',[23] so that any confiscation of profits through taxation would unjustly and damagingly 'loosen the grip the consumers hold over the course of production'.[24]

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[19] *Ibid.*, p. 175; Hayek, *The Constitution of Liberty*, pp. 85-8, 93, 100-1, 259-60, 307-15.

[20] Friedman, *Capitalism and Freedom*, p. 174; Milton Friedman & Rose Friedman 1980, *Free to Choose: A Personal Statement*, Macmillan, Melbourne, p. 135.

[21] Hayek, *The Constitution of Liberty*, pp. 71-2, 75-7, 79-84, 95-6; F.A. Hayek 1980, *1980s Unemployment and the Unions*, Institute of Economic Affairs, Lancing, Sussex, p. 45; Hayek, *Studies in Philosophy, Politics and Economics*, pp. 172-5, 232-6.

[22] Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 179-190; Hayek, *Studies in Philosophy, Politics and Economics*, pp. 173-5; Hayek, *1980s Unemployment and the Unions*, pp. 28-30, 32-5; Mises, *Planning For Freedom*, pp. 15-7, 49, 72-3, 151; Ludwig von Mises 1978, *On the Manipulation of Money and Credit,* Percy L. Greaves Jr (ed.), Free Market Books, New York, pp. 176-80.

[23] Mises, *Planning For Freedom*, pp. 111, 117, 120-1; Mises, *On the Manipulation of Money and Credit*, pp. 177-8.

[24] Mises, *Planning For Freedom*, pp. 121, 123. See also: pp. 132-6.

Alternative methods utilised by governments to increase the welfare of disadvantaged groups, such as maximum price controls on goods and services considered to be essential necessities, were also opposed by Mises and Hayek. They argued that rather than dealing with the central cause of high prices, explained by the scarcity of resources, price controls would likely reduce the production of the regulated goods and services, because they reduced the profit incentive needed for their production. Further, they argued that this reduced production would in turn encourage further controls on other goods and services, until socialism, with all its inefficiencies of resource use and neglect of consumer demands, was approximated. Under such a system, Mises argued that the market's sovereignty of the consumer would be removed, and only state coercion would be left to determine which goods and services should be produced, in what quantity, and at what quality.[25]

The extent of welfare measures which these economists were prepared to countenance was therefore limited to the maintenance of charitable subsistence for society's most indigent. Friedman and Hayek expressed support for redistributive welfare only for the genuinely poor, disabled or unfortunate victims of unforeseeable disasters, and largely justified this modest level of social support on the protection that it would provide society from the desperate acts of destitute individuals. In addition, Hayek emphasised that such governmental support should not be demanded as a right or entitlement, but should rather be perceived as charity from wealthier members of society to their disadvantaged peers; albeit compulsorily financed through a modest amount of taxation.[26] In order to finance such a modest safety net, Hayek and Friedman advocated a (slightly qualified) flat universal rate of income tax.[27]

Market Determination of Wages

In accordance with these economists' advocacy for broadly unfettered market distribution, they opposed third party intervention in the determination of wage rates. All three agreed that market determined wage rates ensure the most efficient use of labour resources, and thereby facilitate employment, at the highest sustainable real wage rates.[28] They conceived that the cost of labour should be flexibly priced so that wage earners are given the appropriate incentives to respond to the changing dynamics of consumer supply and demand. Therefore, and as already alluded to, Hayek argued that wages should not equate to the needs of a wage earner, nor constitute a reward for effort, nor even a

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[25] *Ibid.*, pp. 21-4, 28-30, 73-8; F.A. Hayek 1972, *A Tiger by the Tail: A 40-Year's Running Commentary on Keynesianism by Hayek*, Institute of Economic Affairs, Kent, pp. 115-6; F.A. Hayek 1950, 'Full Employment, Planning and Inflation', *Institute of Public Affairs Review*, Vol. 4, pp. 181-3.

[26] Hayek, *The Constitution of Liberty*, pp. 84, 101, 257-8, 285-6, 292-4, 296-8; Hayek, *Studies in Philosophy, Politics and Economics*, p. 175.

[27] Hayek, *The Constitution of Liberty*, pp. 314-7, 322-3; Friedman, *Capitalism and Freedom*, pp. 174-6.

[28] Friedman & Friedman, *Free to Choose*, p. 247; Hayek, *A Tiger by the Tail*, pp. 107-11, 118-9; Hayek, *1980s Unemployment and the Unions*, pp. 16-7, 21, 35, 53, 56, 62-4; Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 194-5; Hayek, 'Full Employment, Planning and Inflation', pp. 178-80; Mises, *On the Manipulation of Money and Credit*, pp. 190-1.

reward for a subjectively defined notion of achievement, but instead simply be determined by the market in accordance with the wage earner's ability to meet the demands of consumers.[29]

In considering the conditions necessary for profitable employment, Mises summarised that 'an employer cannot pay more to an employee than the equivalent of the value [of] the latter's work'.[30] Put simply, businesses can only employ individuals if their employment is profitable, and Mises surmised that if workers reduced their wage demands, the profitability of an enterprise would consequently increase, and more workers could be employed.[31] In this context, these market liberal economists assented to the view that unemployed individuals, who are not in the process of securing alternative employment, could appropriately be considered voluntarily unemployed.[32]

On this point, these market liberal economists lamented a widespread unwillingness on the part of trade unions, industrial tribunals, and government regulations, to accept market determined wage rates. These economists argued that such interferences caused the unnecessary hardships of widespread unemployment, inflation, and ultimately reduced real wages. Friedman, for instance, argued that universal unionisation does not lead to widespread increases in wage outcomes because unionisation cannot escape the market realities of supply and demand. According to Friedman, trade union interference only redistributes wages towards their members by limiting entry into their workplaces through either excessive wage rates or licensing arrangements. This has the effect of increasing the supply of labour seeking employment in other industries, which in turn reduces their bargaining power and ultimately their wage rates.[33] In this manner, trade unions were identified as making 'the incomes of the working class more unequal by reducing the opportunities available to the most disadvantaged workers', as well as interfering with the market's efficient distribution of labour.[34]

Hayek echoed these sentiments,[35] and added that excessive trade union wage demands constituted a major investment deterrent.[36] Hayek believed that the removal of the provisions which allowed for trade union monopoly over labour force representation, and the removal of various legal protections which supported trade union coercion, would usefully serve to remove most of the bargaining power which trade unions exerted over employers, and thereby stifle their ability to achieve wage outcomes in excess of those determined by a free market.[37] On this point, Hayek declared that:

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[29] Hayek, *1980s Unemployment and the Unions*, pp. 42-3.
[30] Mises, *Planning For Freedom*, p. 151.
[31] Mises, *On the Manipulation of Money and Credit*, p. 186; Ludwig von Mises 1953, *The Theory of Money and Credit*, new enlarged edn, Jonathan Cape, London, p. 424.
[32] See: Kevin Davis, Mervyn Lewis & John Foster 1983, 'A Member's Guide to Monetarism and Keynesianism', The Parliament of the Commonwealth of Australia, Department of the Parliamentary Library, Legislative Research Papers, No. 11, p. 46.
[33] Friedman & Friedman, *Free to Choose*, pp. 234-5.
[34] Friedman, *Capitalism and Freedom*, p. 124.
[35] Hayek, *1980s Unemployment and the Unions*, pp. 18-9, 52-3, 61-3; Hayek, *The Constitution of Liberty*, pp. 270-3.
[36] Hayek, *Studies in Philosophy, Politics and Economics*, p. 286.
[37] Hayek, *The Constitution of Liberty*, pp. 269-71, 274-8.

> the unions have relied on a most effective tool, namely, the myth that it is due to their efforts that the standard of living of the working class has risen as fast as it has done and that only through their continued efforts will wages continue to increase as fast as possible.[38]

In this vein, Hayek concluded that it is 'impossible ... to be a true friend of labour and to have the reputation of being one'.[39] He reasoned that a market system for wages could not be restored by '[a] political party in which trade unions have a major constitutional role';[40] an observation with particular relevance to the ALP.

Mises also argued that sustainable real wage increases are predominantly underpinned by the productivity growth produced by technologically advanced investments.[41] This meant that any wage increases not underpinned by such investments, but alternatively and unsustainably underwritten by government minimum wage regulations, wage arbitration, or trade union wage demands, would either lead to the lowering of some industrial wages at the expense of others (as Friedman argued), or if widespread, to mass unemployment.[42] Moreover, Mises and Hayek also argued that Keynesian fiscal and monetary interventions designed to stimulate demand (see chapter three), and thereby shield trade unions from the job destroying effects of their excessive wage proposals, would alternatively but damagingly cause an inflationary wage-price spiral.[43] Proposals put forward by some Keynesian advocates and several federal Labor governments to suppress these inflationary pressures through the imposition of maximum price and incomes controls, were also opposed by these economists. This opposition reflected the objections to price controls raised by Mises (mentioned above), as well as the concern that the determination of wage rates within a coercive conciliation and arbitration machinery would distort the labour market and thereby reduce efficiency, output, and employment.[44]

The following sections establish how these market liberal economists' objections to government economic intervention, and their belief in market equilibrium, informed their theoretical analysis and policy attitudes to the capitalist economy's business cycle.

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[38] *Ibid.*, p. 273.
[39] Hayek, *Studies in Philosophy, Politics and Economics*, p. 294.
[40] Hayek, *1980s Unemployment and the Unions*, p. 57.
[41] Mises, *Planning For Freedom*, pp. 6, 11-2, 16, 27-8, 32, 124-5, 134-6, 151-2, 160; Mises, *On the Manipulation of Money and Credit*, pp. 196-7.
[42] Mises, *Planning For Freedom*, pp. 10-1, 152-3; Mises, *On the Manipulation of Money and Credit*, pp. 186-7. See also: Hayek, *The Constitution of Liberty*, pp. 270-4; Hayek, *A Tiger by the Tail*, pp. 111, 117; Hayek, *1980s Unemployment and the Unions*, pp. 57-8.
[43] Hayek, *The Constitution of Liberty*, pp. 268, 274-5, 278, 280-1, 302, 504-5; Hayek, *Studies in Philosophy, Politics and Economics*, pp. 281-2; Hayek, *A Tiger by the Tail*, p. 64; Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 195, 204; Hayek, *1980s Unemployment and the Unions*, pp. 19, 57; Friedrich A. Hayek 1983, 'Can We Still Avoid Inflation?', in *The Austrian Theory of the Trade Cycle and Other Essays*, Ludwig von Mises Institute, Auburn University, Alabama, pp. 42-3; Mises, *On the Manipulation of Money and Credit*, pp. 187-8; Mises, *Planning For Freedom*, pp. 156-8.
[44] Hayek, *The Constitution of Liberty*, pp. 282-3; Friedman & Friedman, *Free to Choose*, p. 279.

Theory and Policy Applied to the Business Cycle

Say's Law

These market liberal economists' opposition to Keynesian policy interventions were underpinned by the key postulates of Say's Law, a theory popularised by the French economist, Jean-Baptiste Say (1767-1832), within his influential, *A Treatise on Political Economy*. The theory argued that the supply of valuable goods and services will naturally create its own consumer demand. Put simply, if individuals produce or provide what consumers want at competitive prices, then their products or services will be purchased. Say reasoned that because under unfettered market conditions productive resources naturally find their way to supplying profitable goods and services, the profits from their sale would then be used to purchase other profitable goods and services and so on. Importantly, Say reasoned that this ongoing process of consumption would occur because the value of money is perishable, and therefore not a stable store of wealth. According to this reasoning, individuals are consequently enticed to purchase new products or services, rather than be stuck with depreciating monetary assets.

In this logical line of causation, the point which Say wanted most fervently to emphasise was that periods of low consumer demand and economic stagnation were not the result of a paucity of consumer purchasing power, caused by an inadequate supply of money, but were rather the result of a paucity of the supply of valuable goods and services. To Say, money performed only the function of an intermediary of exchange, and maintained no tangible intrinsic value. The problem in times of economic stagnation, he reasoned, lay on the supply-side. He was thereby critical of any attempt to ameliorate periods of economic stagnation through government policies targeted at increasing the quantity of money available to consumers: 'it is the aim of good government to stimulate production, of bad government to encourage consumption'.[45]

Mises accepted the key postulates of Say's Law. He argued that instances in which entrepreneurs perceived a widespread dearth of purchasing power were misguided, and that circumstances of adverse consumer sentiment were better explained by their ham fisted attempts at meeting consumer demands.[46] In this context, Mises explicitly accepted Say's contention that money merely constituted a tool of exchange, and ridiculed those who proposed the creation of increased credit as a solution to economic stagnation. He argued that this type of policy action merely bolstered the 'means of payment', without rectifying the underlying cause of economic stagnation: the scarcity of valuable goods and services. Mises was also stinging in his rebuke of those, like Keynes, who blamed bankers and usurers for restricting credit to productive industries, while misusing their 'credit monopoly' to

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[45] Jean-Baptiste Say 1880 [2001], *A Treatise on Political Economy; or the Production, Distribution, and Consumption of Wealth*, Translated by C.R. Prinsep, New American edn, Batoche Books, Ontario, pp. 56-8, 64.
[46] Mises, *Planning For Freedom*, p. 66.

produce unearned profits.[47] Mises concluded that only 'monetary cranks', and not economists, would argue with the simple logical truths of Say's Law.[48]

The Austrian Theory of the Business Cycle

The extension of economic thought beyond Say's Law led to the establishment of the Austrian theory of the business cycle, which argued that 'the recurrence of depressions of trade is caused by the repeated attempts to "stimulate" business through credit expansion'.[49] More specifically, the Austrian theory argued that financial crises develop because monetary authorities, in their desire to assist productive industry, and reduce the cost of borrowing for government expenditures, increase the volume of fiduciary credit,[50] which has the effect of reducing the 'market' rate of interest, upon which loans are made. In this manner, instead of the market rate of interest reflecting the 'natural' rate of interest (a theoretical rate determined by the supply and demand for accumulated savings), the market rate is artificially lowered through an increase in the volume of credit.[51] In accordance with these economists' adherence to the quantity theory of money,[52] they argued that this increase in fiduciary credit was inherently inflationary. Mises and Hayek were empathetic towards the plight of those victims adversely affected by this inflationary process. But most importantly, these economists emphasised that the relative change in incomes which resulted from an artificially lowered market rate of interest, would also be reflected in changes in the pattern of industrial resource allocation, and in particular the malinvestments which they argued cause capitalist business cycles.[53]

Writing amidst the Great Depression, Mises surmised that inflationary increases in fiduciary credit manifest themselves first in the prices of producers' goods, before being subsequently reflected in the prices of consumers' goods.[54] This chain of events would predominate, he theorised, because investors would be misled into believing that the increased provision of credit reflected the existence of a larger store of capital resources for profitable investment than in reality existed. Under these circumstances, more elaborate, time consuming, and expensive producer processes would be initiated, causing the malinvestment of scarce capital resources.[55] As Mises reasoned, 'the economy is not wealthy enough' for such investments; '[t]he resources they need for completion are not available', and '[t]he resources

[47] *Ibid.*, pp. 50-1.
[48] *Ibid.*, pp. 67-8. Mises asserted (p. 57) that Keynes revealed an alarming ignorance of economic literature. Hayek similarly dismissed Keynes as 'a man of great intellect but limited knowledge of economic theory'. See: Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 218-9, 230-1, 284-5, 287.
[49] Mises, *Planning For Freedom*, p. 68.
[50] Fiduciary credit is defined as the amount of commercial bank reserves 'issued by a central bank in excess of its holdings of gold reserves'. The creation of such commercial bank reserves allows the banking industry to increase the loanable quantities of credit which they record against their deposit accounts. Black, *Oxford Dictionary of Economics*, 2nd edn, pp. 173, 209.
[51] Mises, *On the Manipulation of Money and Credit*, pp. 124, 136-8, 140, 181-2, 217-9.
[52] The quantity theory of money essentially argues that 'the price level is proportional to the quantity of money', so that 'inflation is caused by increases in the money supply'. Black, *Oxford Dictionary of Economics*, 2nd edn, p. 384.
[53] Mises, *On the Manipulation of Money and Credit*, pp. 95-7, 218; Hayek, 'Can We Still Avoid Inflation?', pp. 36-8.
[54] By the mid-1970s, Hayek acknowledged that he could no longer explain where the increases in fiduciary credit would materialise first. Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 212-3.
[55] Mises, *On the Manipulation of Money and Credit*, pp. 120, 124-6.

they need must first be withdrawn from *other* enterprises [original emphasis]'.[56] According to this theory, resource use cannot be increased, just inefficiently redistributed against market direction. Mises concluded that the necessitous requirement for savings to underpin sustainable investment cannot be supplanted by the simple creation of fiduciary credit.[57] The Austrian theory was adamant, 'What limits the size of production is the scarcity of the factors of production', not the scarcity of credit. The manipulation of other variables, such as prices, wages and interest rates, used to subvert this reality would prove futile, and would damagingly mis-communicate this underlying truth.[58] As Mises summarised:

> As a result, the upswing lacks a solid base. It is not *real* prosperity. It is *illusory* prosperity. It did not develop from an increase in economic wealth. Rather, it arose because the credit expansion created the illusion of such an increase [original emphasis].[59]

According to Mises, the realisation that scarce productive resources have not, in fact, increased to support new investments generally only arises after a prolonged period in which the monetary authorities maintain the market rate of interest substantially below the natural rate.[60] As Mises summarised:

> So long as this situation [of credit creation] prevails, the upswing continues. Inventories of goods are readily sold. Prices and profits rise. Business enterprises are overwhelmed with orders because everyone anticipates further price increases and workers find employment at increasing wage rates. However, this situation cannot last forever! [61]

Mises noted that eventually either interest rates would rise to compensate lenders for their anticipated real loss of capital, or, where interest rates are held down through regulation, monetary saving and lending would be reduced.[62] In this context, the Austrian theory argued that increasing inflation can only proceed so long as market participants believe it will one day cease. 'Once people are persuaded that the inflation will *not* stop, they turn from the use of this money. They flee then to "real values", foreign money, the precious metals, and barter [original emphasis]'.[63] But while individuals were not anticipated to tolerate an increasing *general* inflation, Hayek argued that stimulatory full employment policies relied upon businesses believing that the demand and relative prices for *their* products were increasing. However, Hayek believed that it is not possible to sustainably convince the public of this deception. Accordingly, he reasoned that the situation, in which an increasing level of inflation combines with the public's realisation that demand is not sustainably increasing, provides an

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56 *Ibid.*, p. 182.
57 *Ibid.*, pp. 138-9, 225-6.
58 *Ibid.*, pp. 220, 222-3.
59 *Ibid.*, p. 183.
60 *Ibid.*, pp. 124-8.
61 *Ibid.*, pp. 124, 220-1.
62 *Ibid.*, pp. 9-10, 127-9.
63 *Ibid.*, p. 129, 221-2.

explanation for the conditions of stagflation: the simultaneous incidence of increasing inflation and unemployment (see chapter six).[64]

According to the Austrian theory, the moment that inflationary fiduciary credit is curtailed, those investments which relied upon market rates of interest below that of the natural rate become unviable. 'They find that "money" is scarce'.[65] Moreover, both Mises and Hayek maintained that the longer the inflationary creation of credit is allowed to persist, the greater will have been the malinvestment of resources, the greater will be the eventual losses realised, and the more painful the adjustment process needed to restore a market distribution of investment.[66] Indeed, Hayek compared the ill-judged practice of fiduciary credit expansion with that of illicit drug-taking, where the difficulty of kicking the habit increases the longer the practice is continued.[67]

In order to restore market capital distribution and prosperity, Mises recommended that sound monetary principles, underpinned by the gold exchange standard, should be restored.[68] This would involve a system of credit dispersal which, under all circumstances including war, would require that all additional credit be entirely supported by gold or foreign exchange reserves, so that there existed no opportunity for any financial institution (even a central bank) to create fiduciary credit. All credit under this system would represent real accumulated wealth. This was envisaged to ensure that the market rate of interest would equate with the natural rate at all times, and would thereby accurately communicate to market participants the *real* quantity of resources put aside through savings for capital investment.[69]

Accordingly, Mises opposed Keynesian fiscal stimulation.[70] He believed that the distribution of capital and resources should be left to readjust to market distribution, regardless of the short-term pain of insolvency which might become the plight of some financial institutions and businesses which had been unsustainably supported by a market rate of interest that had been misguidedly set below the natural rate. He reasoned that: 'If the crisis were ruthlessly permitted to run its course, bringing about

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[64] Hayek, 'Can We Still Avoid Inflation?', p. 39; Hayek, *The Constitution of Liberty*, p. 331; Hayek, *A Tiger by the Tail*, pp. 62-3, 113-4; Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 192-3.
[65] Mises, *On the Manipulation of Money and Credit*, p. 127.
[66] *Ibid.*, pp. 129-30; Hayek, *A Tiger by the Tail*, pp. 114, 116; Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 193-4, 204-5.
[67] Hayek, 'Can We Still Avoid Inflation?', pp. 40-1; Hayek, *1980s Unemployment and the Unions*, pp. 20-1.
[68] The gold exchange standard has been defined as: 'A system for fixing exchange rates by the central bank or government of each country making its currency freely convertible into gold at a fixed price'. Black, *Oxford Dictionary of Economics*, 2nd edn, p. 199.
[69] Mises, *On the Manipulation of Money and Credit*, pp. 17, 44-5, 47, 167-8, 224; Mises, *The Theory of Money and Credit*, pp. 438, 448.
For more on Mises' critique of the establishment of the fiduciary media banking system, and its key influence in the establishment of inflationary fiat credit, see: Mises, *On the Manipulation of Money and Credit*, pp. 140-1, 144-5.
[70] Mises, *On the Manipulation of Money and Credit*, p. 212; Ludwig von Mises 1983, 'The "Austrian" Theory of the Trade Cycle', in *The Austrian Theory of the Trade Cycle and Other Essays*, p. 6.
See also: Percy L. Greaves Jr 1954 [1978], 'Defense Against Depression', in Mises, *On the Manipulation of Money and Credit*, pp. 237-40.

the destruction of enterprises which were unable to meet their obligations, then all entrepreneurs – not only banks but also other businessmen – would exhibit more caution in granting and using credit in the future'.[71] Mises concluded:

> There is only one way out of the crisis: Forego every attempt to prevent the impact of market prices on production. Give up the pursuit of policies which seek to establish interest rates, wage rates and commodity prices different from those the market indicates.[72]

In support of such sentiment, Hayek emphatically concluded that '*Inflation must be stopped dead* [original emphasis]'.[73] He believed that a short, sharp correction of the previous malinvestments, which he anticipated may produce an unemployment rate of approximately 20 percent for six months, would be tolerated in a democracy provided there was 'hope of recovery in the near future'. He considered, however, that a more gradual adjustment, involving an unemployment rate of approximately 10 percent for two or three years, would not be tolerated.[74]

As the following chapters establish, no federal Labor government has maintained as strident a non-interventionist policy as that advocated by the Austrian school economists. However, chapters seven and eight establish that the Hawke Government did display a reluctance to assist macroeconomic growth when the Australian economy was adversely affected by the terms-of-trade and current account deficit crises of the 1980s, and the recession of the early-1990s. During this time Labor government sentiment came close to reflecting Mises' argument that banks are not at fault when they finally restrict credit, and thereby begin the necessary recessionary phase,[75] but were rather at fault when they previously and unsustainably introduced an excess of credit into speculative investments (see chapter eight). As Mises concluded: 'the return to monetary stability does not *generate* a crisis. It only brings to light the malinvestments and other mistakes that were made under the hallucination of the illusory prosperity created by the easy money [original emphasis]'.[76]

This did not mean, however, as is commonly misconstrued, that Austrian school economists believed that governments should engineer a period of deflation in order to correct previous periods of inflation. Nothing, they argued, could return economies to the pattern of investment which occurred prior to the period of inflationary malinvestment. Indeed, the Austrian theory argued that periods of deflation in their own way also create investor uncertainty and malinvestments. The Austrian solution lay in allowing unfettered market forces to determine the quantity of money and the direction of

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[71] Mises, *On the Manipulation of Money and Credit*, p. 142.
[72] *Ibid.*, 203.
[73] Hayek, *1980s Unemployment and the Unions*, p. 23.
[74] *Ibid.*, pp. 23-4.
[75] Mises, *On the Manipulation of Money and Credit*, pp. 146-7, 223-4.
[76] Mises, *Planning For Freedom*, p. 156.

investment.[77] In this context, Hayek vehemently refuted the allegation that economists were advocating increased unemployment to alleviate inflation. Rather, he argued:

> Unemployment has been made inevitable by past inflation; [and] it has merely been *postponed* by accelerating inflation. ... An inflationary boom must collapse sooner or later with the consequence of large unemployment [original emphasis].[78]

<u>Friedman's 'Natural Rate' of Unemployment</u>

Contrary to the Austrian theory, Milton Friedman argued that the depth of the twentieth century's largest cyclical economic trough, the Great Depression, was attributable to the United States' (US) Federal Reserve system's failure to adequately intervene by increasing US bank reserves. Such intervention, Friedman argued, would have ensured banking liquidity and significantly ameliorated the pernicious one-third decline which occurred in the US money stock in the period 1929-1933. Friedman argued that this reduction in the US money stock grossly exacerbated the cyclical economic decline which followed the October 1929 Wall Street crash. He claimed that it contributed greatly to US money incomes shrinking by over one-half, and prices by more than one-third. Counter to the Austrian theory of the business cycle, therefore, Friedman believed that it was an absence of government monetary intervention which exacerbated the Great Depression's contraction of business and consumer confidence, and economic trade.[79]

Notwithstanding this alternative diagnosis, however, Friedman supported the Austrian school's key solution to avoiding capitalist business cycles: the facilitation of free markets. Within his landmark address to the American Economic Association, on 29 December 1967, Friedman promoted his concept of the 'natural rate of unemployment' (or NAIRU - the Non-Accelerating Inflation Rate of Unemployment).[80] Friedman proposed that attempts to lower the unemployment rate below this 'natural' rate would prove futile. Put simply, he argued that it was impossible to create more employment than the market conditions of supply and demand could tolerate. Friedman emphasised that this 'natural rate' of unemployment was affected by 'third party' interference, such as those labour market impediments canvassed above, which Keynesian stimulatory measures could not subvert.[81]

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[77] Mises, *The Theory of Money and Credit*, pp. 454-5; Greaves Jr, 'Editor's Introduction', pp. xli-xlii.

[78] Hayek, *1980s Unemployment and the Unions*, p. 21; Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 205-6.

[79] Milton Friedman & Anna Jacobson Schwartz 1963, *A Monetary History of the United States 1867-1960*, Princeton University Press, Princeton, pp. 299-301, 306-7, 311-3, 316-9, 322-6, 330-1, 340-6, 349, 351-9, 361, 391-6, 415-6, 419.
By the mid-1970s, however, Hayek also conceded that deflation should properly be avoided by monetary authorities, and that the effects of the deflation of the 1930s were worse than the inflationary boom of the 1920s made necessary. Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 206-7, 210.

[80] This concept was also simultaneously developed by another US economist, Edmund Phelps (1933-). See: Edmund S. Phelps 1968, 'Money-Wage Dynamics and Labor Market Equilibrium', *Journal of Political Economy*, Vol. 76, No. 4, pp. 678-711.

[81] Milton Friedman 1968, 'The Role of Monetary Policy', *The American Economic Review*, Vol. 58, No. 1, March, pp.8- 10.

Friedman, like Hayek, also emphasised the illusory influence that inflation performs in the short-term investment process. As a monetarist, Friedman was a famous advocate of a form of the quantity theory of money which argued that inflation resulted from the growth in the money supply outpacing the growth in real economic activity.[82] Friedman argued, therefore, that Keynesian fiscal and monetary stimulation could only ever invigorate an economy over the short-term while economic actors were fooled into thinking that they could obtain higher relative prices or wages for the goods and services they produced. Friedman argued that when it became apparent that such relative price increases were illusory, production would be reduced, but at an increased rate of inflation, which would in turn serve to exacerbate rather than reduce the level of unemployment.[83] Moreover, Friedman, like Hayek,[84] argued that even if individual economic actors could be fooled into thinking that demand for their products was increasing, it would require 'an *ever-accelerating* inflation [original emphasis]' rate to maintain this perception, and this would have the consequence that in the long-run even significant doses of inflation would only achieve negligible short-term reductions in unemployment.[85] Put simply, Friedman argued that public sector led monetary or fiscal stimulus could only reduce the level of unemployment 'below the "natural" rate ... by inflation', and only temporarily until the relevant economic actors realise that their profits and wages have not increased in real terms.[86]

Indeed, this was one of the key criticisms used against Keynesian stimulatory policies. They were targeted at invigorating demand over the short-term, whilst neglecting the long-term consequences of ever-increasing inflation and reduced business confidence, investment, and ultimately employment.[87] Friedman proposed that the only sustainable method for reducing unemployment was to reduce its 'natural rate' by removing impediments to market efficiency, such as excessive wage rates.[88]

Monetary Policy Solutions

As was consistent with his explanation of inflation's cause, Friedman proposed that the growth in the quantity of money should be restricted to the growth evident in real economic activity.[89] Friedman proffered that strict adherence to clearly announced targets of disciplined monetary growth would reduce inflationary expectations and consequently inflationary outcomes.[90] Of relevance to the

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[82] Friedman & Friedman, *Free to Choose*, p. 254.
An implication of this inflation diagnosis is that alternative explanations, such as that inflation is caused by excessive business profiteering, real wages, or that inflation can be imported, were dismissed. These occurrences were considered symptoms of inflation, rather than its cause. See: Friedman & Friedman, *Free to Choose*, p. 263; Milton Friedman 1975, *Unemployment versus Inflation?: An Evaluation of the Phillips Curve*, Institute of Economic Affairs, Occasional Paper, 44, pp. 30-1, 33-5.

[83] See: Davis *et. al.*, 'A Member's Guide to Monetarism and Keynesianism', pp. 31-2; Milton Friedman 1984, 'Currency Competition: A Sceptical View', in Pascal Salin (ed.), *Currency Competition and Monetary Union*, Martinus Nijhoff, The Hague, p. 43.

[84] Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, p. 193.

[85] Friedman, *Unemployment versus Inflation?*, pp. 23, 29-30.

[86] Friedman, 'The Role of Monetary Policy', pp.8-10.

[87] *Ibid.*, p. 11.

[88] Friedman, *Unemployment versus Inflation?*, p. 24.

[89] Friedman, 'The Role of Monetary Policy', pp. 12, 15-6.

[90] Friedman & Friedman, *Free to Choose*, pp. 276-7.

monetary policy restraint implemented by the Hawke Government in the late-1980s, Friedman also warned monetary authorities not to engage in reactive restrictions in money growth. Friedman emphasised that one of the lessons of monetary history had been that restrictive monetary policies had often been implemented too late and had been too severe, because monetary authorities had not allowed for the lag in monetary policy's effectiveness.[91]

The divergences in economic epistemology referred to earlier between the Austrian school economists and Milton Friedman did, however, underpin differing policies for monetary management. In keeping with his aversion to the application of empirical methodology, Mises did not believe that any accurate measurement or index of an aggregate price level could be attained. 'The idea that changes in the purchasing power of money may be measured is scientifically untenable', he claimed.[92] More importantly, Mises feared that any efforts aimed at maintaining a stable price level would involve government interference, which might be used to manipulate 'the purchasing power of money so that certain politically powerful groups would be favoured'.[93] Mises also ruminated that it would only be possible to maintain a stable monetary value if all exchange relationships remained constant, which he argued is not possible under the conditions of free market exchange between autonomous individuals.[94]

Similarly, Hayek did not share Friedman's faith that reliable statistical measures of monetary growth could be made and provided to monetary authorities, sufficient to empower them to accurately constrain all the variations of money growth.[95] Hayek argued that Friedman's proposal placed too much emphasis on the importance of maintaining suitable macroeconomic variables such as inflation, unemployment and growth, and did not show sufficient concern for the damaging changes in *relative* prices which inflationary credit creation produces.[96] Nevertheless, Hayek believed that the constraints that Friedman's proposals placed upon credit creation would prove valuable if implemented.[97]

In this vein, Hayek lamented the removal of the barriers to excessive monetary growth which previously existed: the international gold exchange standard; balanced budgets; and the obligation for deficit countries to contract their currency circulation.[98] As a response, he advocated that monetary policy should not adhere to specific actions, but to goals, and he reasoned that price stability should trump the policy commitment to full employment, because consistent with the Austrian theory of the

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[91] Friedman, 'The Role of Monetary Policy', pp. 15-6.
[92] Mises, *On the Manipulation of Money and Credit*, pp. 87-8.
[93] *Ibid.*, pp. 90-1.
[94] *Ibid.*, p. 107.
[95] Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 207-8.
[96] Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, p. 215; Norman P Barry 1981, 'Austrian Economists on Money and Society', *National Westminster Bank Quarterly Review*, May, pp. 23-4.
It was this type of macroeconomic methodology which Hayek also objected to in Keynesian economics. See: Hayek, *A Tiger by the Tail*, pp. 101-2, 105-6; Hayek, 'Full Employment, Planning and Inflation', pp. 176-7.
[97] Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 215-6.
[98] *Ibid.*, p. 223.

business cycle, Hayek believed that 'a high and stable level of employment' could only ever be achieved once inflation is restored to a negligible level.[99] Hayek also asserted that such an unambiguous anti-inflationary monetary policy would be best implemented through an independent monetary authority, 'fully protected against political pressure and free to decide on the means to be employed'.[100] As subsequent chapters demonstrate, this advocacy for an independent monetary authority, armed with the policy goal of fighting inflation first, was evident in the policies of the Hawke and Keating Governments.

Financial Deregulation

These market liberal economists did not believe that restricting the supply of money was sufficient, however, to avoid business cycles. These economists also advocated the removal of government control over other financial variables. For instance, and reflected in the policy reforms of the Hawke Government, Friedman proposed that nations' exchange rates should be removed from the regulation of monetary authorities and floated on the free market. He believed that floating exchange rates would beneficially transmit competitive market forces internationally by promptly adjusting exchange rates to the ever-changing dynamics of world trade in products and capital. In this manner, Friedman believed that floating exchange rates would balance national accounts and avoid foreign exchange crises.[101] Friedman had faith in the efficiency and stability of financial markets. He was confident that any observable exchange rate instability would constitute 'a symptom of instability in the underlying economic structure', which could not be eliminated through the implementation of an 'administrative freezing of exchange rates'. Such regulation, he argued, would cure 'none of the underlying difficulties and only make adjustments' to the real underlying causes of financial instability 'more painful'.[102]

Mises also opposed exchange controls on the free international movement of capital,[103] but disagreed with Friedman that nations' balance of payments difficulties could be removed through the floating of their exchange rates. Mises believed that rather than floating exchange rates being determined by the position of a nation's balance of payments, they were simply 'determined by the relative purchasing power' of each nation's currency. Mises reasoned that were this not the case there would exist simple opportunities for foreign exchange speculation.[104] Mises alternatively reasoned that the gold exchange standard would ensure that a nations' balance of payments position automatically self equilibrated, because under this system businesses are forced to raise their own international finance through either

[99] *Ibid.*, pp. 192-3, 203; Hayek, *The Constitution of Liberty*, p. 337.

[100] Hayek, The Constitution of Liberty, p. 334; Hayek, A Tiger by the Tail, pp. 64-5; Hayek, New Studies in Philosophy, Politics, Economics and the History of Ideas, p. 207.

[101] Friedman & Friedman, *Free to Choose*, pp. 47-8; Friedman, *Capitalism and Freedom*, pp. 67, 71-2; Milton Friedman 1968, *Dollars and Deficits: Inflation, Monetary Policy and the Balance of Payments*, Prentice-Hall, Englewood Cliffs, New Jersey, pp. 229-30.

[102] Friedman, *Capitalism and Freedom*, p. 69.

[103] Mises, *The Theory of Money and Credit*, p. 434.

[104] Mises, *On the Manipulation of Money and Credit*, pp. 30-1.

trade or borrowings, and not rely upon the creation of fiduciary credit.[105] Mises was also highly critical of the Keynesian agenda of attempting to impose international financial cooperation and regulation (see chapter three). Consistent with the Austrian theory of the business cycle, he argued that where international cooperation existed to deliver low interest rates, the extent of capital malinvestment would be prolonged, and the depth of the unavoidable crisis exacerbated.[106]

Hayek was similarly critical of the inflationary incentive structure which he argued had been established for international financial markets under the Bretton Woods system, which placed readjustment pressure upon creditor rather than debtor nations.[107] He also opposed the imposition of any regulatory barriers to the free international movement of capital, and restrictions on the establishment of foreign financial institutions.[108] Moreover, in line with Mises' advocacy for the gold exchange standard, Hayek also proposed that if his advocacy for the removal of the nation state's legal monopoly over the production and distribution of currency was not implemented,[109] then he would favour an international system of fixed exchange rates, rather than a system of floating exchange rates. He argued that the pernicious consequences of an expansion of fiduciary credit are more readily apparent under a fixed exchange rate system, because the inevitable outflow of foreign currency or gold reserves would require prompt remedial action. Hayek concluded that the gold standard's, or a fixed exchange rate's, strict compulsion were essential if governments and monetary authorities were to resist the popular demands for increased credit and stimulatory public expenditures.[110] He also objected to the simultaneous international reduction of all domestic prices which results from a depreciation of the national exchange rate. Hayek emphasised that this occurrence distorts the market incentives which would otherwise flow to cost-competitive industries.[111]

Fiscal Policy Solutions

As canvassed above, these market liberal economists were critical of the use of fiduciary credit to provide governments with easy-access to inflationary finance. Hayek lamented that Keynesian economic theory provides politicians with a misguided justification for pursuing their baser, populist instincts by encouraging them to neglect fiscal responsibility in the forlorn hope of stimulating increased demand and employment.[112] In this context, he concluded that government deficits had been the 'chief cause' of inflation.[113] Friedman similarly emphasised that increased public sector borrowing,

[105] *Ibid.*, pp. 53-5.
[106] *Ibid.*, pp. 157-9
[107] Hayek, 'Can We Still Avoid Inflation?', p. 44; Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 201, 214.
[108] F.A. Hayek 1976, *Denationalisation of Money*, Institute of Economic Affairs, London, p. 17.
[109] See: Hayek, *Denationalisation of Money*, pp. 17, 19, 31-3, 38-45, 50-1, 54-5, 57-8, 63, 73, 78-80, 94, 100; Friedrich A. Hayek 1984, 'The theory of currency competition', in Salin (ed.), *Currency Competition and Monetary Union*, pp. 39-42.
[110] Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 201-2, 213-4, 229; Hayek, *Denationalisation of Money*, p. 82.
[111] Hayek, *Denationalisation of Money*, pp. 81, 86-7.
[112] Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 192-3, 201.
[113] Hayek, *The Constitution of Liberty*, pp. 327-8.

most often used to increase governments' fiscal expenditures, either adversely increased interest rates or were inflationary (if financed through the monetary authority's creation of fiduciary credit).[114] This conclusion underpinned one of the most popular adages of market liberal economics: that increased public sector spending (whether financed through borrowing or taxation) does no more than 'crowd out' 'a nearly equivalent amount of private expenditure'.[115] In keeping with the Austrian theory of the business cycle, Mises and Hayek agreed with this proposition.[116] As chapter seven establishes, the crowding out theory of public expenditure had a significant influence upon the Hawke Government's fiscal policy.

Because Hayek believed that fiscal stimulation created and exacerbated the business cycle, he believed that there were no circumstances in which government budgets should be used to support economic activity. Accordingly, he proposed that government budgets should be annually balanced, just as he claimed businesses and households had to balance their budgets over similar timeframes.[117] Friedman also proposed that government budgets should be balanced annually, regardless of the economic climate (but with the limited exception of national security emergencies), in order to maintain fiscal policy credibility.[118] Like Hayek, Friedman justified this position upon the contention that fiscal policy was incapable of sustainably stimulating economic activity,[119] and he proposed that in the United States the level of expenditures should be institutionally controlled through a Federal Constitutional amendment limiting their growth to the growth in aggregate income.[120] For all three economists, therefore, the virtues of balanced budgets and small government were to be routinely adhered to and enforced.

Conclusion

This chapter has canvassed the philosophical, theoretical, and policy components of market liberal macroeconomic theory, based upon the work of three market liberal economists: Ludwig von Mises, Friedrich von Hayek, and Milton Friedman. It has established that these economists' libertarian philosophical objectives - that individual liberty and material prosperity are self evidently the ends to which humanity should strive – informed their theoretical economic analysis, the conclusion of which argued that unfettered markets provide the most efficient means to achieve these philosophical ends. Accordingly, this chapter also established that these economists were opposed to Keynesian interventionist policies because they were believed to be inefficient and the cause of capitalist business

[114] Friedman & Friedman, *Free to Choose*, pp. 264-5.
[115] Davis *et. al.*, 'A Member's Guide to Monetarism and Keynesianism', pp. 47-8.
[116] Mises, *Planning For Freedom*, pp. 13-4; T.E. Gregory, F.A. Hayek, Arnold Plant & Lionel Robbins 1932, 'Spending and Saving', *The Times*, 19 October, p. 10.
[117] Hayek, *Denationalisation of Money*, pp. 90-2.
See also: Barry, *Hayek's Social and Economic Philosophy*, pp. 190-2.
[118] Friedman, *Capitalism and Freedom*, pp. 78-9.
[119] Milton Friedman & Walter W. Heller 1969, *Monetary vs. Fiscal Policy*, W.W. Norton & Company Inc., New York, pp. 52-62.
[120] Friedman, *Taxation, inflation and the role of government*, p. 41.

cycles, the avoidance of which was best ensured through the facilitation of largely unfettered markets. As Mises concluded, 'There is no other means to attain full employment, rising real wage rates and a high standard of living for the common man than private initiative and free enterprise'.[121]

As has been alluded to in this chapter, while federal Labor governments have never implemented as strident a commitment to unfettered market forces as these market liberal economists advocated, federal Labor governments have periodically introduced market liberal policies in order to achieve macroeconomic prosperity and improved living standards for their working constituents. Most particularly, it is canvassed in chapters 6-8 that when federal Labor governments have been confronted with the adverse conditions of stagflation, the Whitlam and Hawke Governments of the 1970s and 1980s implemented elements of the fiscal and monetary restraints and financial deregulation policies advocated by these market liberal economists. Chapter four also establishes that the Scullin Government had earlier, but reluctantly, acquiesced in the implementation of measures of market liberal fiscal austerity, once their advocacy for a proto-Keynesian stimulatory program of credit creation and public works had been thwarted.

The following chapter establishes the philosophical, theoretical and policy components of Keynesian macroeconomic theory. Whilst Keynes did not oppose all of the philosophical suppositions and economic arguments canvassed above, he did famously object to the notion that an unfettered *laissez-faire* capitalist system was essentially stable and efficient. Keynes perceived that it was a responsible government's role to intervene through various fiscal, monetary and financial regulatory policies in order to ensure the system's efficiency and equity, and to protect the legitimacy of the capitalist system's distributive virtues from the totalitarian alternatives which were sweeping through continental Europe at the time he was publishing his major works. As subsequent chapters also establish, Keynes' work was to prove significantly influential upon successive federal Labor governments, and their public service advisers. Indeed, as chapter four documents, even before the publication of his most influential work, *The General Theory of Employment, Interest, and Money* (1936), the Scullin Labor Government had already attempted to stimulate demand and employment according to the policy advice Keynes had advocated in his earlier writings.

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[121] Mises, *Planning For Freedom*, p. 17.
See similar concluding remarks in: Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, p. 207.

CHAPTER THREE
SAVING CAPITALISM FROM ITSELF: THE MACROECONOMICS OF JOHN MAYNARD KEYNES

This chapter establishes the philosophical, theoretical and policy components of Keynesian macroeconomic theory, as based upon the work of John Maynard Keynes. This is done because as later chapters establish, Keynesian macroeconomic theory has had a significant influence upon successive federal Labor governments, and has supported their attempts to achieve and maintain macroeconomic stability and prosperity, and thereby also facilitate their attempts to uphold the Labor Party's social democratic objective of attempting to improve the living standards of the Party's working constituents and their dependents. Keynes' economic theorising and policy advocacy was essentially informed by both his liberal philosophy and the critique he developed during the 1920s and 1930s against market liberal theory's support for *laissez-faire* capitalism.[1] Keynes' critique was predicated on his observations of the evident disjuncture which existed between market liberal theory's core assumptions and the manner in which contemporary capitalist economies actually operated. It was from Keynes' observations that he developed his own theory of the dynamic forces which underpinned capitalist economic activity, which in turn informed his advocacy for targeted government interventions, designed to improve the system's efficiency. This chapter begins with an analysis of Keynes' liberal philosophical vision for a 'middle way' form of capitalism.

'Middle Way' Capitalism

As the label suggests, Keynes' vision for a 'middle way' form of capitalism envisaged a greater role for government economic intervention than was advocated within market liberal theory, but much less than the intrusive level which was being introduced in the 1920s and 1930s under the authoritarian communist and fascist regimes of continental Europe. Accordingly, Keynes' vision was both reformist and conservative. The reformist elements derived, surprisingly, from his elitism. He was of the strong opinion that those 'right-thinking', well educated, privileged, and above all public spirited individuals who occupied society's upper echelons had a responsibility to direct the important affairs of the day in the public interest. Keynes' biographer, Robert Skidelsky, has commented that this sentiment betrayed Keynes' naive trust that the rational truth would motivate such public figures, and that rational, scientific knowledge could be developed, above the realm of political contestation, to deliver the most benevolent form of capitalist organisation.[2] Similarly, it also betrayed Keynes' faith in the capacity of the state to intervene in a rational manner, and in the public interest. However, countervailing such faith, Keynes had also been persuaded in his intellectually formative years by the conservative British

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[1] Keynes actually classified the theorising of those economists he critiqued: Alfred Marshall, Francis Edgeworth and Arthur Pigou; as belonging to classical economic theory. However, like those market liberal economists analysed in the previous chapter, these economists were enamoured with the unfettered market, and so in the interests of continuity, this chapter describes these economists as belonging to the market liberal tradition. See: John Maynard Keynes 1936 [1964], *The General Theory of Employment, Interest, and Money*, First Harvest/Harcourt, San Diego, p. 3.

[2] Robert Skidelsky 2010, *Keynes: A Very Short Introduction*, Oxford University Press, Oxford, pp. 16, 47, 139; Robert Skidelsky 1992, *John Maynard Keynes: The Economist as Saviour 1920-1937*, Vol. 2, Penguin, London, pp. 224, 227-8, 232, 240.

political philosopher, Edmund Burke (1729-1797). Keynes favoured Burke's privileging of political stability, and upheld Burke's notion of 'moral risk': that rational reform should only occur if its advantages could reasonably be expected to substantially outweigh the greater certainty of the status quo or a more minor reform.[3] Operating from this premise, Keynes sought to buttress the existing social structure, rather than overthrow it. This philosophical outlook was reinforced by Keynes' fundamental objection to the incursions upon basic individual liberties, which were experienced under the authoritarian ideologies of fascism and communism.[4]

Keynes' 'middle way' capitalist vision was also formulated in conjunction with his critique of the *laissez-faire* system. Keynes feared that the failure of *laissez-faire* capitalism to deliver unquestionably superior material living standards, when compared to the ideological alternatives of fascism and communism, had the potential to undermine the moral legitimacy of the entire capitalist system in the opinion of the increasingly enfranchised working class.[5] Moreover, Keynes perceived the growing democratic power of the working class to have been of great importance in undermining some of the key assumptions of *laissez-faire* capitalism's supporting market liberal theory. For Keynes observed that by the 1920s, the economic flexibility which had been so vital to the success of the British *laissez-faire* system in the nineteenth century had since dissipated. Most evidently, Keynes identified that the increased power of British trade unions had reduced the industrial flexibility necessary for trade-exposed industries to efficiently adjust their wage rates to the vacillations in their competitive positions. In short, Keynes had recognised that the increased power of the working class had undermined the market liberal assumption of genuinely free markets.[6] Furthermore, Keynes assessed that such power was simply indicative of the changes which had been facilitated not just through the extension of the electoral franchise to the working class, and the increased power of trade unions, but also through developments in the welfare state, the consequences of which were exacerbated by the 1925 re-establishment in Britain of the gold standard exchange rate system.[7] He perceived these social forces as insurmountable bulwarks to the assumptions of market liberal theory. He also later prophesied that the failure of market liberal policies to correct the deflationary, investment and employment carnage of the Great Depression would further endanger the entire

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[3] See: Skidelsky, *Keynes: A Very Short Introduction*, pp. 43-6; Skidelsky, *The Economist as Saviour*, p. 62.
[4] See: John Maynard Keynes 1931, *Essays in Persuasion*, Macmillan, London, p. 306; Skidelsky, *The Economist as Saviour*, 518.
[5] Keynes, *Essays in Persuasion*, p. 307.
[6] *Ibid.*, pp. 336-7; John Maynard Keynes 1925 [1981], 'The Economic Transition in England', Lecture, Moscow, 15 September, in Donald Moggridge (ed.), *The Collected Writings of John Maynard Keynes*, Vol. 19, Part 1, Macmillan, London, pp. 439-40.
All further references to, *The Collected Writings of John Maynard Keynes*, will be abbreviated, *CW*.
[7] Keynes, 'The Economic Transition in England', pp. 440-1; John Maynard Keynes 1930 [1981], 'Unemployment', *Listener*, 26 February, in *CW*, Vol. 20, pp. 318-9.
For Keynes' appraisal of how the wage inflexibility of British industry was particularly exposed under the gold standard system, see: John Maynard Keynes 1928 [1981], 'How to Organise a Wave of Prosperity', *Evening Standard*, 31 July, in *CW*, Vol. 19, Part 2, pp. 762-3.

capitalist system.[8] Keynes surmised that a new theory had to be formulated, capable of explaining how capitalist economies actually worked. In short, Keynes sought to use his expertise to save the capitalist system by eschewing market liberal theory, and developing a revised theoretical and policy framework.[9]

Keynes' critique of market liberal theory did not simply rely upon his observations of the inaccuracy of its key assumptions, however. Keynes also maintained a long-standing visceral abhorrence towards the key incentives and motivations which underpinned individual action within the *laissez-faire* system. For whilst he appreciated that capitalism offered the most efficient and prosperous form of economic organisation,[10] ethically he abhorred the 'love of money' which underpinned its dynamic profit motive, and he dreamed of the day when it would no longer be needed to drive economic progress. According to Keynes, when this point of development had been realised, what he had defined as the 'Economic Problem' – 'the problem of want and poverty and the economic struggle between classes and nations' – would have been satisfactorily resolved through technological advancement and improvements in economic policy. Moreover, at this point, Keynes' utopian vision would also have been realised, in which the populations of these advanced developed nations would find themselves free to focus upon their 'real problems – the problems of life and of human relations, of creation and behaviour and religion'.[11] For when this utopian vision had been achieved:

> We shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of highest virtues. We shall be able to afford to dare to assess the money-motive at its true value. The love of money as a possession ... will be recognised for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease.[12]

Thereafter, Keynes argued that '[a]ll kinds of social customs and economic practices, affecting the distribution of wealth and of economic rewards and penalties', such as avarice, usury, and financial greed, would be identified and labelled as the vices and misdemeanours that they are. They would no longer be appreciated as being 'tremendously useful in promoting the accumulation of capital'. However, he regretted that in the meantime:

> we must pretend to ourselves ... that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight.[13]

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8 John Maynard Keynes 1930 [1981], Evidence before the Committee on Finance and Industry, 28 November, in *CW*, Vol. 20, p. 223; Jonathan Kirshner 1999, 'Keynes, Capital Mobility and the Crisis of Embedded Liberalism', *Review of International Political Economy*, Vol. 6, No. 3, Autumn, p. 327.
9 See: Nicholas Wapshott 2011, *Keynes/Hayek: The Clash That Defined Modern Economics*, Scribe, Melbourne, pp. 145-6.
10 For a sample of Keynes' derogatory appraisal of Marxist economics and ethos, see: Keynes, *Essays in Persuasion*, p. 300.
11 Keynes, *Essays in Persuasion*, p. vii. See also: pp. 365-73.
12 *Ibid.*, p. 369.
13 *Ibid.*, pp. 369-72.

Keynes was thereby convinced that capitalist economic organisation offered the best practicable method of solving the 'Economic Problem', but his observations of the failures of market liberal policies convinced him that a compromised economic solution, which combined the concerns of rational economic judgement and social equity into one coherent line of thought would provide the most appropriate basis for an alternative and superior version of capitalism. He summarised: 'Our problem is to work out a social organisation which shall be as efficient as possible without offending our notions of a satisfactory way of life'.[14] Thereafter three criteria underpinned Keynes' policy advocacy: efficiency, equity, and individual liberty. The alternative - a blind adherence to either *laissez-faire* capitalism, or state socialism - would destructively neglect at least one of these ideals.[15] Interestingly, this appraisal affected Keynes' decision to affiliate with the British centrist Liberal Party, rather than the social democratic Labour Party.

Liberal Party Affiliation

Within a published article in which Keynes dealt with the relative merits of the British Labour and Liberal parties, he concluded that: 'The republic of my imagination lies on the extreme left of celestial space'. He assessed that he was 'less conservative in [his] inclinations than the average Labour voter', and claimed to have ruminated over 'greater social changes' than had Labour Party luminary, Sidney Webb (1859-1947).[16] However, despite such protestations, Keynes did not seek an affiliation with the Labour Party. He assessed that Labour was steeped in destructive class war rhetoric, which he considered not only unenlightened, but contrary to his identification with the educated bourgeoisie. Most tellingly, he anticipated that the most laudable intellectual members of the Labour Party would only ever occupy a position of perpetual submission to the extreme members of the Party's left wing. Keynes believed that this element of the Labour Party included communists convinced of the merits of social and institutional revolution, who were perversely motivated by the 'passions of malignity, jealousy, [and] hatred of those who have wealth and power',[17] as well as those more skilful, industrious, or thrifty than the average.[18] Consequently, Keynes suspected that in their 'ignorant blind striving after justice Labour may destroy what is at least as important and is a necessary condition of any social progress at all – namely, efficiency', a value which Keynes revealingly conceded often involved at least 'some measure of social injustice'.[19]

Keynes identified that the Liberal Party's intellectual tradition had alternatively been much more conducive to a combination of the principles of efficiency and equity.[20] His appraisal was summarised within the following passage: 'The political problem of mankind is to combine three things: economic

[14] Keynes, *The End of Laissez-Faire*, pp. 52-3.
[15] John Maynard Keynes 1927 [1981], 'Liberalism and Industry', Address at the National Liberal Club, London, 5 January, in *CW*, Vol. 19, Part 2, p. 639.
[16] John Maynard Keynes 1926 [1972], 'Liberalism and Labour', *Nation and Athenaeum*, 20 February, in *CW*, Vol. 9, p. 309.
[17] Keynes, *Essays in Persuasion*, pp. 324, 327-8.
[18] See: Skidelsky, *Keynes: A Very Short Introduction*, p. 52.
[19] Keynes, 'Liberalism and Industry', p. 639.
[20] *Ibid.*, pp. 639-40.

efficiency, social justice, and individual liberty'. Social justice, he determined, was 'the best possession of the great party of the proletariat', but economic efficiency and individual liberty would be best delivered through the Liberal Party.[21] This conclusion reinforced his protestations that the solution to the 'Economic Problem' relied upon economic efficiency and social equity, and these values consequently underpinned his economic theorising, the culmination of which was his 'General Theory'.

The General Theory

Keynes' technical critique essentially targeted market liberal theory's blind adherence to the assumptions of the general equilibrium theory (canvassed in chapter two). Keynes argued that resources were only ever fully employed in special cases, and that these special cases did not reflect the devastating experience of the Great Depression, amidst which he ruminated.[22] Furthermore, Keynes contended that a state of employment equilibrium could exist at a level below that of full employment.[23] Indeed, Keynes asserted that the *laissez-faire* capitalist system was inherently susceptible to this form of market failure, and emphasised that this predicament resulted in the prevalence of involuntary unemployment, an occurrence not recognised within market liberal theory (see chapter two).[24] In this manner, Keynes argued against the market liberal contention that unemployment could be considered voluntary because 'an open or tacit agreement amongst workers not to work for less' priced them out of employment.[25] For Keynes the Great Depression provided overwhelming empirical evidence that this market liberal assertion was fanciful. He reasoned that the mass swelling in the ranks of the unemployed during this period could not possibly have resulted from an abrupt increase in the prevalence of excessive wage claims, or reduced labour productivity. Indeed, Keynes reasoned that '[l]abour is not more truculent in the depression than in the boom – far from it'; they are more conciliatory.[26] Keynes, therefore, formulated his own theory of involuntary unemployment to reflect its widespread occurrence. This theory reasoned that involuntary unemployment exists in those circumstances in which the unemployed are willing to take up employment under the prevailing wage rate, but had not been given the opportunity because of insufficient demand for their labour.[27]

Theoretically this concept was underpinned by Keynes' critique of Say's Law (see chapter two), which he summarised as the contention that 'supply creates its own demand'.[28] Keynes was critical of the assertion that there is no possibility that a deficiency of demand could render any member of the

[21] Keynes, 'Liberalism and Labour', p. 311.
[22] Keynes, *The General Theory*, p. 3.
[23] *Ibid.*, p. 28.
[24] *Ibid.*, p. 6.
[25] *Ibid.*, pp. 5-8.
[26] *Ibid.*, p. 9.
[27] See: *Ibid.*, pp. 7, 15, 128; Richard Kahn 1976, 'Unemployment as seen by the Keynesians', in G.D.N. Worswick (ed.), *The Concept and Measurement of Involuntary Unemployment*, George Allen & Unwin, London, pp. 21, 32.
[28] Keynes, *The General Theory*, p. 18.

labour force involuntarily unemployed. Consequently, within his *General Theory*, Keynes attempted to dismantle Say's Law by refuting the commonly assumed extension of its logic, the market liberal dictum that 'every act of increased saving by an individual necessarily brings into existence a corresponding act of increased investment'.[29] In this conception savings create and become synonymous with investment. Keynes argued that this statement 'fallaciously' assumed 'that there is a nexus which unites decisions to abstain from present consumption with decisions to provide for future consumption'.[30] As an alternative, Keynes argued that increased savings out of a given income would not only reduce present aggregate consumption and therefore economic activity, but would also cause entrepreneurs to doubt the buoyancy of future consumption, so that they would consequently reduce their current level of investment.[31] In this manner, increased savings out of a given income were thought more likely to reduce the level of investment, rather than increase it. Similarly, Keynes did not accept the market liberal contention that increased savings necessarily reduced the natural rate of interest, which in turn was believed to increase the incentive to invest.[32] Alternatively, he claimed that the market liberal conception that the natural rate of interest adjusted flexibly to the vacillations in the supply and demand for loan capital, relied upon 'a strict interpretation of the quantity theory of money',[33] a theory whose assertions, including its inflation explanation (see chapter two), Keynes came to refute.[34]

A consequence of Keynes' repudiation of Say's Law was the denial of thrift as an economic virtue. Thrift was no longer identified by Keynes as a factor which increased investable savings and lowered interest rates, but as an economic variable which alternatively served to reduce demand, investment and employment.[35] In this context, Keynes argued that it was buoyant demand which would generate sufficient incomes for aggregate savings to increase, rather than increased thriftiness which would provide industry with the finances it needed to invest.[36] In other words, because savings were considered to constitute a mere byproduct of prosperity, Keynes concluded that thrift does not create wealth, demand and the prosperous economy it creates does. As Keynes pithily remarked:

> It is enterprise which builds and improves the world's possessions. … If enterprise is afoot, wealth accumulates whatever may be happening to thrift; and if enterprise is asleep, wealth decays whatever thrift may be doing. … For the engine which drives enterprise is not thrift, but profit.[37]

Keynes consequently replaced Say's Law with his own adage: 'expenditure creates its own income'.[38]

[29] *Ibid.*, p. 178.
[30] *Ibid.*, pp. 21, 211.
[31] Skidelsky, *The Economist as Saviour*, p. 499.
[32] John Maynard Keynes [1973], 'The Long-Run Adjustability of the Rate of Interest', in *CW*, Vol. 13, pp. 395-6; Keynes, *The General Theory*, p. 185.
[33] John Maynard Keynes 1937 [1973], 'The Theory of the Rate of Interest', in *CW*, Vol. 14, pp. 105-6.
[34] See: Davis *et. al.*, 'A Member's Guide to Monetarism and Keynesianism', p. 13.
[35] Keynes, *The General Theory*, p. 185; Skidelsky, *Keynes: A Very Short Introduction*, p. 93.
[36] Keynes, *The General Theory*, pp. 110-1, 184.
[37] John Maynard Keynes 1930 [1971], *CW: A Treatise on Money in Two Volumes*, Vol. 6, Part 2, pp. 132-3.
[38] See: Skidelsky, *Keynes: A Very Short Introduction*, p. 90.

In explaining the conditions required for such prosperity-inducing demand, Keynes succinctly concluded that:

> for enterprise to be active, two conditions must be fulfilled. There must be an expectation of profit; and it must be possible for enterprises to obtain command of sufficient resources to put their projects into execution.[39]

This simple appraisal was technically described within his *General Theory* as being constituted of the balance between: entrepreneurial estimations of the likely profitability of an investment (defined as the marginal efficiency of capital), and the cost of financing this capital investment (calculated according to the prevailing rate of interest). In simple terms, investments were thought to rely upon the reasonable expectation that a capital outlay would be profitable, given estimations of future market demand, and adjusted for the estimated costs of the initial capital investment, its maintenance and replacement costs, the costs of its operation (including wages), as well as the cost of its loan repayments.[40]

Keynes lamented that when, on mass, entrepreneurial estimations of the balance between these variables was not sufficiently attractive to entice investment, a destructive tendency ensued whereby potential investors unproductively hoarded their capital in savings. Indeed, Keynes observed that under a *laissez-faire* system investors were inherently prone towards this type of mass speculative behaviour,[41] because there was no policy oversight established to ameliorate the existence of mass investor uncertainty - a form of macroeconomic uncertainty which Keynes differentiated from the type of localised, measurable risks that entrepreneurs were adept at evaluating. It was this unregulated proliferation of macroeconomic uncertainty, which Keynes identified as the catalyst for the volatility in business confidence, which he argued reoccurred within *laissez-faire* systems and created the periodic bouts of booms and recessions of the capitalist business cycle.[42]

Importantly, moreover, unlike the Austrian school economists, who viewed cyclical bouts of recession as useful conduits to the necessary creative destruction of the economy's malinvestments, Keynes observed that in recessionary circumstances the widespread reduction of aggregate demand threatened the viability of all businesses, regardless of their intrinsic competitiveness and viability.[43] He also appreciated that recessionary circumstances destructively reduced aggregate wages, the workforce's strength and morale, profits, government revenue, and contributed to a substantial decline in the aggregate wealth of a nation.[44]

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[39] Keynes, *A Treatise on Money*, in *CW*, Vol. 6, Part 2, p. 133.
[40] Keynes, *The General Theory*, pp. 27-8, 135-7, 173, 246-7.
[41] See: Skidelsky, *Keynes: A Very Short Introduction*, p. 73; Keynes, 'The Theory of the Rate of Interest', pp. 106-7.
[42] See: Keynes, *The General Theory*, pp. 315-6, 319-20; Keynes, *The End of Laissez-Faire*, p. 47; Skidelsky, *Keynes: A Very Short Introduction*, pp. 148-52; Robert Skidelsky 2009, *Keynes: The Return of the Master*, Public Affairs, New York, pp. 84, 87, 89, 176.
[43] Skidelsky, *Keynes: The Return of the Master*, p. 97.
[44] Keynes, *Essays in Persuasion*, p. 119.

These observations served to underpin Keynes' conclusion that idle resources (including labour) constituted waste, so that their use was justified even in public projects whose expected low returns meant that they would not have garnered commercial interest within the private sector.[45] Keynes illustrated this point amidst his criticism of the British Conservative Baldwin Government's (1924-1929) intransigence in opposing stimulatory public works:

> When we have unemployed men and unemployed plant ..., it is utterly imbecile to say that we cannot *afford* these things. *For it is with the unemployed men and the unemployed plant, and with nothing else, that these things are done* [original emphasis].[46]

Keynes lamented that the dominant market liberal view of this period held that 'We have to remain poor because it does not "pay" to be rich. We have to live in hovels, not because we cannot build palaces, but because we cannot "afford" them'.[47] Keynes alternatively believed that it was through an improvement in economic knowledge and policy that austerity could be discarded, and abundance embraced.[48]

Interventionist Policy Proposals

Keynes' theoretical emphasis upon the inefficiencies and inequities inherent within *laissez-faire* capitalism's unproductive business cycle culminated in his advocacy for interventionist economic policies to alleviate its recurrence. These policies constituted various forms of government intervention aimed at the sustainable maintenance of a level of aggregate demand sufficient to maintain full employment.[49]

Monetary Policy

When Keynes penned his, *A Treatise on Money* (1930), he had observed that the long-term rate of interest (the rate commonly attached to loans) had been receptive to changes in the prevailing short-term rate of interest, the level determined by monetary authorities.[50] He therefore concluded that 'it is to our best advantage to reduce the rate of interest to that point relatively to the schedule of the marginal efficiency of capital at which there is full employment'.[51] In advocating lower interest rates Keynes was unconcerned regarding the possibility of monetary laxity. He believed that low interest rates would only be 'harmful and liable to cause an inflation if … [they were] so low as to stimulate a flow of new projects more than enough to absorb our available resources'.[52] If and when such instances of inflation were encountered, moreover, Keynes did not support measures to alleviate

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[45] *Ibid.*, pp. 120, 128; John Maynard Keynes 1929 [1981], 'The Treasury Contribution to the White Paper', *Nation and Athenaeum*, 18 May, in *CW*, Vol. 19, Part 2, p. 823.
[46] Keynes, 'How to Organise a Wave of Prosperity', p. 765.
[47] John Maynard Keynes 1933 [1982], 'National Self-Sufficiency', *New Statesman and Nation*, 8 & 15 July, in *CW*, Vol. 21, p. 242.
[48] John Maynard Keynes 1932 [1982], 'The World's Economic Crisis and the Way of Escape', Lecture, London, 4 February, in *CW*, Vol. 21, pp. 60-1.
[49] Although Keynes often referred to full employment as a policy goal, he estimated that the lowest feasible level of unemployment resided in the range of 5 – 6.5%. See: Kahn, 'Unemployment as seen by the Keynesians', pp. 28-9.
[50] See: Keynes, *A Treatise on Money*, in *CW*, Vol. 6, Part 2, pp. 316-7.
[51] Keynes, *The General Theory*, p. 375.
[52] John Maynard Keynes 1937 [1982], 'Opportunities of Policy', *The Times*, 14 January, in *CW*, Vol. 21, p. 395.

investment through increased interest rates. Contrary to conventional wisdom, Keynes objected to the use of monetary policy as a 'swing' or counter-cyclical instrument because this role would undermine market expectations of low long-term interest rates, which he believed were necessary for their fulfillment. In a word of caution which now appears prophetic to the Labor governments of the 1970s and 1980s, Keynes was adamant that it was 'a fatal mistake' to curtail excess demand with high interest rates, because in response to inflation or a speculative bubble, 'a higher rate of interest will be useless except in so far as it affects adversely the whole structure of confidence and credit'. A slump, he reasoned, would be the inevitable outcome.[53] Keynes was similarly sensitive to the destruction of domestic investment and employment that high interest rates would cause when they were implemented to reduce a nation's current account deficit,[54] a policy which would be damagingly implemented during the 1980s under the Hawke Labor Government, and which Keynes had observed in Britain under the gold standard exchange rate system.[55] In Keynes' theorising, high interest rates destroyed confidence and prosperity; low interest rates accommodated enterprise and encouraged prosperity.

By the time of the publication of *The General Theory*, however, Keynes had lamented that long-term interest rates had shown themselves to not be as malleable to monetary authorities' policy adjustments as he had previously thought. Rather, they were significantly constrained by financial markets' psychological assessments of what constituted 'a fairly *safe* level [original emphasis]'.[56] More worryingly still, Keynes estimated that this psychological assessment of the appropriate, or 'conventional' range of interest rates, 'may fluctuate for decades about a level which is chronically too high for full employment'.[57] In any case, Keynes observed that reductions in business confidence could be so severe during recessions that reductions in long-term interest rates, if used exclusively, would prove inadequate to ameliorate large deficiencies of demand.[58] In these circumstances, he believed that severe reductions in business confidence required a more significant stimulus, delivered through 'direct state intervention to promote and subsidise new investment'.[59]

Fiscal Policy

From the early-1920s Keynes developed his advocacy for stimulatory government investments to ameliorate bouts of deficient demand.[60] This advocacy was directly opposed to the market liberal contention (upheld at this time within the British Treasury) that public expenditure is not capable of

[53] John Maynard Keynes 1937 [1982], '"Dear" Money: The Right Time For Austerity', *The Times*, 13 January, in *CW*, Vol. 21, p. 389.
[54] John Maynard Keynes 1929 [1981], 'The Bank Rate', *Listener*, 4 October, in *CW*, Vol. 19, Part 2, pp. 836-7.
[55] John Maynard Keynes 1930 [1981], Evidence before the Committee on Finance and Industry, 28 February, in *CW*, Vol. 20, pp. 94-5; Keynes, *The General Theory*, p. 339.
[56] Keynes, *The General Theory*, pp. 201-4.
[57] *Ibid.*, p. 204.
[58] *Ibid.*, pp. 164, 316-7, 320.
[59] Keynes, 'The World's Economic Crisis and the Way of Escape', p. 60.
[60] See: John Maynard Keynes 1924 [1981], 'Does Employment Need A Drastic Remedy?', *Nation and Athenaeum*, 24 May, in *CW*, Vol. 19, Part 1, pp. 222-3.

stimulating demand, investment, and employment, at least not without ruinous inflation.[61] In his typically arresting, controversial style, Keynes disputed this contention through his answer to the prescient question surrounding US President, F.D. Roosevelt's (1933-1945) stimulatory New Deal, 'Can America Spend its Way into Recovery?' Keynes retorted: 'Why, obviously! ... No one of common sense could doubt it, unless his mind had first been muddled by a "sound" financier or an "orthodox" economist'. He went on to substantiate this position with a partial recitation of the General Theory that he was developing: 'we produce in response to spending. It is impossible to suppose that we can stimulate production and employment by *refraining* from spending [original emphasis]'. Keynes' position was simple: entrepreneurs required the reasonable expectation of profit to invest, and this expectation of profit would only exist amidst the circumstances of buoyant demand. Consequently, if the private sector, when left to its own devices, did not produce sufficient demand, then Keynes thought it only appropriate that the government, 'the collective representative of all the individuals in the nation', should intervene 'to fill the gap', and thereby convince the business sector that consumer demand was once again sufficient to support profitable investment.[62]

The Multiplier Effect

Underlying this logic was Keynes' conception of the multiplier effect, which he believed accompanied public sector stimulatory expenditures. This concept proposed that the stimulatory benefit of increased budgetary expenditures were not confined to their initial effects. Keynes explained the concept graphically within a 1929 British general election speech:

> Employment is infectious health. Employment and prosperity multiply themselves and spread from house to house. If men are employed on roads or on housebuilding [*sic*] or on modernising the railways or on any of the Liberal schemes, they will earn full wages again. They will have money to spend. They will buy once more the boots and clothing which they and their families have gone so long without. In this way they will bring employment to others also; who in their turn will have wages to spend and in their turn will employ others.[63]

Observing the situation in Britain in 1933, Keynes estimated that the multiplier effect would work so that each additional pound of increased public expenditure would result in an increased aggregate demand of two pounds.[64] Similar estimations made for the US in 1934 had their multiplier at three or four additional persons employed beyond those recruited for public sector projects.[65]

Based upon the multiplier effect, Keynes proposed that under the conditions of insufficient demand 'the effects of government expenditure are precisely the same as the effects of individuals' [or private

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[61] For an example of Keynes' criticism of the British Treasury's position, see: John Maynard Keynes & Hubert D. Henderson 1929, *Can Lloyd George Do It?*, Nation and Athenaeum, London, p. 39.
[62] John Maynard Keynes 1934 [1982], 'Can America Spend its Way into Recovery?', *Redbook*, December, in *CW*, Vol. 21, pp. 334-5.
[63] John Maynard Keynes 1929 [1981], Notes for campaign speech in Leicester, 29 May, in *CW*, Vol. 19, Part 2, pp. 826-7.
[64] John Maynard Keynes 1933 [1972], 'The Means To Prosperity', in *CW*, Vol. 9, p. 343.
[65] Keynes, 'Can America Spend its Way into Recovery?', p. 336.
See also: Keynes & Henderson, *Can Lloyd George Do It?*, pp. 24-7.

sector] expenditure'.[66] What was meant by this statement was that just as private sector investment increased aggregate demand in buoyant economic circumstances, in circumstances of economic recession, increased public sector expenditures worked to increase aggregate demand and business confidence. Keynes thereby disputed the market liberal contention that public expenditures, under all circumstances, crowded out an equal amount of private sector expenditure. Keynes was of the firm view that the public sector's use of idle resources would alternatively reduce the wastage of unemployed labour and materials, and also stimulate private sector investment.[67] In this context, Keynes anticipated and refuted Milton Friedman's 'crowding out' theory of public expenditure (see chapter two).[68] Furthermore, Keynes observed that rather than the British Government's public sector liabilities having crowded out private sector investment through the influence the government's debt had upon interest rates, Keynes argued that because Britain's bonds were sold on international markets, where the value of her debt was of a trifling quantum, it would likely have had a negligible influence upon the rates of interest that international financial markets charged.[69] As subsequent chapters reveal, this logic was overlooked by successive federal Labor governments between the 1970s and 1990s.

Financial Considerations

Notwithstanding Keynes' confidence in the veracity of his economic logic, he appreciated that his advocacy for periodic fiscal stimulation had the real potential, if implemented, of initially stoking financial market fears of government default.[70] But Keynes was confident that another benefit of his fiscal stimulatory intervention would contribute to its financial attraction: the benefit upon the budget's bottom line from reductions in budgetary welfare entitlements and increased taxation revenues.[71] In 1933 Keynes estimated that these occurrences would remit fully 53 percent of any British Government stimulatory expenditures.[72] Indeed, Keynes was adamant that efforts made to balance the budget in times of economic contraction were futile given the severe reductions in taxation revenues. He argued that it was 'a complete mistake to believe that there is a dilemma between schemes for increasing employment and schemes for balancing the budget'. 'There is no possibility of balancing the budget except by increasing the national income'. A task best achieved through fiscal stimulation.[73] For Keynes, depression was the real cause of budget deficits,[74] and he was highly critical of the British Treasury for not acknowledging such fiscal truths.[75]

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[66] Keynes, 'Can America Spend its Way into Recovery?', p. 335.
[67] See: Keynes & Henderson, *Can Lloyd George Do It?*, pp. 34-5; Skidelsky, *The Economist as Saviour*, p. 353.
[68] For an example of the contemporary British Treasury's application of the crowding out theory, see: Skidelsky, *The Economist as Saviour*, pp. 359-60.
[69] Keynes & Henderson, *Can Lloyd George Do It?*, p. 40.
[70] See: Wapshott, *Keynes/Hayek*, p. 82; John Maynard Keynes 1931 [1972], 'Proposals For a Revenue Tariff', *New Statesman and Nation*, 7 March, in *CW*, Vol. 9, pp. 234, 236.
[71] Keynes & Henderson, *Can Lloyd George Do It?*, pp. 12-3.
[72] Keynes, 'The Means To Prosperity', pp. 346-7.
[73] *Ibid.*, p. 347. See also: John Maynard Keynes 1931 [1972], 'Some Consequences of the Economy Report', *New Statesman and Nation*, 15 August, in *CW*, Vol. 9, pp. 142-3.

Moreover, Keynes stressed that the fiscal costs involved in financing his public expenditures were far outweighed by the alleviation of waste which would otherwise occur through the idleness of resources, including labour. Keynes estimated that within Britain over the period 1921 to 1929 some £500,000,000 was paid in cash unemployment benefits - an amount he estimated could have alternatively been used to build one million houses, or a third of the nation's roads - and that over the same period the wastage of unemployed labour and resources had reduced the wealth of the nation by £2,000,000,000 - an amount which could have built all the railways in Britain twice over.[76] In this light, Keynes argued that the likely marginal increase in government debt required for stimulatory expenditures, such as the £100,000,000 proposed by the Liberal Party leader, Lloyd George, at the 1929 general election campaign, constituted a 'small matter compared with the importance of restoring normal conditions of prosperity'.[77]

Timeliness

With regard to the implementation of stimulatory public sector expenditures, Keynes emphasised the importance of timeliness. He stressed that under recessionary conditions, reductions in business confidence, once 'set in motion', would 'prove almost impossible to check' until the recession had dissipated.[78] Keynes therefore advocated the timely implementation of stimulatory fiscal policies. However, he perceived the manipulation of consumption through budgetary expenditures as inadequate for such stimulatory purposes.[79] For instance, he did not support variations in tax obligations, as he reasoned that unless tax reductions were considered permanent by their recipients, they would fail to stimulate investment.[80] In this context Keynes argued that the 'ordinary' budget should be properly maintained in permanent surplus,[81] and that an alternative capital budget should be established to finance and co-ordinate the construction of public works under all public bodies, boards, authorities and institutions.[82]

In this manner, it was envisaged that public sector investment would offset recessionary reductions in demand. To facilitate this process Keynes advocated for the appointment of a board, advised by public and private infrastructure authorities, utilities, their architects and engineers, as well as financial bureaucrats. This board would be given the responsibility to maintain advanced plans and ordered priorities for stimulatory public works, which were capable of returning economic or social dividends,

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74 Keynes, 'Can America Spend its Way into Recovery?', p. 337.
75 Keynes, 'The Treasury Contribution to the White Paper', p. 823; John Maynard Keynes 1930 [1981], Evidence before the Committee on Finance and Industry, 6 March, in *CW*, Vol. 20, p. 144.
76 Keynes & Henderson, *Can Lloyd George Do It?*, p. 12.
77 *Ibid.*, pp. 12-3; Keynes, 'Can America Spend its Way into Recovery?', pp. 335-6.
78 Keynes, 'Opportunities of Policy', pp. 392-3; John Maynard Keynes 1943 [1980], letter to L.C. Robbins, 29 March, in *CW*, Vol. 27, p. 316.
79 John Maynard Keynes 1942 [1980], letter to J.E. Meade, 8 May, in *CW*, Vol. 27, pp. 206-7.
80 John Maynard Keynes 1943 [1980], letter to J.E. Meade, 25 April, in *CW*, Vol. 27, p. 319.
81 John Maynard Keynes 1942 [1980], letter to Sir Richard Hopkins, 15 May, in *CW*, Vol. 27, pp. 277-8.
82 See: John Maynard Keynes 1945 [1980], 'National Debt Enquiry: The Concept of a Capital Budget', 21 June, in *CW*, Vol. 27, pp. 408-10.

and which could be implemented at short notice - no longer than a few months.[83] He envisaged that 'something like two-thirds or three-quarters of total investment' should properly be sustained under the auspices of such public or semi-public authorities so as to constitute a flexible counter-weight for those circumstances in which the level of private sector investment was anticipated to significantly change.[84] Moreover, in the interests of imparting as large a multiplier effect as possible, Keynes preferred the construction of geographically dispersed public works, such as houses and roads,[85] and in the circumstances of widespread international recession, he advocated for the intervention of internationally coordinated fiscal stimulation.[86]

In making these proposals, Keynes dismissed the criticisms that valuable public works could not possibly be expedited for stimulatory purposes because of the intractable time periods needed for their design, planning and construction.[87] In a line which would be repeated periodically by future Labor governments, for Keynes the overwhelming priority was 'to get the money spent'.[88] He stressed this point in correspondence with US President, F.D. Roosevelt, where he emphasised that even in those circumstances in which it is difficult to avoid waste, inefficiency, and corruption in the implementation of public works, these considerations should be properly outweighed by the alternative risk of recession, high unemployment and general misery, so that if necessary more timely, if less useful, projects should be supported.[89] Indeed, Keynes wittily remarked in this context that if the staid minds of the British Treasury could not adhere to anything more productive, even the burying of banknotes in disused coalmines, excavated by 'private enterprise on well-tried principles of *laissez-faire* ... would be better than nothing'.[90]

Inflationary Concerns

Keynes did not merely envisage fiscal policy intervening in recessionary conditions, however. Like market liberal economists, Keynes was cognisant of the damage excessive inflation could cause. As early as 1919 he had cited Lenin's quip 'that the best way to destroy the Capitalist System was to debauch the currency'.[91] He was adamant that because excessive inflation entailed an arbitrary redistribution of wealth, it undermined the vital sense of security, confidence, and equity that a stable

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83 Keynes, 'Opportunities of Policy', p. 394; Keynes, 'National Debt Enquiry', p. 407.
Later, with the 1940s development of centralised planning, Keynes accepted that public investment planning could appropriately be undertaken within the British Treasury. See: Keynes, 'National Debt Enquiry', p. 408.

84 John Maynard Keynes 1943 [1980], letter to Sir Wilfred Eady, 10 June, in *CW*, Vol. 27, pp. 352-3; John Maynard Keynes 1943 [1980], 'The Long-Term Problem of Full Employment', 25 May, in *CW*, Vol. 27, p. 322; John Maynard Keynes 1944 [1980], 'Post-War Employment: Note by Lord Keynes on the Report of the Steering Committee', 14 February, in *CW*, Vol. 27, pp. 368-9.

85 Keynes, 'Can America Spend its Way into Recovery?', pp. 337-8; Keynes & Henderson, *Can Lloyd George Do It?*, pp. 17-8, 22-5; John Maynard Keynes 1938 [1982], letter to President Franklin Delano Roosevelt, 1 February, in *CW*, Vol. 21, p. 436.

86 Keynes, 'The Means to Prosperity', pp. 356-7.

87 See: Keynes & Henderson, *Can Lloyd George Do It?*, p. 19.

88 Keynes, 'Can America Spend its Way into Recovery?', p. 337.

89 John Maynard Keynes [1967], An Open Letter to President Roosevelt, in Max Freedman (ed.), *Roosevelt and Frankfurter: Their Correspondence: 1928-1945*, Bodley Head, London, p. 180; Keynes, *The General Theory*, p. 127.

90 Keynes, *The General Theory*, p. 129.

91 Keynes, *Essays in Persuasion*, p. 77.

community required, and also modified society's inclinations to save and invest, and its system of contract.[92] Indeed, Hayek has since repeatedly documented that Keynes was not as sanguine on the issue of inflation as many of his disciples. Hayek claimed that when asked, just weeks before Keynes' death in April 1946, whether Keynes was alarmed by the wanton attitude of his followers towards inflation, Keynes replied that if his 'theories should ever become harmful' that Hayek could 'be assured that he would quickly bring about a change in public opinion'.[93]

Keynes was adamant, however, that inflation would only constitute a significant problem under the circumstances in which demand approached that required for the realisation of full employment. Under these circumstances Keynes reasoned that an ever increasing component of public expenditure would be dissipated into increased prices (or the expropriation of private sector demand) rather than ameliorative stimulatory activity.[94] However, Keynes did not expect this inflationary occurrence to present a widespread public policy problem until the unemployment rate had fallen to the level of approximately 6-7 percent.[95] Keynes also acknowledged that before this point was reached, isolated inflationary pressure could develop where particular material or labour force shortages existed.[96] He suggested that governments could contribute to the avoidance of these shortages through improvements to the provision of appropriately skilled labour, garnered through incentives for greater labour mobility and an improved coordination between education and training providers and industry.[97]

When widespread excessive inflationary conditions occurred, moreover, Keynes envisaged that fiscal policy should intervene to reduce excessive demand through such measures as deferred wages schemes, and proposals for temporary increases in progressive taxation, both of which he advocated for Britain under the inflationary circumstances of the Second World War.[98] Keynes favoured these measures of indirect demand manipulation over direct price controls and rationing because he perceived the latter as not only grossly inefficient and administratively cumbersome, but also an abhorrent incursion upon personal liberties. He only reluctantly accepted the imposition of direct price controls and rationing in those circumstances where restrictions of absolute necessities were unavoidable, such as was apparent during the Second World War.[99]

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[92] See: *ibid.*, pp. 77-8; John Maynard Keynes 1923 [1971], *CW: A Tract on Monetary Reform*, Vol. 4, pp. 1, 12, 16.
[93] Hayek, *A Tiger by the Tail*, p. 103.
[94] Keynes, 'The Means to Prosperity', pp. 342-4.
[95] See: Skidelsky, *The Economist as Saviour*, p. 631.
[96] *ibid.*, p. 629; John Maynard Keynes 1937 [1982], 'The Problem of the Steady Level', *The Times*, 12 January, in *CW*, Vol. 21, p. 385; John Maynard Keynes 1934 [1973], 'The Theory of Effective Demand', 5 June, in *CW*, Vol. 13, p. 462.
[97] Keynes, 'Liberalism and Industry', pp. 646-7.
[98] See: John Maynard Keynes 1940 [1972], 'How To Pay For The War', in *CW*, Vol. 9, pp. 367-439.
[99] *Ibid.*, pp. 409-11; Robert Skidelsky 2001, *John Maynard Keynes: Fighting for Freedom 1937-1946*, Vol. 3, Viking, New York, pp. 63-4, 67-8.

‘Socialisation of Investment’

Keynes envisaged more substantive government intervention, however, than the pursuit of a permanently low long-term rate of interest and counter-cyclical fiscal intervention. He believed that the pernicious effects upon business confidence which the *laissez-faire* system’s inherent macroeconomic uncertainty produced required the intervention of state controls over the dispersal of credit, the aggregate level of savings, and foreign investment. Keynes was adamant that the distribution of credit should not ‘be left entirely to the chances of private judgment and private profits’, but alternatively be subjected to the ‘intelligent judgment’ of the government, and distributed to those projects considered the most productive.[100] As was implicit in Keynes’ proposals for a capital budget and public investment board, he believed that the government, rather than the private sector, was better equipped to make projections of long-term market conditions.[101]

Of particular relevance to Labor monetary and banking policies in the first-half of the twentieth century, Keynes’ advocacy for government control of credit dispersal underpinned his support for the British Labour Party’s early-1930s advocacy for the nationalisation of the Bank of England, in which the Bank’s day-to-day management of credit dispersal and other monetary variables, such as the exchange rate, would be placed under government jurisdiction and direction.[102] Keynes did not, however, extend this support to the British Labour Party’s earlier proposal for the nationalisation of all joint stock banks, as Keynes did not consider their nationalisation as relevant to the establishment of control over the monetary system.[103] This was the tenor of the financial intervention Keynes envisaged within his famous *General Theory* phrase calling for ‘a somewhat comprehensive socialisation of investment’.[104]

The extensive intervention envisaged in this type of government control over monetary policy directly refuted Hayek’s contention that government planning is inherently more inefficient than a *laissez-faire* system of resource distribution.[105] However, Keynes did not consider that such intervention was ‘seriously incompatible’ with the private initiative and enterprise which lay at the heart of the capitalist system.[106] Keynes appreciated that individualism fostered the efficiency of the capitalist system, and he baulked at the idea of the introduction of a revolutionary new system of economic organisation.[107] His advocacy for government oversight of the monetary system was envisaged to facilitate, not replace, private sector initiative through the provision of sufficient credit to support full

[100] Keynes, *The End of Laissez-Faire*, pp. 47-9.
[101] Keynes, *The General Theory*, p. 164.
[102] John Maynard Keynes 1932 [1982], ‘The Monetary Policy of the Labour Party’, *New Statesman and Nation*, 17 & 24 September, in CW, Vol. 21, pp. 130-7.
[103] *Ibid.*, p. 130.
[104] Keynes, *The General Theory*, p. 378.
[105] See: John Maynard Keynes 1944 [1980], letter to Professor F.A. Hayek, 28 June, in *CW*, Vol. 27, p. 386.
[106] Keynes, *The End of Laissez-Faire*, pp. 48, 50.
[107] See: Keynes, *The General Theory*, pp. 380-1.

employment prosperity, whilst maintaining private sector investment prerogatives.[108] For instance, Keynes opposed proposals for the large-scale nationalisation of industries.[109] He considered nationalisation an inefficient method for the achievement of the equity socialists sought,[110] and only supported nationalisation where it was implemented to achieve social, rather than commercial objectives,[111] or where private sector investment was absent.[112]

Multilateralism

Keynes also broadly objected to government interventions in trade. Despite having advocated for the imposition of temporary tariff protection levies and bounty subsidies for British exports amidst the Great Depression, these were only envisaged as short-term palliatives to bolster business competitiveness, demand and investment, and were only considered in the absence of a feasible policy of real wage reduction.[113] Keynes never renounced his adherence to free trade market liberal orthodoxy.[114] Keynes did, however, recognise that unbalanced trade and current account deficits presented major obstacles to domestic demand management objectives, such as the achievement of full employment. Part of the problem, Keynes argued, was that there were no obligations established through multilateral institutions or any other diplomatic arrangements upon creditor nations to reduce their trading or current account surpluses in the interests of sustained international accounting balance. Rather, he lamented that a zero-sum game was allowed to proliferate in which the entire onus for readjustment was placed upon debtor nations, whose available policy options: exchange rate, wage and interest rate adjustments, were consequently consumed with often futile attempts at reducing their nation's current account deficit, rather than being targeted at maintaining demand and sustaining full employment.[115]

In order to avoid this predicament, Keynes advocated for the post-Second World War establishment of a multilateral International Currency Union, committed to the regulation of national current accounts. The Currency Union was proposed to operate through the imposition of compulsory corrective

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[108] *Ibid.*, pp. 378-9.
[109] See: *ibid.*, p. 378; Keynes, 'The Long-Term Problem of Full Employment', p. 324; Donald Winch 1989, 'Keynes, Keynesianism, and State Intervention', in Peter A. Hall (ed.), *The Political Power of Economic Ideas: Keynesianism across Nations*, Princeton University Press, Princeton, p. 110.
[110] See: Keynes, 'Liberalism and Labour', p. 309.
[111] John Maynard Keynes 1944 [1978], Report of the Official Committee on Public Utility Corporations, 19 December, in *CW*, Vol. 22, p. 467.
[112] Keynes, *The End of Laissez-Faire*, pp. 46-7.
[113] Keynes, 'Proposals for a Revenue Tariff', pp. 236-7; John Maynard Keynes 1930 [1981], 'A Proposal for Tariffs Plus Bounties', Paper prepared for the Economic Advisory Council Committee of Economists, 25 September, in *CW*, Vol. 20, pp. 416-9; Keynes, Evidence before the Committee on Finance and Industry, 28 February 1930, pp. 114-5, 117; Keynes, Evidence before the Committee on Finance and Industry, 6 March 1930, pp. 121-2; John Maynard Keynes 1931 [1981], 'A revenue tariff and the cost of living', *New Statesmen and Nation*, 4 April, in *CW*, Vol. 20, p. 501.
[114] John Maynard Keynes 1932 [1982], 'Pros and Cons of Tariffs', *Listener*, 30 November, in *CW*, Vol. 21, pp. 204-5; John Maynard Keynes 1923 [1981], 'Free Trade', *Nation and Athenaeum*, 24 November & 1 December, in *CW*, Vol. 19, Part 1, pp. 147, 151-2, 154-5; John Maynard Keynes 1922 [1981], Notes for a speech at the 95 Club, Manchester, 25 October, in *CW*, Vol. 19, Part 1, p. 3; Keynes, Evidence before the Committee on Finance and Industry, 6 March 1930, pp. 120-1.
[115] John Maynard Keynes 1941 [1980], 'Post-War Currency Policy', 8 September, in *CW*, Vol. 25, Macmillan, London, pp. 28-9.

measures, which would be placed upon both debtor and creditor nations.[116] Keynes envisaged that this International Currency Union would regulate international payments through an International Clearing Bank operating a mutually enforced system of exchange control, designed to diminish damaging speculative capital flows and the pernicious occurrence of capital flight. Under this system, each nation's exchange rate would be fixed, except where an imbalance in a nation's current account position justified either an appreciation or depreciation, and protective industrial measures or subsidies would be severely restricted except for those debtor nations who had sustained significant current account deficits.[117]

These measures, in addition to the overdraft facilities available for each nation, were designed to benefit all nations, including creditors, by providing debtor nations with available export markets, and the financial viability and time to rectify their current account deficits.[118] Moreover, the obligations upon creditor nations were not expected to be enforced. Their purpose was rather to alert creditor nations to the fact that their excessive Clearing Account credits (or reserve savings) prevented debtor nations from alleviating their own Clearing Account debits (or accumulated current account deficits), and prevented the full use of international resources.[119] The obligations upon creditor nations were therefore envisaged to avoid the internationally pro-cyclical tendencies towards inflation and deflation which Keynes identified as having existed under the gold standard exchange rate system, wherein pressure upon nations to maintain a prescribed currency valuation and current account balance overwhelmed domestic demand management considerations.[120]

Wages Policy

Within the context of the 1926 British general strike, Keynes described trade unions as 'once the oppressed, now the tyrants, whose selfish and sectional pretensions need to be bravely opposed'.[121] In this period he suggested, in accordance with market liberal theory, that the refusal of the most powerful trade unions to accept wage reductions in line with their industry's competitive international trading position, presented a bulwark against employment creation.[122] Keynes accepted the market liberal contention that an increase in the real wage cost of production reduced an entrepreneur's prospective profit, and consequently reduced the level of investment and employment that it was

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[116] See: *ibid.*, pp. 30, 35-7; John Maynard Keynes 1941 [1980], 'Proposals For An International Currency Union', 18 November, in *CW*, Vol. 25, pp. 63-5. Here Keynes listed the penalties he initially proposed for nations which maintained either excessive current account deficits or surpluses.
Ultimately, under pressure from British government statistician, Roy Harrod, Keynes proposed that no formal sanctions should be applied to excessive creditor nations. See: Skidelsky, *Fighting For Freedom*, pp. 223-5, 232.
[117] Keynes, 'Post-War Currency Policy', p. 34; Keynes, 'Proposals For An International Currency Union', pp. 50-4, 61-2, 65.
[118] See: Keynes, 'Proposals For An International Currency Union', pp. 47-9.
[119] See: *ibid.*, p. 49.
[120] See: Keynes, *A Treatise on Money*, in *CW*, Vol. 6, Part 2, pp. 199, 249, 255-6, 271; Wapshott, *Keynes/Hayek*, pp. 23, 55.
[121] Keynes, 'Liberalism and Labour', p. 309.
[122] See: John Maynard Keynes 1925 [1981], 'The Economic Position in England', Lecture, Moscow, 14 September, in *CW*, Vol. 19, Part 1, pp. 436-7; Keynes, Evidence before the Committee on Finance and Industry, 28 February 1930, p. 96.

rational for them to create.[123] By 1930, in response to Britain's sustained current account deficit problems, Keynes explored the option of a 10 percent general reduction in all earned incomes.[124]

Keynes, however, later modified his position. Within the context of the Great Depression, he argued that the reduction of nominal wage rates would also damagingly reduce aggregate demand.[125] Accordingly, Keynes objected to the British Government's reactive reduction of public sector wage rates.[126] He concluded that under such international recessionary circumstances the reinvigoration of trade, competitiveness, and prosperity would be best attempted through the expansion of demand at existing nominal wage rates.[127] Moreover, Keynes believed that wage reductions constituted an inequitable and unjust reduction in the working class' purchasing power, and he feared the social uproar that such a thinly veiled attack on their living standards might incite.[128] In his electioneering for the Liberal Party, he upheld the principle of '[a]n honest day's work for a fair wage',[129] and he opined that wages within Britain's largest industries should be improved through regulation, and that this task should constitute 'the first charge on the national wealth', and not left 'to the [arbitrary] accident of private organisations and of private bargaining'.[130] He also approved of minimum wage and hours regulations.[131] Furthermore, Keynes was sympathetic towards the trade union *raison d'être* of wage negotiation, and he was also confident that they could be persuaded to restrain their demands in the interests of maintaining profitable investment prospects.[132]

The identified problem with combining Keynesian macroeconomic management with restrained wages, however, was that an increased demand for labour is anticipated to provide trade unions with greater bargaining power, which can facilitate higher wage rates and inflation.[133] Indeed, in correspondence with Australian Treasury Secretary (1938-1948), S.G. Macfarlane, Keynes remarked that: 'One is ... simply because one knows no solution, inclined to turn a blind eye to the wages

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[123] See: Keynes, *The General Theory*, p. 17; Alex J. Millmow 1992, 'The Evolution of J.M. Keynes' Wage and Employment Theory 1920-1946', *History of Economics Review*, Vol. 17, pp. 51-2.

[124] Keynes, Evidence before the Committee on Finance and Industry, 28 February 1930, pp. 102, 105. This measure was proposed to be supplemented, in the interests of fairness, by a comparable increase in taxes on unearned incomes (i.e. rents, interest payments, dividends, and capital gains).

[125] See: Keynes, *The General Theory*, pp. 258-60; Keynes, 'Proposals For a Revenue Tariff', p. 235; Keynes, 'Some Consequences of the Economy Report', pp. 142-3.

[126] See: John Maynard Keynes 1931 [1972], 'The Economy Bill', *New Statesman and Nation*, 19 September, in *CW*, Vol. 9, pp. 146-7.

[127] Thos Allen, Ernest Bevin, John Maynard Keynes, R. McKenna, J. Frater Taylor, A.A.G. Tulloch 1931 [1981], Addendum 1, from the Report of the Committee on Finance and Industry, in *CW*, Vol. 20, pp. 290-1, 308-9; Millmow, 'Evolution of J.M. Keynes' Wage and Employment Theory', p. 50.

For further examples where Keynes advised against money wage reductions designed to increase British industrial competitiveness, see: Keynes, 'Does Employment Need A Drastic Remedy?', p. 221; Keynes, 'How to Organise a Wave of Prosperity', pp. 762-3.

[128] See: Keynes, 'Proposals For a Revenue Tariff', p. 235.

[129] Keynes, Notes for campaign speech in Leicester, 29 May 1929, p. 825.

[130] Keynes, 'Liberalism and Industry', p. 646.

[131] Keynes, letter to F.D. Roosevelt, 1 February 1938, p. 438.

[132] Millmow, 'Evolution of J.M. Keynes' Wage and Employment Theory', pp. 70-1.

[133] See Arthur Pigou's criticism of Keynes' neglect of these implications in: A.C. Pigou 1936, 'Mr J.M. Keynes' General Theory of Employment, Interest and Money', *Economica*, May, p. 131, quoted in, Kahn, 'Unemployment as seen by the Keynesians', p. 32.

problem in a full employment economy'.[134] In his analysis, Alex Millmow has also pointed to clear instances in which Keynes explicitly acknowledged the possibility that workers might exploit their enhanced bargaining position to extract higher nominal wage rates, but Millmow concluded that Keynes believed that:

> ... the relationship between labour's bargaining power and the inflation rate ... was a 'discontinuous' one, dependent upon the 'psychology of the workers and by the policies of employers and trade unions' and therefore 'did not lend itself to theoretical generalization'.[135]

Keynes' followers were not so sanguine about the wage bargaining maturity of trade unions, however. For instance, Keynes' Cambridge colleague, Joan Robinson, explicitly argued that as demand improved, and full employment approached, workers would exacerbate inflationary demand pressures through increased wage demands.[136] Indeed, Robinson was conscious that the removal of the threat of unemployment emboldened employees to not only demand higher, more inflationary wage rates, but also served to reduce the incentives for 'factory discipline'.[137] As a solution, Robinson suggested the implementation of centralised controls to assist with the stabilisation of inflation. She advocated price controls with 'full publicity in respect of costs', the 'limitation of profits', a generous social security programme, and 'an extension of works councils' to provide 'the workers a voice in the day-to-day affairs of the factory'. These latter two proposals, Robinson suggested:

> might produce a situation in which the workers would be prepared to accept discipline to the necessary and reasonable extent, and to accept an over-all wage treaty which would prevent the vicious [wage/price] spiral from setting in.[138]

Robinson's position effectively summarised what has since been referred to as the 'post-Keynesian' solution to wage inflation, envisaged to include a regulated prices and incomes policy, calculated for the maintenance of real wages and supplemented by increases in the social wage.[139] As subsequent chapters establish, this post-Keynesian prices and incomes policy was not successfully implemented during either the Chifley or Whitlam Labor governments, but was closely approximated under the original Statement of Accord social contract agreement negotiated between the ALP and ACTU in February 1983, prior to the election of the Hawke Government in March of that year.

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134 John Maynard Keynes 1945 [1980], letter to S.G. Macfarlane, 5 June, in *CW*, Vol. 27, p. 385.

135 Millmow, 'Evolution of J.M. Keynes' Wage and Employment Theory', pp. 57, 66.

136 See: Joan Robinson 1937, *Essays in the Theory of Employment*, Macmillan, London, pp. 6-7, 9, 11, 13.

137 Joan Robinson 1943 [1978], 'Planning Full Employment', *The Times*, 22 and 23 January, in Joan Robinson (ed.), *Collected Economic Papers*, Vol. 1, Basil Blackwell, Oxford, pp. 84-5.

138 *Ibid.*, p. 86.
It should be noted, however, that on other occasions Robinson doubted the discipline, foresight, or ability of trade unions to centrally coordinate and forego more lucrative wage settlements in the interests of maintaining adequate profitability for full employment investment. See: Robinson, *Essays in the Theory of Employment*, pp. 38-9; Joan Robinson 1946 [1978], 'Obstacles to Full Employment', *Nationalokonomisk Tidsskrift*, in Robinson (ed.), *Collected Economic Papers*, Vol. 1, p. 114.

139 See: Battin, *Abandoning Keynes*, pp. 148, 150.

Redistribution

Keynes did believe that the community had a collective responsibility to ensure the achievement of higher living standards for the working class. He envisaged that this could be achieved through measures such as the increased public provision of social insurance, pensions, health care, education, housing, family allowances, and recreation facilities. Keynes favoured this type of public provision over burdening relatively fewer, labour-intensive employers with the costs of delivering higher living standards through excessive wage rates. As Keynes concluded, the 'economic machine' works according to its dictates, and should not be made less efficient for the sake of equity considerations. Only after all the distributive transactions have been completed, Keynes reasoned, should wealth be redistributed on social equity considerations.[140] In this manner, Keynes envisaged an ideal, although he feared unrealistic, system in which 'wages are reduced or stabilised in return for other [social welfare] advantages procured by means of higher taxation'.[141]

Notwithstanding these sentiments, however, Keynes did not perceive redistribution as a first order priority.[142] Keynes acknowledged, for instance, that overly-generous welfare benefits could provide a bulwark against labour mobility.[143] For Keynes injustice was 'a matter of uncertainty, justice a matter of contractual predictability'. In other words, Keynes' concept of social justice was minimalistic in its primary adherence to the values of equality of all before the law, and the importance of macroeconomic stability, i.e. the conditions of sustained aggregate demand, prosperity, and low inflation, necessary for contractual certainty. For Keynes redistribution only properly constituted 'an adjunct to the machinery of macroeconomic stabilisation, not as a means to an ideal end'. In this context, Keynes advocated for the redistribution of wealth primarily to bolster the purchasing power of the lower classes in order to increase aggregate consumption and maintain full employment.[144] Furthermore, despite Keynes having been initially confident that Britain's post-Second World War fiscal position could accommodate William Beveridge's proposals for welfare expenditure reforms, canvassed in his *Full Employment in a Free Society* (1944), by 1945 Keynes was doubtful that the heavily indebted nation could afford the similar public welfare proposals advocated by the Attlee Labour Government (1945-1951). Under these constrained fiscal circumstances, Keynes advised that social and economic reforms be delayed.[145]

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[140] See: John Maynard Keynes 1930 [1981], 'The Question of High Wages', *The Political Quarterly*, January-March, in *CW*, Vol. 20, pp. 12-5; Keynes, Evidence before the Committee on Finance and Industry, 28 February 1930, pp. 108-9.

[141] Keynes, 'The Question of High Wages', p. 15.
In this context, Keynes reasoned (pp. 8-9, 12-5) that taxation formed much less of an investment deterrent than excessive wage rates.

[142] See: Skidelsky, *Keynes: The Return of the Master*, pp. 159-60; Freeden, *Liberalism Divided*, pp. 167, 169-70; Richard Davenport-Hines 2015, *Universal Man: The Seven Lives of John Maynard Keynes*, Wiiliam Collins, London, pp. 158-9.

[143] John Maynard Keynes 1930 [1981], Economic Advisory Council Committee of Economists Draft Report, 4 October, in *CW*, Vol. 20, pp. 431-2.

[144] Skidelsky, *The Economist as Saviour*, pp. 62, 223; John Maynard Keynes 1936 [1973], letter to R.G. Hawtrey, 24 March, in *CW*, Vol. 14, p. 16.

[145] Davenport-Hines, *Universal Man*, pp. 326-8, 339-40.

Conclusion

This chapter has established the philosophical, theoretical and policy components of Keynesian macroeconomic theory. It has established that Keynes' liberal ideological vision for a 'middle way' form of regulated capitalism underpinned his theoretical critique against market liberalism's advocacy for *laissez-faire* capitalism. This critique essentially argued that a *laissez-faire* economy is inherently unstable and often maintains a level of demand much below that required to facilitate full employment. Keynes concluded that the inherent market instability and dearth of demand experienced under a *laissez-faire* economy required the imposition of fiscal, monetary, wages, and financial market regulatory policy interventions, designed to stabilise economic activity at a level capable of supporting full employment. Beyond these interventions, however, Keynes valued the individual economic autonomy upheld by the capitalist system.

Despite Keynes' limited interest in redistributive reform, however, his theorising and policy proposals struck a deep chord with social democrats. His persuasive critique of the inherent macroeconomic uncertainty and inefficiency of *laissez-faire* capitalist systems provided the authoritative technical critique social democrats required to strengthen their innate objections to unfettered markets. Many of Keynes' social democratic contemporaries recognised that his interventionist policy proposals, not only mirrored their own,[146] but would likely increase the living standards of the groups they represented.

The following two chapters canvass the Scullin, Curtin and Chifley Governments' experiences of attempting to implement Keynesian-influenced policies. Chapter four establishes that in the interests of improving the living standards of the Party's working constituents, the Scullin Government attempted to implement regulation of the banking industry - in close accordance with Keynes' advocacy for the 'socialisation of investment' - and deploy a Keynesian fiscal stimulatory program amidst the Great Depression. Chapter four also establishes, however, that both of these attempts were thwarted by the combined opposition of the Australian and London banking industries, the Australian economics profession, and the conservative-dominated Senate. However, the remainder of this chapter and chapter five establish that from the mid-1930s the widespread influence of Keynesian macroeconomics amongst young economics graduates - many of whom were later appointed to influential positions within the Commonwealth public service and economics profession - assisted with and legitimised the planning and implementation of Keynesian policies under the Curtin and Chifley Governments. Chapter four also documents E.R. Walker's useful criteria for the successful deployment of Keynesian stimulatory public works, and chapter five establishes other economists' anticipation or observance of the significant policy implementation challenges which adversely

[146] See: A.L. Rowse 1936, *Mr. Keynes and the Labour Movement*, Macmillan, London, pp. 12, 18-21, 34-6, 45-6, 66-8; Skidelsky, *Keynes: A Very Short Introduction*, p. 2.

affected either the planning or deployment of Keynesian policies under the Curtin and Chifley Governments.

CHAPTER FOUR
PROTO-KEYNESIAN POLICY THWARTED:
THE EXPERIENCE OF THE SCULLIN GOVERNMENT

The previous chapter established the philosophical, theoretical and policy components of Keynesian macroeconomic theory. This chapter canvasses the experience of Labor's first national attempt at implementing a proto-Keynesian[1] demand management policy agenda, under the federal Labor government led by James Scullin (1929-1932). This policy agenda was designed to regulate the monetary system and stimulate demand, investment and employment in response to the economic devastation of the Great Depression. This chapter argues that this policy agenda was driven by two key factors: the widespread perception within the labour movement that the 'money power' maintained a pernicious control over the nation's monetary policy; and the Keynesian advocacy of the Scullin Government's first Treasurer, E.G. 'Ted' Theodore (1929-1930, 1931-1932). In keeping with the broader argument of this thesis, this chapter also argues that this proto-Keynesian agenda was formulated to regulate and organise capital resources in the public interest, and to shield the Party's working constituents from the ravages that macroeconomic instability and a severe depression can produce through their adverse effects upon aggregate demand and employment prospects. Through stimulatory policies designed to bolster aggregate demand and employment levels, the Scullin Government sought to uphold the Labor Party's social democratic ideological objective of attempting to improve the living standards of its traditional working constituents and their dependents. However, this chapter also establishes that unlike the experience of their Labor government successors, the Scullin Government's attempts at implementing policies of Keynesian macroeconomic management were thwarted by the combined opposition of the Australian and London banking industries, the Australian economics profession, and the conservative-dominated Senate. This chapter explains that these stakeholders' collective rejection of proto-Keynesian policies was underpinned by their adherence to market liberal principles of 'sound finance', and the parlous state of Australian government finances, which had developed from the 1920s. It is established that this combined opposition ultimately left the Scullin Government with an unenviable choice: cooperate with the implementation of a market liberal policy of fiscal austerity, or face almost certain electoral defeat.

Informed by the insights of previous studies, this chapter finishes by establishing the influence that Keynesian macroeconomic theory had - from the mid-1930s - upon significant sections of the Australian economics fraternity, and in particular upon many young economics graduates later appointed to key advisory positions within the Commonwealth public service. This acknowledgement of the increased influence Keynesian theory had from the mid-1930s is of profound importance to the subsequent analysis of this thesis for two reasons. Firstly, the widespread conversion to Keynesian

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[1] The Scullin Government's policy agenda is referred to as proto-Keynesian because this government presided prior to Keynes having consolidated his theoretical analysis and policy advocacy within his *General Theory*, published in 1936. See: John Hawkins 2010, 'Ted Theodore: the proto-Keynesian', *Economic Roundup*, Issue 1, Commonwealth Treasury, pp. 91-110.

theory amongst the Australian economics fraternity greatly assisted and legitimised the planning and implementation of Keynesian policies under the Curtin and Chifley Governments (see chapter five). Secondly, one of these economists, E.R. Walker, presciently documented the criteria which should govern the successful deployment of Keynesian stimulatory public works, and which provides this thesis with a useful measure of the success or otherwise of the stimulatory public works programs subsequently deployed by federal Labor governments.

A Fertile Ground: The ALP and the 'Money Power'

The Labor Party of the late-1920s provided fertile ground for the dissemination of Keynes' *laissez-faire* critique, and particularly his contention that unfettered markets are inherently unstable and inequitable. The opening chapter alluded to the reformist planks featured in the Labor Party's formative policy programs, which included many proposals designed to improve the equity of the nation's capitalist economy. The Party was, moreover, particularly receptive to Keynes' theories and policy prescriptions because they closely resembled parts of its own populist critique targeted against the pernicious influence its members believed the 'money power' had over the nation's financial and monetary system.

The opening chapter outlined the Party's formative populist opposition against the coterie of financial interests it believed profited from their ownership of capital at the expense of workers and other more industrious capitalists. Squatters and pastoralists, for instance, were perceived to work productively with the labour force to create wealth,[2] whereas Labor conceived that financial institutions acted like monopolistic entities, permanently engaged in profiteering at the expense of all others in the economy. Labor also conceived that financial institutions illegitimately and perniciously controlled all aspects of economic activity, including the prerogatives thought properly the preserve of popularly elected governments. According to labour movement historian, Peter Love, this antipathy towards the banking and finance sectors had been firmly established within the labour movement during the financial crisis and depression of the 1890s, and held firm throughout at least the first half of the twentieth century.[3]

The effect of this antipathy upon Labor policy culminated in widespread calls for the establishment of state controlled banks, including within the planks of the ALP's early colonial and federal platforms.[4] This advocacy was accompanied by the demand for 'some form of government control over the

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[2] See: John Robertson, *Tocsin*, 10 February 1898, and W.G. Spence, Melbourne *Worker*, 21 April 1894, quoted in, Love, *Labour and the Money Power*, pp. 33, 35-6; William Lane, *Hummer*, 16 January 1892, quoted in, Markey, *The Making of the Labor Party in New South Wales*, p. 238.

[3] For evidence of the establishment of this antipathy, see the sentiments expressed within: *New Order*, 8 September 1894, and W.G. Spence, *Worker*, Melbourne, 10 March 1894, quoted in, Love, *Labour and the Money Power*, pp. 31-5. See also: Markey, *The Making of the Labor Party in New South Wales*, pp. 237-9.

[4] See the platforms featured in: McKinlay, *Australian Labor History in Documents*, Vol. 2, pp. 10, 12, 24, 32; Ebbels (ed.), *The Australian Labor Movement 1850-1907*, pp. 216-8.

monetary system'.[5] As Love's paraphrase of the sentiments of an 1890s Queensland pamphleteer explained: 'A state bank concerned only for the community's welfare, and operating on an interest rate just sufficient to cover running costs, was the only solution to the problem'.[6] The problem identified centred on two perceptions popular within the labour movement at this time. The first was that private financial institutions unduly profited from their oligopolistic control of the monetary system (particularly the dispersal of credit), and the second claimed that this monetary control facilitated damaging economic instability, from which other capitalists and the labour force ultimately suffered. In this context, the Labor Party hoped that the rendering of private financiers uncompetitive through socially-minded, government-administered competition, would provide 'two weapons in their struggle with the Money Power: a shield against the anarchy of capitalist finance, and a garrotte to throttle the private banks'.[7] Regulation designed to ameliorate the perceived instability of the private banking industry envisaged the establishment of central banking functions under government jurisdiction, sufficient to control the supply of credit and thereby avoid pernicious slumps in economic activity.[8]

It should be emphasised at this point that Keynes' objections to the usury of rentiers was not as strident as the labour movement's demonisation of the 'money power'.[9] Moreover, while the Labor Party formally endorsed the inclusion of a clause within its federal objective advocating for the nationalisation of the entire banking industry at its 1927 Federal Conference,[10] it will be recalled that Keynes opposed the nationalisation of all private banks (see chapter three). However, notwithstanding these inconsistencies it can be observed that the labour movement's broad diagnosis of the instability of private control of capital, and their advocated solution of the establishment of a central bank with control over monetary management and under government jurisdiction, were in accord with Keynes' own theory and policy advocacy, encapsulated within his proposal for the 'socialisation of investment' (see chapter three).

In the early years of the federated Commonwealth, the Fisher Labor Government (1910-1913) established the Commonwealth Bank as a national state-owned bank in 1911. However, while this institution provided public competition against the private banks, it was not established with the powers and jurisdiction over monetary management considered necessary to perform the functions of a central bank.[11] The following sections outline the Scullin Government's attempts at rectifying this situation in the interests of economic stability and social equity. Preceding this analysis, however, a brief synopsis is provided of the conditions and causes of the economic depression which confronted

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[5] Love, *Labour and the Money* Power, p. 42.
[6] *Ibid.*, p. 44.
[7] *Ibid.*, p. 51.
[8] *Ibid.*, pp. 41, 50.
[9] See: Skidelsky, *Keynes: The Return of the Master*, pp. 148-9.
[10] ALP Federal Conference Report 1927, in McKinlay, *Australian Labor History in Documents*, Vol. 2, p. 75.
[11] See: Love, *Labour and the Money* Power, p. 53; Fitzpatrick, *A Short History of the Australian Labor Movement*, pp. 164-5.

the newly elected government, as well as some of the key institutional perspectives on economic policy and its administration which existed at this time.

The Scullin Government and the Great Depression

The Scullin Government was elected to office just days before the 'Black Thursday' Wall Street Crash of 24 October 1929, a financial calamity which has been identified by Australian economic historian and authority on the Great Depression, C.B. Schedvin, as a severe and abrupt financial market correction to the late-1920s Wall Street speculative stock price boom, and an event which exacerbated the existing international economic contraction.[12] The consequent international depression subsequently worsened after of a succession of severe United States banking crises, which occurred in the early-1930s.[13] Australian national income was most prominently and adversely affected by the significant reductions in the prices of Australia's staple rural export commodities, particularly wool and wheat, and the restrictions on overseas loan finance which were applied from 1929.[14] It is instructive to also note Schedvin's assessment of the policy factors which increased Australia's vulnerability to this external economic contraction, and which he claimed had already precipitated a late-1920s domestic depression:

- the high cost of manufacturing production which developed during the 1920s;
- the shift in the use of labour and capital resources from the relatively more productive rural sector to the less productive manufacturing and tertiary sectors; and
- the unsustainable growth during the 1920s of large-scale public investment in non-productive social assets, many of which were financed on the London market.[15]

As the analysis of this chapter establishes, the latter method used for financing public works during the 1920s culminated in a severe balance of payments crisis which lasted throughout the period of the Scullin Government, and which in combination with the Australian banking industry's strict adherence to the market liberal principles of 'sound finance', significantly limited the policy options available to respond to the Great Depression's economic contraction. The following sections briefly describe the market liberal adherence which existed amongst the Australian banking fraternity and the Commonwealth and state treasury departments during this period.

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[12] C.B. Schedvin 1970, *Australia and the Great Depression: A Study of Economic Development and Policy in the 1920s and 1930s*, Sydney University Press, Sydney, pp. 12-46. Schedvin details the various international trade and investment adjustments, and mismanagement of the international gold standard exchange rate system, which created the conditions for the late-1920s economic contraction.
[13] *Ibid.*, pp. 19-21.
[14] Millmow, *The Power of Economic Ideas*, pp. 31-3.
Scullin explained to the House of Representatives in June 1931 that reductions in the nation's commodity export prices and the cessation of overseas loans had reduced Australia's national income from £650,000,000 in 1928 to just £450,000,000 in 1931-32. See: James Scullin 1931, Debt Conversion Agreement Bill: Second Reading, 18 June, House of Representatives, *Commonwealth Parliamentary Debates (Hansard)*, p. 2779.
[15] Schedvin, *Australia and the Great Depression*, pp. 50-1, 59-61, 89-91, 112.

Institutional Adherence to the Market Liberal Principles of 'Sound Finance'

In his account of Australia's policy response to the Great Depression, Schedvin has instructively documented the banking fraternity's existing opposition to all forms of government regulatory interference, and in particular their opposition to any form of government regulation or administration of the note issue. In this context, Schedvin interestingly noted that the Commonwealth Bank's autonomous governing board and in particular its forthright and active Chairman, Sir Robert Gibson (1926-1934),[16] erroneously equated any form of credit creation with the expansion of the note issue. This meant that in accordance with the principles of Say's Law and a crude understanding of the quantity theory of money, the Australian banking industry feared the inflationary consequences of any expansion of credit which was not based upon an increase in the quantity of accrued savings or foreign loans. Moreover, in line with market liberal theory, the banking fraternity also believed that any form of fiduciary credit expansion would prove incapable of stimulating productive industry, and instead risk 'the complete collapse of the economic system'.[17] The objections documented by the private banking industry against the Scullin Government's proposals for stimulatory fiscal action (canvassed below) also revealed their market liberal perception that increased government credit necessarily crowds out an equal amount of credit for the more productive private sector, with disastrous unemployment consequences. Furthermore, in contravention of Keynesian principles, the Australian banking fraternity advocated that government expenditures should be reduced in line with their declining revenues.[18]

Importantly, this adherence to market liberal principles was responsible for the problematic 1920s practice whereby Australian governments financed social infrastructure on the London market, rather than through an extension of Commonwealth Bank credit. This practice adhered to the banking fraternity's opposition to the creation of fiduciary credit, and their aversion to the crowding out of private sector access to the domestic loan market. However, this practice also involved the acceptance of fixed interest loan repayments in sterling currency, which exposed the nation to potential balance of payments difficulties, as its foreign income was sourced from unstable primary export markets. These difficulties were in turn routinely, but problematically, dealt with by the Australian banking fraternity applying quantitative controls on the volume of credit – action designed to rebalance their advance to deposit ratios and stifle demand for imports and sterling currency - but which also stifled investment

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[16] Sir Robert Gibson is singled out for particular attention because as Schedvin noted: 'More than any other individual, Gibson determined the course of economic policy during the depression and early recovery period'. Gibson is also notable because although he was appointed to the Commonwealth Bank Board (as an inaugural member in 1924 and as Chairman in 1926) without previous banking experience (as this was prohibited by the *Commonwealth Bank Act* 1924), Gibson assumed the role of de facto chief executive officer of the Commonwealth Bank. See: *ibid.*, pp. 83-5.

[17] *Ibid*., pp. 79-86, 181, 194-6, 203-4.
See also: Circular of the Bank of New South Wales on Political Control of Banking, 5 May 1931, in E.O.G. Shann & D.B. Copland (eds) 1931, *The Battle of the Plans: Documents Relating to the Premiers' Conference, May 25 to June 11, 1931*, Angus & Robertson, Sydney, pp. 38, 41-2.

[18] See: Statement by Bankers on the Financial Situation, 19 December 1930, and Statement on Reconstruction by Mr A.C. Davidson, General manager of the Bank of New South Wales, 4 March 1931, in E.O.G. Shann & D.B. Copland (eds) 1931, *The Crisis in Australian Finance 1929 to 1931: Documents on Budgetary and Economic Policy*, Angus & Robertson, Sydney, pp. 70-2, 76-7, 79-80.

and employment.[19] In this manner the banking fraternity, led by the Commonwealth Bank Board, maintained de facto control over the monetary and fiscal policy[20] of the nation without a broader concern for the aggregate measures of demand, investment and employment - variables which had a significant bearing on the living standards of the Labor Party's working constituents.

In light of the role key sections of the Commonwealth public service would subsequently play in the facilitation and legitimisation of the planning and implementation of Keynesian policies under the Curtin and Chifley Governments, it is worth noting that during this period neither the treasury departments of the states or Commonwealth were predisposed to offer countervailing advice against the market liberal principles of 'sound finance' espoused by the banking fraternity. As Schedvin has described, prior to the Great Depression the Commonwealth Treasury was:

> little more than the government's department of accounting: it had little influence and did not have the equipment or skill to advise the government of the likely effects of its policies. ... The limited function of the Treasury was emphasized by the qualification and training of its senior officers, all of whom were accountants by training.[21]

Moreover, in accordance with market liberal theory, stimulatory fiscal expenditures during times of economic recession were considered by these treasury departments to be inflationary, ineffective, and to crowd out private sector investment.[22]

As established below, it was the adherence to the market liberal principles of 'sound finance' which underpinned the banking fraternity's zealous control of the monetary system and their advocacy during the depression for budget austerity. It is also established, however, that Theodore objected to these principles through his advocacy for the establishment of central bank control of monetary management and fiscal stimulatory intervention, designed to create employment opportunities and improve the living standards of Labor's working constituents.

Proposed Monetary Reform

Theodore championed the Party's long-standing commitment to the establishment of central bank control of monetary management, under the jurisdiction of the Commonwealth Government. Within a speech delivered to the Economic Society of Australia in May 1933 (subsequent to the electoral defeat of the Scullin Government in December 1931), Theodore not only expressed the Party's prevailing sentiments of opposition against the 'money power' and the need for public control of the monetary system, but added the additional clarity and vehemence which first-hand experience of the economic and human carnage of the Great Depression had engendered:

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[19] Schedvin, *Australia and the Great Depression*, pp. 68-79, 90-1.
[20] See: *ibid*., pp. 178-9, 181, 190, 194-6, 230-1, 250-2.
[21] *Ibid*., p. 88.
See also: Millmow, *The Power of Economic Ideas*, pp. 39-40.
[22] Schedvin, *Australia and the Great Depression*, pp. 87-91, 94.

> Enlightened men to-day recognize the profound influence which monetary policy has upon the life and well-being of the nation. Those who control this department of our economic life control ... our most vital interests. Monetary policy has its effect upon employment and unemployment, upon the standard of life for the whole community, upon trade and commerce, and upon national development. The power vested in the controllers of monetary policy transcends in many respects the power vested in governments and in parliaments. ... they have had possession of a mechanism, the ill-management of which has reduced the commercial world to chaos, ... precipitated millions of toilers into hopeless unemployment, and whole communities and nations into bankruptcy and despair. If these consequences are attributable to the money power; if the management of the banking system and the creation, contraction and control of credit can have such a wide-spread influence, the argument in favour of bringing the responsible instrumentalities under public control is well-nigh irresistible.[23]

Like Keynes, Theodore envisaged that a government controlled central bank would remove the debilitating credit stringency and self interest associated with private control of monetary policy.[24] In May 1930 Theodore introduced into the House of Representatives the Central Reserve Bank Bill, drafted to establish a new and appropriately empowered Central Reserve Bank. In making the case for this legislative reform, Theodore was supportive of the reserves of the private banks being made available to the Central Reserve Bank to lessen the deflationary credit restriction which he identified as 'a serious defect in our monetary system within recent months'.[25] However, Theodore was also intently averse to the implementation of uncontrolled, inflationary credit growth.[26] Indeed, in his later commentary on central banking reform Theodore echoed Keynes' sentiments that the inflation which results from irresponsible credit growth undermines the important exchange relationships which are required between creditors and debtors, producers and consumers, and upon which the capitalist system fundamentally relies.[27]

Notwithstanding Theodore's inflationary awareness, the Bank of New South Wales' opposition to the Central Reserve Bank Bill was predicated upon their fears that government control of credit would exacerbate the use of inflationary fiduciary currency and thereby undermine financial market confidence and the incentive for thrift, which, in accordance with Say's Law, they believed underpinned all sustainable investment.[28] The Central Reserve Bank Bill was subsequently referred to a Senate Select Committee, of which the ALP refused to participate. The Select Committee ultimately reported in support of the concept of a Central Reserve Bank, but objected to the timing of its establishment and the wide lending powers to governments and public bodies proposed for it. These findings were subsequently accepted by the Senate and the bill was allowed to lapse by this

[23] E.G. Theodore 1933, 'Nationalization of Credit', *Economic Record*, Vol. 9, Issue 2, December, p. 179.
[24] For brief details of the monetary policy objectives to be pursued and the structure of the national central bank Theodore ultimately envisaged, see: *ibid.*, pp. 180-4.
[25] Edward Theodore 1930, Central Reserve Bank Bill: Second Reading, 1 May, House, *CPD*, pp. 1334-7.
[26] Edward Theodore 1930, Central Reserve Bank Bill: Debate, 13 June, House, *CPD*, pp. 2727-8.
[27] See: Theodore, 'Nationalization of Credit', p. 181.
[28] Circular of the Bank of New South Wales on Political Control of Banking, 5 May 1931, in Shann & Copland (eds), *The Battle of the Plans*, pp. 33-5, 39, 41-2.

conservative-dominated chamber in late-1931. The Scullin Government subsequently, but unsuccessfully, campaigned for the reintroduction of the bill at the 1931 federal election.[29]

As the following passages confirm, the market liberal objections aired against the Central Reserve Bank Bill were representative of the uncompromising opposition which the Scullin Government encountered to its proto-Keynesian stimulatory policy proposals. The Scullin Government's attempt to subvert these difficulties through the government creation of fiduciary credit for stimulatory public works are analysed in the following section.

The Proto-Keynesian Theodore Plan for Demand Stimulation

As already alluded to, by the time the Scullin Government took office, prominent contemporary Australian economists Edward Shann and Douglas Copland were lamenting that: 'Prosperity and buoyant government revenues had accustomed the Australian people to high government expenditure and a rising standard of living'.[30] Indeed, many contemporary economists consented to the appraisal of a British Economic Mission, which stated that Australia 'had been mortgaging the future too deeply and would do well to restrict her expenditure of borrowed money for development'.[31] According to Scullin, Australia's international credit standing had sunk to a much lower level than that of New Zealand and South Africa,[32] and in the judgement of a visiting Bank of England official, Otto Niemeyer, 'lower than that of any of the other [British] Dominions, not excluding India, and even lower than that of some protectorates'.[33] A day of reckoning for Australian state and Commonwealth governments' fiscal profligacy was considered inevitable by many economists.[34]

The Scullin Government noted that the extravagance of Australian governments' late-1920s public development programs, and particularly those of their Bruce Government (1923-1929) predecessors, had contributed to the dilapidation of the nation's international credit standing. Importantly, the Scullin Government emphasised that by the time overseas loan markets became severely restricted from 1929,[35] Australia could not obtain the credit needed through these channels to maintain and expand Commonwealth and state public works programs, which in accordance with Keynesian

[29] See: Schedvin, *Australia and the Great Depression*, pp. 175, 314; Young, *Theodore: His life and times*, pp. 111-4.
[30] E.O.G. Shann & D.B. Copland 1931, 'Introduction', in Shann & Copland (eds), *The Crisis in Australian Finance 1929 to 1931*, p. ix.
[31] Report of the British Economic Mission, 1929, p. 19, quoted in Millmow, *The Power of Economic Ideas*, pp. 64-5.
[32] James Scullin 1930, Budget 1930-31, 9 July, House, *CPD*, p. 3890.
[33] Sir Otto Niemeyer's Statement, Melbourne Conference, July & August 1930, in Shann & Copland (eds), *The Crisis in Australian Finance 1929 to 1931*, p. 20.
[34] See the summation of these sentiments expressed particularly by Shann and Copland, in: Millmow, *The Power of Economic Ideas*, pp. 62-5.
[35] Millmow has provided a measure of the international credit restriction and its affect upon Australia through an analysis of the nation's foreign exchange reserves, which were reduced from approximately £108 million in 1928 to just £27 million in 1931. £70 million was considered the minimum required to meet Australia's external requirements. See: *ibid.*, p. 33.

principles, they identified as the ideal palliatives for the nation's unemployed.[36] Theodore lamented that public works had not been financed in a counter-cyclical manner, but had instead been implemented in times of prosperity, and curtailed in times of depression, which, he reasoned, only served to 'increase the fluctuations in unemployment'. Consistent with Keynesian policy, Theodore alternatively advocated that '[a]ctivity on public works should be reduced to a minimum when other employment is abundant, and should be accelerated to its greatest capacity when the general industrial situation is stagnant'.[37]

It is interesting to note that Theodore's suggestion was not the first occasion in which the labour movement or Australian socialist organisations had advocated for the deployment of public works as a means for the provision of employment in the midst of an economic contraction. Labour movement historians have noted many suggestions for this type of policy action dating back to the 1880s,[38] and Theodore himself had attempted to implement government responsibility for providing employment as part of the Queensland Government's Unemployed Workers' Bill of 1919, during his period as Treasurer of Queensland (1915-1920, 1922-1925).[39] The proposals Theodore put forward as Commonwealth Treasurer were exceptional, however, because of the Keynesian intellectual coherence with which he tied employment creation in the public sector with demand stimulation and employment creation in the private sector (see below). Indeed, it has been established that Theodore had acquired a copy of Keynes' *A Treatise on Money* (1930) at the time of its publication, and also actively sought the advice of the unorthodox, underconsumptionist Australian economist, Richard Irvine, who was notably critical of both the assumptions of Say's Law and the market liberal faith in full employment equilibrium under the conditions of unfettered markets.[40]

The fiscal elements of this proto-Keynesian policy were reflected in what came to be known as the Theodore Plan, an economic strategy Theodore devised and advocated to subvert the banking fraternity's refusal to accommodate stimulatory fiscal policies, and which was envisaged to operate through the government creation and mobilisation of fiduciary credit for stimulatory public works and relief for wheat growers.[41] Lacking the executive prerogative to impose the creation of fiduciary credit upon the Commonwealth Bank,[42] the Scullin Government introduced the Theodore Plan into

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[36] See: Edward Theodore 1929, Budget (No. 2) 1929-30, 21 November, House, *CPD*, pp. 114-5; Scullin, Budget 1930-31, House, *CPD*, 9 July 1930, pp. 3889-90; Letter from the Hon. E.G. Theodore in reply to Sir Robert Gibson, 15 April 1931, in Shann & Copland (eds), *The Battle of the Plans*, pp. 54-5.

[37] Theodore, Budget (No. 2) 1929-30, House, *CPD*, 21 November 1929, p. 114.

[38] See: Bongiorno, *The People's Party*, pp. 16-7; Burgmann, '*In Our Time*', pp. 79-80, 113-4, 126, 142.

[39] See: Young, *Theodore: His life and times*, pp. 33-4.

[40] See: Chris Bowen 2015, *The Money Men: Australia's 12 Most Notable Treasurers*, Melbourne University Press, Carlton, pp. 85-6, 99-101.

[41] See: Schedvin, *Australia and the Great Depression*, pp. 225-7, 230-2.

[42] See: J.R. Robertson 1988, 'Scullin, James Henry (1876-1953)', in *Australian Dictionary of Biography*, National Centre of Biography, Australian National University, http://adb.anu.edu.au/biography/scullin-james-henry-8375/text14699, published first in hardcopy 1988, accessed: 30 December 2014.

It should be noted that Scullin had earlier expressed his personal concerns about the creation of fiduciary currency for stimulatory purposes in November 1930. He was concerned that the creation of fiduciary currency would prove inflationary, depreciate the value of the Australian currency, and lead to capital flight, asset appreciation and speculation, and would also

Parliament through the Fiduciary Notes Bill in March 1931. The Bill proposed the creation of £18,000,000 in fiduciary Treasury Notes to be placed in a special account within the Commonwealth Bank and used for the purchase of Commonwealth Government securities in the following manner: £6,000,000 for bounty payments and relief loans for wheat growers (experiencing the combination of depressed international prices and drought conditions), and £12,000,000 for public works.[43] In accordance with what Keynes had been emphasising within his political writings, and counter to the principle of Say's Law, Theodore argued that the nation was not faced with conditions of physical scarcity, but a scarcity of demand. Theodore thereby called for the injection of increased credit to stimulate demand, investment and employment. In so doing he articulated a rudimentary understanding of how Keynes' multiplier effect would operate through his stimulatory proposals:

> Every one hundred additional men employed upon productive work would necessitate the employment of at least two hundred additional men in the factories, shops and transport services. Thus bank credit provides employment, employment increases the volume of purchasing power, [and] increased purchasing power stimulates every kind of business and trade activity.[44]

Theodore also eloquently emphasised the human misery and the waste of idleness which the implementation of stimulatory public works would alleviate, and in the process he implicitly linked his proto-Keynesian economic strategy with the Party's social democratic objective of attempting to improve the living standards of the Labor Party's working constituents:

> Australia is faced with a crisis which may be described as the result of the breakdown of our monetary and economic system. That breakdown is evident when we reflect that, although our productive capacity is almost without limit, many thousands of our citizens are either starving or are on the brink of starvation. There is a vast amount of work waiting to be done in Australia – work which is necessary for the proper development of the country and would, if completed, be reproductive; but the work is not being proceeded with although scores of thousands of our citizens are unemployed and hungering for work.[45]

The implication given by Theodore here is also that the productive capacity (assets, materials and labour) of the nation underpin the capacity of the economy to support productive investments, rather than the market liberal requirement that investments be underpinned by savings or foreign loans. In this context, Theodore informed the House that the creation of fiduciary currency was not unorthodox or unsound, but had been initiated in Britain under the management of the Bank of England.[46] He also

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seriously prejudice the nation's chances of converting outstanding London loans and Treasury bills. See: Cablegram from J. Scullin to J. Lyons, 5 November 1930, in Shann & Copland (eds), *The Crisis in Australian Finance 1929 to 1931*, p. 63. Scullin repeated these concerns publicly in January 1931. See: Schedvin, *Australia and the Great Depression*, p. 214.

[43] Edward Theodore 1931, Fiduciary Notes Bill: Second Reading, 17 March, House, *CPD*, pp. 300, 302, 307; Memorandum by the Hon. E.G. Theodore to members of the Federal Parliamentary Labour Party on the Commonwealth Government's Financial Plan, in Shann & Copland (eds), *The Battle of the Plans*, pp. 1, 3, 5; Schedvin, *Australia and the Great Depression*, pp. 240-1.
Theodore's Plan also proposed governmental regulation of interest rates, a significantly increased tax upon interest income, and some reductions in government expenditure.

[44] Memorandum by the Hon. E.G. Theodore on the Commonwealth Government's Financial Plan, p. 2.
See also: Theodore, Fiduciary Notes Bill: Second Reading, House, *CPD*, 17 March 1931, p. 310.

[45] Theodore, Fiduciary Notes Bill: Second Reading, House, *CPD*, 17 March 1931, p. 301.

[46] *Ibid.*, pp. 301, 306-7.

bluntly asserted that the economic difficulties associated with the Great Depression had been exacerbated by the Australian banking industry's deflationary constraint of the nation's credit supply beyond any recognisable necessity.[47] Theodore reasoned that it was deflation, rather than inflation, which presented the greatest economic threat to the nation at that time.[48]

In order to bolster the credibility of his plan, Theodore emphasised the academic support which existed for his objectives and policies. Copland and Lyndhurst Giblin (although not supportive of Keynesian policies at this time) were cited as supportive of Theodore's ideas for equality of sacrifice, his emphasis on the economic destruction of deflation, and the assertion that the Commonwealth Bank should support the extension of trading bank credit for all prospective borrowers with sound security.[49] Theodore also quoted these economists' support for the Scullin Government's proto-Keynesian rejection of permanent fiscal balance:

> The fall in revenue is ... so serious that no practicable reduction in expenditure can relieve the budget sufficiently. The main cause of budget deficits is a languishing revenue, and this cause cannot be removed until industry is restored, and the fall in national income checked. ... [T]his process of restoration will take place more rapidly under stabilization than under deflation, and we look forward to an automatic increase in revenue under the former policy.[50]

Theodore did, however, rail against those economists who in conjunction with state government public servants, indiscriminately advocated mass reductions in old-age and war pensions, maternity allowances, as well as education, health and social security expenditures.[51] Theodore passionately defended the democratic right of the Scullin Government to prevent such austerity measures from being forced upon the nation by the intransigence of the banking industry.[52]

The Scullin Government was to discover, however, that without significant support from the banking industry, or the ability to create fiduciary currency, the implementation of proto-Keynesian policies was impossible. The determining factor was the failure of the Scullin Government to legislate either its Central Reserve Bank Bill or its Fiduciary Notes Bill, because of the intransigent opposition of the

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47 *Ibid.*, pp. 312-3; Memorandum by the Hon. E.G. Theodore on the Commonwealth Government's Financial Plan, pp. 5-6. Theodore's claim that Australian financial institutions had constrained credit during this period has been disputed by the banking industry and contemporary economists. See: D.B. Copland, 'Commonwealth Government's Proposals: An Alternative Course', Extract from the Monthly Summary of Conditions issued by the National Bank of Australasia, 11 April 1931, in Shann & Copland (eds), *The Battle of the Plans*, p. 25.
According to Schedvin, between March 1929 and September 1930 the Australian banking industry did assist in reducing the decline in the money stock to the moderate rate of 3.9 percent. This was achieved by the banks having allowed their reserve ratios to fall from an average of 23 to 17 percent. However, Schedvin also asserted that the banking industry did effectively restrict credit by not having accepted the banking convention whereby 'an expansion of advances would be reflected in an increase in deposits'. See: Schedvin, *Australia and the Great Depression*, pp. 85-6, 196, 203-4, 208-10.
48 Theodore, Fiduciary Notes Bill: Second Reading, House, *CPD*, 17 March 1931, pp. 303-4.
49 *Ibid.*, pp. 310-2.
50 Quoted in, *ibid.*, p. 312.
51 *Ibid.*, pp. 313-4. Theodore was willing, however, to countenance some reductions in Commonwealth expenditures, and particularly sought to eliminate duplication of the functions it shared with the states. He also accepted that Commonwealth public servants' wages and salaries should be reduced in line with the evident reduction in the cost-of-living.
52 *Ibid.*, pp. 318-9.

conservative-dominated Senate.[53] The defeat of these bills meant that the Scullin Government could not subvert the banking industry's intransigence to the mobilisation of fiduciary credit, which in the absence of conventional loan finance, was required to fund the government's program of stimulatory public works.

The reality of this situation had been unambiguously communicated to Theodore by the Commonwealth Bank Board, who informed the Treasurer that the Bank, and the Australian private banking industry more generally, would only cooperate in providing Australian governments and industry with the credit facilities they needed once 'adequate and equitable reductions in all wages, salaries, allowances, pensions, social benefits of all kinds, interest and other factors which affect the cost of living', had been implemented.[54] A coterie of the private trading banks had also communicated to Theodore that it was only through this type of budget austerity that business and credit market confidence could be restored and reductions in interest rates considered.[55] This line culminated in the 2 April 1931 ultimatum presented to Theodore from the Chairman of the Commonwealth Bank Board, Sir Robert Gibson, which stated that due to the refusal of Commonwealth and state governments to adequately reduce their budget deficits:

> It now becomes the unpleasant duty of the board to advise the Loan Council that a point is being reached beyond which it would be impossible for the bank to provide further assistance for the Government in future.[56]

Theodore responded to Gibson by chastising the Commonwealth Bank Board for its attempt 'to arrogate to itself a supremacy over the Government in the determination of the financial policy of the Commonwealth', and he called on the banking industry once more to provide the credit required for industries to survive in the dire international economic conditions with which they were confronted. Theodore also warned that the Commonwealth Bank's threatened action would lead to the Commonwealth Government's default, and stressed that there was little the government could do to compensate for the massive reductions experienced in government revenues.[57] Most particularly, Theodore echoed Keynes' sentiment that budgets could not be balanced before economic prosperity had been restored: 'There can be no hope of a balanced Budget nor a return to commercial prosperity while more than 20 per cent of our employable citizens are out of work'. He reasoned that savings of

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[53] The former bill lapsed in the Senate (see above), and the latter bill was rejected by the Senate in April 1931. See: Schedvin, *Australia and the Great Depression*, p. 241.

[54] Sir Robert Gibson (Chairman of the Commonwealth Bank Board) to the Hon. E.G. Theodore, 13 February 1931, in Shann & Copland (eds), *The Crisis in Australian Finance 1929 to 1931*, p. 182.

[55] Letter from the Bankers to E.G. Theodore, 24 February 1931, in Shann & Copland (eds), *The Crisis in Australian Finance 1929 to 1931*, pp. 185-6.

[56] Letter from Sir Robert Gibson to the Hon. E.G. Theodore, 2 April 1931, in Shann & Copland (eds), *The Battle of the Plans*, pp. 44-5. Gibson explained (pp. 45-7) that both the domestic and London loan limits (of £25,000,000 and £25,125,000 respectively) had already been reached.

[57] Letter from the Hon. E.G. Theodore in reply to Sir Robert Gibson, 15 April 1931, pp. 48-51.
Scullin emphasised that annual Commonwealth revenue had declined by £18,400,000 in 1931-32, compared with that received in 1929-30 (£34,500,000 against £52,900,000). Scullin, Debt Conversion Agreement Bill: Second Reading, House, *CPD*, 18 June 1931, p. 2780.

between £2,000,000 and £3,000,000, on expenditures such as old-age and war pensions, did not stand 'between salvation and disaster'.[58] The inference was clear: such budget austerity would do little to improve the Commonwealth's financial position, but would severely diminish the living standards of Labor's working constituency.

In the main, the Australian economics profession joined the Commonwealth Bank in condemning Theodore's Plan in accordance with market liberal principles. They perceived it to be an inflationary resort to the printing press,[59] agreed with the banking industry's crowding out hypothesis, and similarly called for the market liberal solutions of balanced budgets and reduced wage costs to stimulate financial market and business confidence, investment and employment.[60] Living standards, they argued, had to adjust to Australia's reduced national (or more particularly rural export) income. They also argued, in accordance with Say's Law, that reductions in producers' costs would transfer purchasing power back to employers who would prudently reinvest the windfall; and that this process would be further facilitated by the lower interest rates which would result from the removal of governments from capital markets.[61] Most significantly, it was a group of senior economists, chaired by Copland, who together formulated a report, submitted to a Loan Council sub-committee in May 1931, which called for a 20 percent across-the-board reduction in all 'adjustable' government expenditures. This proposal formed the basis of the expenditure reductions contained in the Premiers' Plan,[62] the austerity package designed to maintain the solvency of Australian governments' finances. Given the importance of the Premiers' Plan in shaping the subsequent fiscal policies of Australian governments, the Plan's genesis, policy detail and its reluctant implementation by the impotent Scullin Government are canvassed in the following sections.

The Premiers' Plan

Prior to the introduction of the Fiduciary Notes Bill into the Commonwealth Parliament, the size of the nation's sovereign borrowing requirements in London instigated a supervisory visit from a Bank of England official, Otto Niemeyer.[63] In summarising his assessment of the parlous state of Australian government finances, Niemeyer criticised the long-running Commonwealth and state government practices of raising profligate deficits, implementing unfunded public works projects, and the high cost and low productivity of Australian businesses. To rectify these anomalies, Niemeyer advocated urgent

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[58] Letter from the Hon. E.G. Theodore in reply to Sir Robert Gibson, 15 April 1931, pp. 52-3.
[59] See: Shann & Copland, 'Introduction', p. x; D.B. Copland, 'Commonwealth Government's Proposals: An Alternative Course', pp. 24-7, 29.
[60] See: Statement by Economists, First Steps to Economic Recovery, January 1931, in Shann & Copland (eds), *The Crisis in Australian Finance 1929 to 1931*, pp. 73-4; Copland, 'Commonwealth Government's Proposals: An Alternative Course', pp. 27-8.
[61] See: Millmow, *The Power of Economic Ideas*, pp. 80, 83, 85-6, 95-6, 102-4, 107-8, 115.
[62] Schedvin, *Australia and the Great Depression*, pp. 244-5.
See further: Report of Under-Treasurers and Economists upon the possibilities of reaching Budgetary Equilibrium in Australia, 23 May 1931, in Shann & Copland (eds), *The Battle of the Plans*, pp. 75-107.
[63] J.E. Fenton (Acting Prime Minister), 15 November 1930, in Shann & Copland (eds), *The Crisis in Australian Finance 1929 to 1931*, pp. 34-6.

reductions in both budget expenditures and wage costs.[64] His sentiment came to be reflected in the Commonwealth and state governments' Melbourne Agreement, which resolved that Australian governments should balance their budgets in 1930-31 and all future years regardless of the economic circumstances encountered. In this fiscal environment, mooted public works would be required to yield a financial profit at least sufficient to service their debt within a 'reasonable period'.[65]

Without recourse to fiduciary credit creation, the Scullin Government was unable to escape the fiscal austerity urged by the Australian banking industry, the Australian economics profession, and the visiting Bank of England delegation. In June 1931 the Scullin Government, in conjunction with the state governments, agreed to the Premiers' Plan, which proposed the following market liberal measures of fiscal austerity:

- a 20 percent reduction in all adjustable government expenditures (as compared with those of 1929-30), which included all emoluments, wages, salaries, and pensions (with the exception of old-age and invalid pensions, which were proposed to be reduced by 12.5 percent);
- a voluntary conversion of all internal debts, featuring an interest reduction of 22.5 percent;
- a reduction of bank interest rates on deposits and advances;
- relief on private mortgages; and
- increased taxation revenue (largely levied on consumption).

The Plan was expected to lower the aggregate deficit of all Australian governments in 1931-32 from £40,000,000 to just £15,000,000.[66]

Scullin had previously but privately ruminated that 'I know and share [Labor Parliamentary] members' feelings regarding the sufferings of the unemployed, but the extinction of our credit will

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[64] Sir Otto Niemeyer's Statement, Melbourne Conference, July & August 1930, pp. 19-24, 26-9.
As alluded to in the above synopsis of the economic policies and circumstances which confronted Australia in the late-1920s, it was often asserted at this time that Australian industry suffered from excessive wage costs. On 22 January 1931, the Commonwealth Arbitration Court subsequently reduced the basic wage, as measured by the Harvester 'equivalent', by 10 percent for a period of twelve months. It was not until 1937 that the Court restored in full the basic wage rate in real terms, through the award of a 'prosperity loading'. See: Schedvin, *Australia and the Great Depression*, pp. 108-10, 215-7, 346-7.

[65] Resolutions of the Melbourne Conference, July & August 1930, in Shann & Copland (eds), *The Crisis in Australian Finance 1929 to 1931*, pp. 29-30.
Schedvin has suggested that neither the Australian governments party to the Melbourne Agreement, nor Niemeyer or Gibson, believed that budget balance was possible from 1930-31. Schedvin suggests that Australian governments were motivated to impress Niemeyer and the London money markets of 'their good financial intentions' in order to improve their chances of loan assistance, while Niemeyer and Gibson hoped that the Melbourne Agreement would impress upon Australian governments the urgency of budget repair and reductions in the cost of production. See: Schedvin, *Australia and the Great Depression*, pp. 183-5.

[66] Report of the Premiers' Conference, 10 June 1931, in Shann & Copland (eds), *The Battle of the Plans*, pp. 127-32, 134-5.
Schedvin has noted that although the proposal for an £8.5 million future loan for unemployment relief works and assistance for the wheat industry did not constitute part of the formal Premiers' Conference Report, this proposal 'was a definite part of the plan of "general rehabilitation"'. Importantly also, although the proposed interest rate reductions applicable to the deposits and advances of the private trading banks were left to their discretion, the loan conversion component of the Plan was ultimately enforced upon all dissenting bondholders, and legislation was passed in all states mandating a reduction in private mortgage contracts of 22.5 percent, or to a minimum rate of 5 percent. See: Schedvin, *Australia and the Great Depression*, pp. 250, 256-67.

spread that suffering tremendously'.[67] In accordance with this sentiment, the Scullin Government justified the significant expenditure cuts involved in the Premiers' Plan. Scullin emphasised that the implementation of these cuts to public sector wages and pension entitlements would avoid the much harsher sacrifices that would otherwise be required if Australian governments failed to regain the support of Australian and London banking institutions because of default.[68] In this context, Scullin did not consider his government's embrace of the Premiers' Plan as a repudiation of the Labor Party's social democratic objective of attempting to improve the living standards of its working constituency. For Scullin the decision which confronted his government concerned neither values nor ideology: 'We cannot pay out what we do not receive. It is really a question of arithmetic rather than argument'.[69] Scullin's empathy remained with the Party's working constituency:

> The members of the Government have fought hard, individually and collectively, to preserve and maintain our present standards, through all the years of their political existence. We would prefer anything, short of national dishonour and the imposition of far worse hardships upon the people, to the placing of our finger on one of these items; but we have to face stern facts.[70]

Theodore also sought to placate labour movement anger by emphasising that with the exception of public sector employees, who earned in excess of the basic wage, reductions in other public sector wages and pension benefits would be limited to the reduction in the cost-of-living which had occurred over the previous few years, and also emphasised that pension beneficiaries would not have their total household income reduced below a certain minimum.[71] The Scullin Government had been unambiguously warned by the Party's Federal Executive in October 1930 that:

> The action of any Government in lowering the standards of the workers cannot be too strongly condemned, and this Executive urges all Labor Governments with all the power in their legislative and administrative spheres to resist such definite attacks upon the established principles of the Labor Movement.[72]

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[67] See: Cablegram from J. Scullin to J. Lyons, 7 November 1930, in Shann & Copland (eds), *The Crisis in Australian Finance 1929 to 1931*, p. 65.
[68] Scullin, Debt Conversion Agreement Bill: Second Reading, House, *CPD*, 18 June 1931, pp. 2781-2, 2784-5.
Subsequent accounts have noted the real possibility of internal and external default, due to the Australian banking industry's refusal to support Australian governments' external London commitments unless austerity policies were implemented. See: Schedvin, *Australia and the Great Depression*, pp. 250-1; Peter Cook 1969, 'Labor and the Premiers' Plan', *Labour History*, Issue 17, Nov., p. 98.
[69] James Scullin, *Daily Standard*, 16 June 1931, quoted in, Cook, 'Labor and the Premiers' Plan', p. 101.
[70] Scullin, Debt Conversion Agreement Bill: Second Reading, House, *CPD*, 18 June 1931, p. 2782.
[71] E.G. Theodore 1931, Debt Conversion Agreement Bill: Second Reading, 18 June, House, *CPD*, pp. 2791-3.
[72] ALP Federal Executive, quoted in, Labor Call, Melbourne, 23 October 1930, in McKinlay, *Australian Labor History in Documents*, Vol. 2, p. 84.
For insights into the trade union opposition expressed against the fiscal austerity measures of the Premiers' Plan, and the resolutions passed against these measures by some of the Party's state executives and the Federal Executive, see: Resolutions of the Melbourne Conference of the ACTU, 15 September 1930, in Shann & Copland (eds), *The Crisis in Australian Finance 1929 to 1931*, pp. 58-9; Resolutions by the Federal Executive of the ALP, Canberra, 19 June 1931, in Shann & Copland (eds), *The Battle of the Plans*, pp. 152-3; Cook, 'Labor and the Premiers' Plan', pp. 102-8.

Scullin and Theodore both emphasised that the expenditure reductions of the Premiers' Plan would not have been necessary if Australian financial institutions and the conservative-dominated Senate had not rejected their government's earlier attempts at stimulating the economy.[73]

Notwithstanding this sentiment, however, Scullin reluctantly accepted that government expenditure reductions would, rather than diminish demand, increase business confidence and the willingness of the banking industry to increase its advances to industry. The banks, he informed the Parliament, had reassured him of this.[74] Scullin's reassurance echoed the market liberal perspective constantly expressed by Australian bankers and economists that budget restraint generates business confidence, provides capital for industry, and generates the prosperity necessary to ultimately balance budgets.[75] In attempting to assess the motive for Theodore's ultimate acquiescence in the implementation of a fiscal policy opposed to and inferior to his own, future Labor Treasurer, Chris Bowen (2013), surmised that the only alternative available to Theodore was to resign, challenge Scullin for the Labor leadership on the platform of his original fiscal stimulation plan, but predictably encounter defeat at either a Party Caucus leadership vote or a federal election.[76] The choice was an unenviable one for a government and Treasurer who would have preferred to have directly intervened to stimulate demand and employment creation for the benefit of the Party's working constituents.

To conclude this section it is worth including Schedvin's summary of the macroeconomic damage the Great Depression had upon Australia during the period of the Scullin Government:

> The figures speak for themselves. Gross national product in current prices fell by 9 per cent in 1929-30, by 18 per cent in 1930-1, and by a further 7 per cent in the trough year of 1931-2. Unemployment, which had averaged 8 per cent during the 1920s as a whole, rose to 10 per cent in 1929, and then climbed steeply to 18 per cent in 1930, to 27 per cent in 1931, and reached a peak of 28 per cent in 1932.[77]

Schedvin was careful not to apportion too much of the blame on domestic policy making. He concluded that: 'The primacy of overseas factors in the contraction is not in doubt. However inadequate domestic policies may have been, it is certain that Australia could not have escaped the cold blast of world depression'.[78] Elsewhere, however, Schedvin was critical of the Premiers' Plan for having been 'unambiguously deflationary' and concluded that in spite of the plan presumably boosting short-term business confidence and reducing interest rates, 'it tended to hinder recovery'.[79] Most

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[73] Scullin, Debt Conversion Agreement Bill: Second Reading, House, *CPD*, 18 June 1931, pp. 2780, 2785; Theodore, Debt Conversion Agreement Bill: Second Reading, House, *CPD*, 18 June 1931, pp. 2786-7.
[74] Scullin, Debt Conversion Agreement Bill: Second Reading, House, *CPD*, 18 June 1931, pp. 2783-4.
[75] See: Statement on Reconstruction by Mr A.C. Davidson, General Manager of the Bank of New South Wales, 4 March 1931, pp. 76-7, 79-80.
[76] Bowen, *The Money Men*, pp. 104-5, 109.
[77] Schedvin, *Australia and the Great Depression*, p. 47.
[78] *Ibid*.
[79] *Ibid*., p. 252.
It should be emphasised that Millmow's study, *The Power of Economic Ideas* (2010), explicitly challenged Schedvin's conclusion, and alternatively argued in accordance with much contemporary analysis that the austerity measures of the

prominently, throughout his account Schedvin lamented that the Commonwealth Bank Board, and the Australian banking fraternity more broadly, rigidly upheld market liberal principles of 'sound finance' to the detriment of Australian governments' finances (see above), and the Scullin Government's ability to implement its novel proto-Keynesian measures, designed to restore employment and prosperity to the Party's working constituents.

Keynes' Foray into Australian Depression Economics

This poignant episode in Australian macroeconomic policy cannot be understood from a Keynesian perspective, however, without addressing Keynes' own contemporary appraisal of the Australian economy. Theodore had quoted Keynes, when introducing the Fiduciary Notes Bill, in support of his contention that attempting to improve international competitiveness through wage cuts was a self-defeating strategy, which would serve only to reduce international demand and prosperity.[80] But how closely did this appraisal comply with Keynes' own direct commentary?

In his 'The Report of the Australian Experts', published in *The Melbourne Herald* on 27 June 1932, Keynes documented his appraisal of a report prepared by a panel of expert economists on the Australian economy. This Bruce Committee Report recommended only a few Keynesian policy initiatives: central bank control of the exchange rate, reductions in interest rates, and the replacement of public works for sustenance payments; while advocating the market liberal measures of a general 10 percent reduction in real wage rates below those of 1928, and more budget economy.[81] Surprisingly, in his commentary on the Report, Keynes succinctly stated that: 'I am sure that the Premiers' Plan last year saved the economic structure of Australia', and 'I am not prepared to dispute that another dose of the same medicine may be necessary'.[82] He also emphasised that Australia's credit position had been rescued through 'the heroic measures to fulfill her bond' contained within the Premiers' Plan.[83]

These broad statements of support for the Premiers' Plan should not be taken out of context, however. For instance, although Keynes was congratulatory of Australian efforts made to improve the nation's competitive position through equitable 'National Treaty' cost and wage reductions, similar to those he had himself advocated for in Britain within the 1930 Macmillan Committee,[84] Keynes also emphasised his misgivings about demanding sacrifices beyond those which would be tolerated by the working

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Premiers' Plan were essential in stimulating business confidence and restoring the nation's credit rating in the important London loan market. See: Millmow, *The Power of Economic Ideas*, pp. 22, 24-5, 27, 109.

[80] Theodore, Fiduciary Notes Bill: Second Reading, House, *CPD*, 17 March 1931, pp. 315-6.

[81] Donald J. Markwell 2000, 'Keynes and Australia', Research Discussion Paper, RBA Research Department & New College, Oxford, June, pp. 19-20; Millmow, *The Power of Economic Ideas*, pp. 129-30.

[82] John Maynard Keynes 1932 [1982], 'The Report of the Australian Experts', *Melbourne Herald*, 27 June, in Moggridge (ed.), *CW*, Vol. 21, p. 94.

[83] *Ibid.*, pp. 99-100.

[84] Millmow, *The Power of Economic Ideas*, p. 138.

class.[85] In this context he also reminded the Australian economists that the nation should not attempt to adjust to world commodity prices which had slumped to such depths that if they did not recover, Australia would be incapable of honouring its international commitments in any case, regardless of the cost of labour. Therefore, beyond calling for national consistency in wage costs, Keynes stressed that Australia should not contribute to the international reduction in demand and commodity prices through further competitive wage reductions, and instead expect a significant recovery in commodity prices. This was the context of the citation used by Theodore (noted above).

Keynes also emphasised that because of the nation's previous restructuring efforts (contained within the Premiers' Plan), the nation's economic concern should shift from its current account imbalance (which continued to stifle Australian economists' support for public works),[86] and onto its high level of unemployment.[87] In this context, Keynes cannot be considered to have contradicted his developing advocacy for stimulatory interventionist policies, designed to bolster demand amidst recessionary economic conditions. The rhetorical flourish of one published article should not be taken out context and override the purpose and content of Keynes' other more substantive works.

The Transition in Australian Economic Ideas

One of Keynes' social democratic contemporaries, the Oxford History Fellow, Alfred Rowse ruminated that for Keynes' ideas to flourish into public policy orthodoxy, they would need to be enthusiastically accepted within the labour movement, the public service, and amongst young economics undergraduates.[88] Writing amidst the Great Depression's nadir, however, contemporary Australian academic economist, E.R. Walker, lamented the absence of consensus amongst the policy making elite towards Keynesian policies. As the above analysis confirmed, budget balance in conjunction with reduced wage costs were considered the reforms necessary to restore business confidence. 'Mr Keynes', Walker noted, 'has not yet gained wide acceptance of the opposite view'.[89]

But while the intellectual climate was not sympathetic to Keynesianism when the Great Depression hit, following the demise of the Scullin Government, this changed.[90] Australian economic historian, Alex Millmow, has documented how Keynes' response to the Bruce Committee Report, in

[85] See: J.M. Keynes to L.F. Giblin, 2 June 1932, Keynes Papers, King's College, Cambridge, CO/2/195, quoted in, *ibid.*, p. 137; John Maynard Keynes 1932 [1982], Letter to C.L. Baillieu, 24 May, in Moggridge (ed.), *CW*, Vol. 21, pp. 100-2.
[86] See: Markwell, 'Keynes and Australia', pp. 19-20; Millmow, *The Power of Economic Ideas*, pp. 37, 114, 138.
[87] Keynes, 'The Report of the Australian Experts', pp. 94-9.
[88] Rowse, *Mr. Keynes and the Labour Movement*, p. 65. See also: 56-65.
[89] E.R. Walker 1933, *Australia in the World Depression*, PS King & Son, pp. 136-7, quoted in Markwell, 'Keynes and Australia', pp. 18-9; E. Ronald Walker 1936, *Unemployment Policy: With Special Reference to Australia*, Angus & Robertson, Sydney, pp. 170-1; Neville Cain 1984, 'The Propagation of Keynesian Thinking in Australia: E.R. Walker 1933-36', *Economic Record*, Vol. 60, Issue 4, p. 375.
[90] In November 1931, with the support of Scullin Government defectors, the Opposition managed to defeat the Scullin Government on the floor of the House of Representatives. Consequently, the House was dissolved forthwith. The newly-formed conservative United Australia Party, under the leadership of ALP defector, Joseph Lyons, soundly defeated the Scullin-led ALP at the federal election held on 19 December 1931: 40 seats to 14. See: Schedvin, *Australia and the Great Depression*, pp. 312-5.

conjunction with his *A Treatise On Money*, 'swayed minds towards new expedients'. Millmow noted that as the 1930s developed, economists came to gradually realise the benefit which could be garnered from more interventionist fiscal and monetary stimulation.[91] Many economic historians have also cited the growing support for Keynesianism which existed amongst young economics graduates, some of whom studied at Cambridge University and had been privileged to witness the early-1930s development of Keynes' own theorising.[92] An example of this growing Keynesian influence was the existence of an informal gathering of largely young economists who gathered to study *The General Theory* at the University of Sydney, and included amongst its members: R.C. Mills, E.R. Walker, Robert Madgwick, Trevor Swan, J.G. Crawford, and H.C. 'Nugget' Coombs. Other economists enamoured with Keynesian economics at this time included Arthur Tange from the Bank of New South Wales, and the young Melbourne economists: J.M. Garland, Gerald Firth and R.I. Downing. Many of these individuals would join the Commonwealth public service and play prominent roles in advising the Curtin and Chifley Governments (see chapter five).[93] H.C. Coombs, although having opposed what he perceived to be Theodore's inflationary expansionary proposals and having also been supportive of the Premiers' Plan,[94] provided the following much cited and instructive summary of the growing influence of Keynesian thought amongst his younger generation of economists:

> The publication in 1936 of John Maynard Keynes' *General Theory of Employment, Interest and Money*, was for me and for many of my generation the most seminal intellectual event of our time ... soon I had become convinced that in the Keynesian analysis lay the key to comprehension of the economic system.[95]

Whilst economists such as Shann and Leslie Melville remained largely intransigent in their opposition to public works as a palliative to recessionary unemployment,[96] many others, such as Giblin, came to recognise the benefit of increasing public investment in capital goods when private sector investment diminished.[97] Even some members of the banking fraternity, such as A.C. Davidson, echoed Keynes in calling for the timely implementation of stimulatory public works. Davidson came to refute the assertion that public works merely crowded out private sector investment, because he reasoned that these works would be financed by otherwise idle bank balances, and he also echoed Keynes' faith that

[91] Millmow, *The Power of Economic Ideas*, pp. 153-4, 158-9, 163-5, 173-6.
[92] See: Whitwell, *The Treasury Line*, pp. 61-3; Markwell, 'Keynes and Australia', p. 30; Cain, 'The Propagation of Keynesian Thinking in Australia', p. 379.
[93] See: Markwell, 'Keynes and Australia', p. 46; Whitwell, *The Treasury Line*, pp. 61-2.
[94] See: Tim Rowse 2002, *Nugget Coombs: A Reforming Life*, Cambridge University Press, Port Melbourne, pp. 84-5, 89.
[95] H.C. Coombs 1983, *Trial Balance: Issues of My Working Life*, Sun Papermac, South Melbourne, p. 3.
It should be noted, however, that Rowse has documented the theoretical reservations Coombs expressed against some of Keynes' arguments, when he first assessed *The General Theory*. See: Rowse, *Nugget Coombs*, pp. 145-7.
[96] See: E. Shann to A.C. Davidson, 23 April 1935, Bank of New South Wales, 302/590/1; L.G. Melville to E. Shann, 27 November 1934, RBA, GGM-35-2, both quoted in, Millmow, *The Power of Economic Ideas*, pp. 197-8.
[97] L.F. Giblin 1933, 'Book Review: The Means to Prosperity by John Maynard Keynes', *Economic Record*, Vol. 9, Issue 1, June, p. 142; Millmow, *The Power of Economic Ideas*, p. 136.

their financing could prudently be repaid over several years, rather than requiring annually balanced budgets.[98]

The changing macroeconomic perspective of Copland, the chief author and publicist of the Premiers' Plan, also provides an interesting case study in the changing opinions which existed within much of the Australian economics profession at this time. His acceptance of public works as a suitable palliative for economic depression was expressed within the sentiments of the Sydney Plan, authored by a group of economists of which Copland was a part, and which was commissioned in 1934 by the conservative New South Wales Premier, Bertram Stevens (1932-1939).[99] Later still, Copland personally acknowledged that the primary mistake of the Premiers' Plan was 'not recognizing clearly enough that government activities need to expand tremendously to offset the fall in private spending'.[100] Copland was, however, circumspect regarding the ease with which Keynesian stimulatory public works could be implemented, given the level of public scepticism towards this strategy, and he doubted their applicability in circumstances outside of an economic depression, where he anticipated that inflationary forces would threaten any progress made on unemployment.[101]

One further event merits emphasis in establishing the developing influence of Keynesian economic theory. The Royal Commission to Inquire into the Monetary and Banking System, which reported in 1937, recommended that stimulatory public works should be implemented in times of economic hardship, even if their financing required deficit budgeting, as this financing could be offset, it was reasoned, through compensatory budget surpluses 'as private enterprise revives and full employment is approached'.[102] The Report also recommended that monetary policy, including the regulation of the volume of credit and trading bank reserve deposits, should come under the jurisdiction of a government controlled central bank.[103] As Millmow summarised: 'The consensus from the economists was that the Commonwealth Bank had been too preoccupied', in market liberal fashion, 'with taking precautions to avoid a boom', and made 'the economy more vulnerable to recession'.[104] Donald Markwell has also noted that the fortuitous timing of the commencement of the Royal Commission's hearings - having occurred in the same month as Keynes' *General Theory* was published in London in January 1936 - meant that Keynes' ideas were directly cited in the evidence put before the

[98] See: Millmow, *The Power of Economic Ideas*, pp. 154-5, 246. It is worth noting, however, that the Commonwealth Bank Board, chaired by Claude Reading from 1934, maintained its opposition against the inflationary expansion of fiduciary credit, and in accordance with Say's Law, claimed that Australia faced a savings problem, not an investment problem (pp. 165-6, 181-2).
[99] See: *ibid.*, pp. 173-4.
[100] D.B. Copland 1951, *Inflation and Expansion: Essays on the Australian Economy*, Cheshire, Melbourne, p. 21.
[101] *Ibid.*, pp. 25-6.
[102] *Report of the Royal Commission on Monetary and Banking Systems in Australia*, 1937, pp. 209-10, quoted in, Markwell, 'Keynes and Australia', p. 49.
[103] See: Millmow, *The Power of Economic Ideas*, pp. 211-3, 218-9.
[104] *Ibid.*, p. 213.

Commission by many of the witnesses appearing before it.[105] Moreover, in correspondence with Copland, Keynes expressed his approval of the Royal Commission's findings.[106]

Given the experiences and challenges which future federal Labor governments would confront in their attempts to implement Keynesian public works, the example of the Keynesian influences on E.R. Walker is perhaps the most striking of the era. He had attended St John's College at Cambridge in 1931-1933, a period which exposed him directly to the development of Keynes' thought as it shifted from the *Treatise* to *The General Theory*.[107] Walker regarded Hayek's explanation, that economic slumps had their origins in the attempt to stimulate investment beyond the level of accrued savings, as not applicable to the circumstances of depression in which large quantities of resources lay idle.[108] Alternatively, in publications such as *Unemployment Policy* (1936), Walker articulated an eloquent Keynesian approach to macroeconomic policy. Walker concurred with Keynes that competitive wage reductions would likely precipitate international retaliation, which would in turn serve to reduce international demand and employment. Similarly, Walker was critical of the Commonwealth Arbitration Court for predicating its 1931 reduction in the basic wage upon what he perceived to have been the fallacious market liberal assumption that employers would use their windfall to directly employ more labour, or purchase more goods and services. Walker poignantly remarked that this conception ignored Keynes' observation that increased entrepreneurial savings in times of depression are most often hoarded and not reinvested.[109]

Walker also advocated for the counter-cyclical implementation of public works. He reasoned, like Keynes, that reliance on monetary stimulus would prove futile if opportunities for profitable investment, due to a widespread dearth of demand, were not available.[110] In this context, Walker emphasised the beneficial Keynesian multiplier effect that public works expenditures generated, and was dismissive of criticisms that a proportion of stimulatory expenditures are dispersed into exports, as he reasoned that this was inevitable in any economic recovery or expansion, even those driven by the private sector.[111]

Walker was also critical of the orthodox adherence to the market liberal crowding out theory. Rather than the public sector using resources which could otherwise be used by the private sector, Walker reasoned in Keynesian fashion, that public works implemented in times of depression used resources

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[105] Markwell, 'Keynes and Australia', pp. 47-8.
[106] See: Millmow, *The Power of Economic Ideas*, pp. 221-2.
[107] Markwell, 'Keynes and Australia', p. 37.
[108] E.R. Walker 1933, 'Saving and Investment in Monetary Theory', *Economic Record*, Vol. 9, Issue 2, December, pp. 200-1.
[109] Walker, *Unemployment Policy*, pp. 39, 49-54, 57-8, 60-1; Cain, 'The Propagation of Keynesian Thinking in Australia', p. 372. Cain noted that Walker did, however, recognise the potential for wage cuts to stimulate employment creation during economic recovery (pp. 372-3).
[110] See: Cain, 'The Propagation of Keynesian Thinking in Australia', pp. 370, 378.
[111] Walker, *Unemployment Policy*, pp. 138-9, 146, 152-3.

(including finance) which would otherwise remain idle.[112] In fact, in a sophisticated line used to justify the deployment of public works in times of depression, Walker reasoned that the only appropriate cost benefit analysis is not the conventional measure which takes into consideration the alternative uses for which resources could be used over the longer-term, but rather the alternative use for which those resources would be used in the short-term. Using this accountancy method, Walker reasoned that in times of depression, since many resources would otherwise remain idle, many public works projects could be justified which would not in times of economic prosperity. He also reasoned that the stimulus to demand that such public works provide to the wider economy would also increase the nation's tax revenue sufficiently to repay the debt that these public works would incur.[113] On this latter point, Walker was decidedly supportive of stimulatory budget deficits in times of depression, and offsetting surpluses in recovery. He derided budget balance in times of depression as 'vicious'.[114]

Walker was, however, more than aware of some of the political difficulties involved in organising the deployment of public works. He reasoned that popular opinion would easily acquiesce with politicians' natural urges to expend public resources on projects of pork barrelling in prosperous times, and then advocate for expenditure restraint in years of depression.[115] He also explained that alternative reasons for unemployment, such as seasonal patterns, or structural economic change, could not be rectified through public works programs.[116]

With these considerations in mind, Walker put forward his criteria for the successful implementation of stimulatory public works, which interestingly closely resemble some of those which have been implemented and some which have been ignored or overlooked by successive federal Labor governments. Walker recommended that public works should be chosen which:

- were capable of promoting a large measure of secondary employment;
- used as large a share as possible of idle resources, including labour; and
- were capable of being tapered off as private sector investment recovered (unless otherwise justified through a conventional cost-benefit analysis).

To adhere to these criteria, Walker also recommended that works which relied upon imported materials be avoided, and those preferred which employed a greater share of labour relative to materials. He also recommended that the expansion of industries should be avoided which are not

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[112] *Ibid.*, pp. 137-8.
[113] *Ibid.*, pp. 139-41, 147-9.
[114] *Ibid.*, pp. 169-70.
Walker did later question, however, whether budgets could be balanced over the economic cycle (even if this cycle was constituted over a ten year period), if government finances were oriented to pursue full employment. E.R. Walker 1939, 'Sound Finance', *Economic Record*, Vol. 15, April Supplement, p. 63.
[115] Walker, *Unemployment Policy*, p. 136.
[116] *Ibid.*, pp. 150-1.

likely to remain viable into the recovery. This latter criterion was designed to avoid the waste of capital goods and workforce skills which would later become idle and redundant in the recovery.[117]

With these criteria in mind, Walker documented several poignant insights which remain relevant to the implementation of Keynesian counter-cyclical policies. Firstly, Walker emphasised that 'It will be noticed that the "canons of sound finance" do not enter into the picture at all ... it is not important that they', the selected public works, 'should be productive of financial returns'.[118] Secondly, Walker concluded that 'it is clearly better to have an imperfect programme than none at all, or one which through fear of not observing these criteria, was restricted to very small dimensions'.[119] Thirdly and finally, Walker commented on the importance of the public service maintaining a sufficient public works capacity:

> The comparative success of Australian recovery policy is due partly to the fact that her loan expenditure of the pre-depression period had led to the building up of Public Works Departments, with technically equipped officers and a developed routine. When the time came for an expansion of public works expenditure ... the necessary administrative machinery was already to hand.[120]

As the remainder of this thesis reveals, Walker's prescient ruminations on the key criteria which should govern the successful deployment of stimulatory public works programs were not only in accord with Keynes' theorising, but provide a useful measure for the assessment of the effectiveness of successive federal Labor governments' attempts at implementing this Keynesian palliative.

Conclusion

The discernible shift in the theoretical predisposition of some within the banking industry, significant sections of the Australian economics profession, and those young economists who would later occupy key advisory roles within the Commonwealth public service, greatly assisted in providing respectability to Keynesian demand management policies. This occurrence removed the bulwark to the adoption of Keynesian policies which had thwarted the Scullin Government's efforts at upholding the Party's ideological objective - of attempting to improve the living standards of the ALP's working constituents and their dependents - through proto-Keynesian policies designed to bolster aggregate demand and employment levels. Indeed, as the following chapter establishes, this theoretical shift amongst significant sections of the Australian economics fraternity aided the development and implementation of Keynesian policies under the Curtin and Chifley governments, and thereby assisted these governments in their efforts to uphold the Labor Party's social democratic ideological objective.

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[117] *Ibid.*, pp. 151, 153, 156-9.
[118] *Ibid.*, pp. 151-2.
[119] *Ibid.*, p. 159.
[120] *Ibid.*, p. 160.

Also of importance for the remaining analysis of this thesis, were the insights of E.R. Walker into the necessary criteria for the successful deployment of stimulatory public works. These criteria provide a useful measure of the effectiveness of the implementation of this Keynesian palliative under successive federal Labor governments. As chapter five establishes, however, even with institutional support for the planning and implementation of Keynesian policies, the deployment of many of Keynes' policy palliatives proved problematic with salutary lessons for the Curtin and Chifley Governments and their federal Labor government successors.

CHAPTER FIVE

CHALLENGES ENCOUNTERED: THE DEPLOYMENT OF KEYNESIAN POLICIES UNDER THE CURTIN AND CHIFLEY GOVERNMENTS

This chapter analyses the Curtin and Chifley Governments' (1941-1949) development and implementation of Keynesian policies, which formed part of their program of post-war economic reconstruction, implemented in the years following the Second World War. In keeping with the broader argument of this thesis, this chapter establishes the Keynesian interventionist methods used by these governments in their efforts to both plan for and achieve macroeconomic stability and prosperity, and thereby facilitate their attempts to uphold the ALP's social democratic ideological objective of improving the living standards of the Labor Party's working constituents and their dependents. It is argued that this policy commitment was assisted by the personal adherence to Keynesian interventionist policies which existed amongst these governments' most senior ministers, and many influential members within the Commonwealth public service. Indeed, this chapter establishes that in some instances the economic policy advice which emanated from the public service, and particularly from within the Department of Post-War Reconstruction (DPWR), was not only more interventionist than the Curtin and Chifley Governments would tolerate, but was also more interventionist than the policies advocated by John Maynard Keynes. This chapter thereby establishes that unlike the experience of their Scullin Government predecessor, the Curtin and Chifley Governments were not stifled in their attempts to develop and implement Keynesian policies by the economics fraternity or financial institutions.

This chapter also establishes, however, that Keynes' proposals were in some instances not strictly adhered to, in others poorly received by the Australian public, or were confronted with significant deployment problems. This chapter canvasses examples of each. The Chifley Government's 1947 ultimately unsuccessful attempt at bank nationalisation is an example of policy implementation surpassing Keynes' own advocacy. It will be recalled that while Keynes advocated government control over monetary policy, his advocacy for the 'socialisation of investment' did not extend to the nationalisation of private banks. Two examples are provided of Keynesian policies which were poorly received by the Australian public: the Curtin and Chifley Governments' multiple failures to convince them through constitutional referendums to extend the Commonwealth Government's temporary war-time regulatory controls over private investment and consumption, which Keynes had argued were essential in attempting to avoid a damaging level of inflation in the post-war reconstruction phase; and the Chifley Government's failure to obtain broad workforce acceptance of its anti-inflationary policy of wages restraint, which undermined the government's Keynesian efforts at attempting to reduce demand in a supply-constrained economy. This chapter also analyses the deployment problems associated with: the forging of an international agreement mandating domestic full employment policies, designed to maintain international demand and avoid domestic balance of payments problems; and the planning of stimulatory public works projects. This chapter establishes that while the idea of stimulating investment and business confidence through stimulatory public works appealed to these governments and their public service advisers, the planning experience of the Chifley Government suggests that the tap of public works could not be turned as quickly as Keynes and his supporters had originally hoped. The subsequent analysis of this thesis reveals that these observations may have been shared by future Labor governments in their aversion to the implementation of large-scale stimulatory public works programs, and were certainly encountered by the Rudd Government and their public service advisors in their planning and deployment of stimulatory public works, as part of their response to the Global Financial Crisis (see chapter ten).

In establishing these points this chapter does not analyse the centralised economic controls the Curtin Government implemented in their efforts to harness the nation's resources for an optimum war effort.[1] Rather, this chapter analyses the Keynesian plans developed by the Curtin Government for a full employment post-war economy, and the subsequent implementation of these plans which occurred during the remainder of the Curtin and Chifley Governments' periods in office. This chapter opens with an outline of the continued developing influence of Keynesian theory and policy which occurred within the economics profession and Commonwealth public service, and an outline of the personal influence of Keynesian theory upon John Curtin and Joseph Benedict Chifley. This chapter then analyses two key components of the Curtin Government's Keynesian agenda: its 1945 banking regulatory reforms, and the establishment of counter-cyclical fiscal principles within its 1945 White Paper, *Full Employment in Australia*. Following this analysis, this chapter critically assesses those problematic policy areas, outlined above, which either surpassed the reforms advocated by Keynes, were poorly received by the Australian public, or were confronted with significant deployment problems.

The Developing Influence of Keynesian Macroeconomics

<u>The Commonwealth Public Service and Economics Profession</u>

As the previous chapter established, by the late-1930s a broad consensus had developed amongst significant sections of the Australian economics fraternity, that the Great Depression's deflationary misery had been significantly exacerbated by an international insufficiency of both credit and demand. As a result of this diagnosis, many Australian economists came to accept one of Keynes' key theoretical contentions: that the capitalist economy can and often does equilibrate at a level of demand much below that required to sustain full employment, and as a consequence requires the stimulatory policies of Keynesian demand management to recover and sustainably maintain a full employment economy. In short, Keynesian economics was perceived to provide both an explanation for, and solutions to, the deflationary malaise that underpinned the Great Depression.[2] Many prominent

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[1] The most instructive account of how the Australian economy was organised by the Curtin Government during the Second World War can be found in: S.J. Butlin & C.B. Schedvin 1977, *War Economy 1942-1945*, Griffen Press Ltd, Netly.

[2] This point was broadly established in: Whitwell, *The Treasury Line*, Chapter 3.

Australian economists, including those in influential advisory roles within the Commonwealth public service, accepted the Keynesian diagnosis and openly advocated for the deployment of stimulatory public works in times of economic recession. These economists included:

- The Director-General of Post-War Reconstruction (1943-1949), H.C. Coombs, in addition to the bulk of the economists within his department;
- the Commonwealth Bank's economic adviser (1931-1950), Leslie Melville (who was identified within the previous chapter to have trenchantly opposed stimulatory public works throughout the 1930s);
- the Chairman of the Financial and Economic Advisory (F&E) Committee (1939-1946), Lyndhurst Giblin;
- Prime ministerial economic consultant (1941-1945) and Commonwealth Prices Commissioner (1939-1945), Douglas Copland;
- Secretary of the Department of Labour and National Service (1940-1946), and later Treasury Secretary (1951-1966), Roland Wilson; and
- a group of young economists who advised the Joint Parliamentary Committee on Social Security in March 1942 to advocate for Keynesian stimulatory measures.[3]

Greg Whitwell has listed the most prominent appointments to the Commonwealth public service during the Second World War, and emphasised that their common membership of the F&E Committee - which met to consider advice on Commonwealth economic policy - was 'of fundamental importance in gaining acceptance of Keynesian ideas in Australia'. Members of this Committee included: Giblin (Chair), Coombs, Melville, Copland, Wilson, J.B. Brigden (Secretary of the Department of Supply and Development 1939-1941), Mills (Chairman, Grants Commission 1941-1945), Walker (Deputy Director-General of the Department of War Organisation of Industry), Sir Harry Brown (Commonwealth Coordinator-General of Public Works 1940-1945), and Daniel McVey.[4]

Ministerial Adherence to Keynesianism

The Keynesian influence on members of the Federal Parliamentary Labor Party (FPLP) continued after the defeat of the Scullin Government, and included the prominent adherence of the Party's future prime ministers: John Curtin and Joseph Benedict Chifley. Curtin's adherence was divisively evident within the parliamentary debate which dealt with the Scullin Government's reluctant acquiescence with the implementation of the budget austerity measures contained within the Premiers' Plan. As the previous chapter canvassed, these measures included the type of expenditure austerity for which the Labor Party was viscerally opposed: significant cuts to pensions and public service wages. These

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[3] See: Selwyn Cornish 1981, 'Full Employment in Australia: The Genesis of a White Paper', Research Paper in Economic History No.1, Department of Economic History, Faculty of Economics, Australian National University, pp. 15-6, 18-22.
See also: L.G. Melville 1942, 'Economics of New Orders', *Economic Record*, Vol. 18, Issue 2, December, pp. 147-50, 153-6; L.F. Giblin 1943, 'Reconstruction: A Pisgah View', *Australian Quarterly*, in Douglas Copland (ed.) 1960, *Giblin: The Scholar and the Man*, F.W. Cheshire, Melbourne, p. 84; Douglas Copland 1945, *The Road to High Employment*, Angus & Robertson, Sydney, pp. 13-4, 31, 33-5, 42-5, 51, 55-6, 71-2.

[4] Whitwell, *The Treasury Line*, pp. 65-6, 79; Rowse, *Nugget Coombs*, p. 92.

measures were inherently opposed to the Party's social democratic ideological objective, and had been earlier resisted by the Scullin Government. For the sake of the Party's integrity towards its own platform, Curtin passionately expressed his trenchant opposition to these proposed expenditure cuts. In his parliamentary address Curtin argued that these cuts were founded on the erroneous grounds that the nation could not afford to maintain the existing levels of public sector wages and welfare entitlements. He argued alternatively, and along proto-Keynesian lines, that the resulting reductions in the purchasing power of public servants and welfare beneficiaries would reduce economic activity and employment, and would thereby worsen the Commonwealth's budgetary position. Curtin condemned the Scullin Cabinet for not seeking an electoral mandate for the government's previous stimulatory Theodore Plan, and for instead implementing the ineffective deflationary policies of its conservative opponents.[5]

In subsequent years, Curtin continued to advocate firmly for Keynesian policies. In public statements, such as his 1937 leader's election policy speech, he argued that in times of depression the appropriate policy response should be an expansion of credit and the implementation of stimulatory, debt-financed public expenditures. He also advocated for the implementation of Commonwealth Government 'credit and interest rate control, in order to stabilise demand'.[6] In analysing the theoretical influences on Curtin's economic policy-making, his biographer, John Edwards made frequent reference to Curtin's understanding that the systematic scarcity of credit represented one of the key economic problems confronting the Australian economy, as credit dispersal was believed to have been set at a level insufficient to support full employment. This appraisal embodied an implicit refutation of the principles of Say's Law, and was noted by Edwards to have developed from Curtin's earlier socialist belief that the deficiency of demand was caused by insufficient wages, to an understanding directly influenced by his reading of Keynes' treatises on money.[7] Throughout the years of his war-time prime ministership, Curtin continued to emphasise his government's commitment to the development of an interventionist plan for post-war full employment.[8]

During the years Labor occupied the Opposition benches in the 1930s, Joseph Benedict Chifley (later Treasurer 1941-1949, Minister for Post-War Reconstruction 1942-1945, and Prime Minister 1945-1949), also broadly upheld Keynesian interventionist policies, although this was not evident in his earlier public support for the Premiers' Plan, which he offered as part of the Scullin Cabinet.[9] During this period, Chifley came to accept the Keynesian concept of involuntary unemployment. As Battin

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[5] John Curtin 1931, Debt Conversion Agreement Bill: Second Reading, 24 June, House, *CPD*, pp. 2949-57. See also: John Edwards 2005, *Curtin's Gift: Reinterpreting Australia's greatest Prime Minister*, Allen & Unwin, Crows Nest, pp. 106-7.

[6] See: Rick Kuhn 1988, 'Labour movement economic thought in the 1930s: underconsumptionism and Keynesian economics', *Australian Economic History Review*, Vol. 28, No. 2, September, p. 69.

[7] Edwards, *Curtin's Gift*, pp. 83, 85-6, 91, 101-2, 108-10, 113-4.

[8] See: Cornish, 'Full Employment in Australia', pp. 8-9, 11.

[9] Joseph Benedict Chifley 1931, Debt Conversion Agreement Bill: Second Reading, 25 June, House, *CPD*, pp. 3062-6. Chifley served in the Scullin Cabinet as the Minister for Defence in the period March 1931 – January 1932.

summarised, for Chifley: 'It was simply not within the individual's power to do anything about unemployment. Rather, it was the collectivity which would be responsible ... for the universalist policy of full employment'.[10] During the campaign for the 1949 federal election - which would end his government's period in office - Chifley rejected the orthodox justifications for the existence of a significant level of unemployment, which argued that a residual of unemployed job seekers fostered 'discipline and efficiency' within the workforce because of 'the fear of the sack'. Chifley retorted: 'The Labour government rejects this barbarous and intolerant view and dismisses as absurd the arguments used to support it'.[11] Within this speech, Chifley also revealed that the degradation, human suffering, and economic waste brought about by the Great Depression, still guided his policy inclinations towards Keynesian interventionist methods, designed to maintain aggregate demand, business confidence, and full employment:

> The Labour Government has shaped all its financial and economic measures towards maintaining full employment and it will continue to shape them so. So far as it can humanely contrive, never again will the dole queues be seen in this country. Never again will competent workman stand idle for months and years while limitless work remains to be done. Never again will young men drift hopelessly from town to town and from State to State, searching for the jobs which, in all this wide land, did not exist for them.[12]

As an alternative, Chifley publicly advocated for the implementation of a planned economy in which social priorities were determined by governments, and the workforce was guaranteed employment through the counter-cyclical implementation of public works projects.[13]

It was during Chifley's participation as a serving member of the Royal Commission into the Monetary and Banking Systems in Australia - the Keynesian conclusions of which were briefly outlined within the previous chapter - that Chifley's Keynesian policy inclinations became apparent. It is possible that Chifley's close working relationship with the Commission's 'leading light' on Keynes' *General Theory*, Professor R.C. Mills of Sydney University,[14] may have swayed Chifley's theoretical understanding of economic dynamics. There is no doubt, however, that while Chifley served amongst this intellectual environment he revealed a Keynesian concern for the adverse influence that credit fluctuations had upon the aggregate level of employment, and he was critical in this context of the Commonwealth Bank's reluctance during the Great Depression to issue Treasury Bills early enough so that their proliferation better maintained credit and employment levels.[15]

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[10] Battin, *Abandoning Keynes*, p. 42.
[11] Joseph Benedict Chifley, Broadcast of Election Policy Speech, 14 November 1949, in A. W. Stargardt (ed.) 1953, *Things Worth Fighting For: Speeches by Joseph Benedict Chifley*, 2nd edn, Melbourne University Press, Carlton, p. 75.
[12] *Ibid*. See also: pp. 84-5.
[13] Joseph Benedict Chifley 1943, 'Planning For Peace, Government's Policy Explained: I. Employment Chief Aim', *Sydney Morning Herald,* 1 December, p. 6.
See also: H.V. Evatt, 1942, *Post-War Reconstruction: A Case for Greater Commonwealth Powers*, Commonwealth Government Printer, Canberra, pp. 59-61.
[14] See: Markwell, 'Keynes and Australia', p. 47.
[15] See: L.F. Crisp 1961, *Ben Chifley*, Longmans, Croydon, p. 169.

More radically - and also based upon his critique of the private trading banks' deflationary, self-interested conduct during the Great Depression - Chifley advocated for the nationalisation of the private banking industry; a policy announced within the minority report he prepared, and which accompanied the official Report of the Royal Commission.[16] Chifley's minority report observed, that 'During a depression or feared slump, the banks, in their own interest, and to protect their depositors, on whose confidence the banks' prestige and solvency depend, adopt a policy of contraction which intensifies the evil [of depression]'. This had the pernicious effect, Chifley observed, that '[p]rivate banking systems make the community the victim of every wave of optimism or pessimism that surges through the minds of financial speculators'.[17] Chifley also later concluded that:

> a great deal of misery, suffering and starvation would have been avoided and that probably seventy per cent of the effect of the depression upon Australia would have been removed if there had been a wise financial and economic administration.[18]

These passages reveal a lack of faith in the rationality of unfettered financial markets and the market liberal notion that they would deliver full employment equilibrium. Macroeconomic stability and prosperity, and adherence to the Labor Party's social democratic ideological objective, evidently required more interventionist methods. Moreover, Chifley's conception that banking should serve the community through the public provision of adequate credit, rather than the pursuit of private profit, echoed traditional Labor antipathy to the 'money power'. However, it also surpassed Keynes' advocacy for the 'socialisation of investment' (see chapter three). Keynes was in favour of low interest rates, and against productive investment being constrained because of credit policy, but he was not in favour of the nationalisation of private banks. It was the Keynesian elements of Chifley's critique of Australian banking policy, however, which underpinned the Curtin Government's monetary and banking reforms. These reforms are analysed in the following section.

Monetary and Banking Reform

Upon forming government in October 1941, the Curtin Government used the conditions of the *National Security Act* 1939 to extend their predecessors' war-time controls over the banking industry in order to increase their supply of credit at reduced interest rates for war purposes.[19] To entrench these and similar financial controls in the post-war era, but for the Keynesian purpose of empowering the Commonwealth Government to control the creation of credit and thereby manage the economy's aggregate demand and employment levels, Chifley (as Treasurer) worked on extending many of these temporary Commonwealth Defence Powers through statute. In January 1945, two bills were

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[16] For key excerpts from Chifley's minority report, see: *ibid.*, pp. 171-2; Love, *Labour and the Money Power*, pp. 147-8.
[17] Quoted in, Crisp, *Ben Chifley*, p. 172.
[18] Joseph Benedict Chifley, Second Reading Speech: Debate on the Commonwealth Bank Bill 1950, House, 28 March 1950, in Stargardt (ed.), *Things Worth Fighting For*, p. 319.
See also: Joseph Benedict Chifley 1945, Commonwealth Bank Bill 1945: Second Reading, 9 March, House, *CPD*, p. 547.
[19] J. B. Chifley 1945, 'Proposed Bill to Regulate Trading Banks', Agendum No. 768, 5 January, NAA, Canberra, A2700, 768, p. 9.
For details of the specific regulations imposed, see: Crisp, *Ben Chifley*, pp. 173-5.

introduced for this purpose: the Commonwealth Bank Bill which redefined the functions of the Commonwealth Bank, including its role as the nation's central bank; and the Banking Bill which established 'the statutory regulation of the private trading banks and their relations with the central bank'.[20]

The regulatory measures contained in the *Banking Act* 1945 were extensive and were designed to assist the Curtin Government's efforts at ensuring a high and stable rate of investment, while also attempting to limit the opportunities for excessive profiteering in the private trading bank industry.[21] Control of credit dispersal was retained to assist with the maintenance of full employment and the avoidance of excessive inflationary demand. In announcing the banking legislation to Parliament, Chifley restated his belief earlier aired during his participation in the banking Royal Commission, that 'one of the main responsibilities of a central bank is to control the issue of bank credit ... in such a manner as to avoid expansion of credit in times of boom and contraction of credit in times of depression'.[22] This objective was pursued through the retention of the war-time Special Account provisions, which mandated the quantity of deposits each bank would be required to lodge with the Commonwealth Bank, so that the Commonwealth Government (through the Bank's agency) could control the volume of credit in circulation, and thereby assist in the management of aggregate demand and inflation.[23] Other controls extended or implemented to assist with the management of aggregate demand in the *Banking Act* included:

- The authority of the Commonwealth Bank to direct investment in favour of specific industries, or for specific purposes (i.e. residential construction).[24]
- The authority of the Commonwealth Bank (with the agreement of the federal Treasurer) to regulate rates of interest.[25]
- The authority of the Commonwealth Government to control foreign exchange.[26]

Under the *Commonwealth Bank Act* 1945, the Bank's trading activities were made structurally separate from the Bank's central banking functions, under the auspices of a General Banking Division. This division was established to provide vigorous competition to the private trading banks, including through the newly established Industrial Finance Department.[27] In Keynesian fashion, this latter banking facility was envisaged by the government to 'provide capital finance for small and growing

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[20] Crisp, *Ben Chifley*, pp. 176-7.
[21] Chifley, 'Proposed Bill to Regulate Trading Banks', pp. 16-7.
[22] Chifley, Commonwealth Bank Bill 1945, House, *CPD*, 9 March 1945, p. 548.
[23] Joseph Benedict Chifley 1945, Banking Bill 1945: Second Reading, 9 March, House, *CPD*, pp. 553-6; *Banking Act* 1945, sections 18-22.
[24] Chifley, 'Proposed Bill to Regulate Trading Banks', pp. 9-10; *Banking Act* 1945, section 27.
[25] Chifley, Commonwealth Bank Bill 1945, 9 March 1945, *CPD*, pp. 556-7; *Banking Act* 1945, section 39.
[26] Cabinet 1945, Minutes of full meeting of Cabinet, 10 January, NAA, Canberra, A2700, 767, pp. 16-7, 22; *Banking Act* 1945, section 29.
[27] Crisp, Ben Chifley, p. 180; *Commonwealth Bank Act* 1945, sections 92-107.

businesses, many of which although credit-worthy' could not 'provide the required securities for bank advances'.[28]

Demand Management for Full Employment

The Curtin Government also pursued Keynesian demand management reform through the development of a stimulatory fiscal policy, consolidated within the 1945 White Paper, *Full Employment in Australia*.[29] The Keynesian influence upon the White Paper's conception and contents was unambiguous. Australian economic historian, Selwyn Cornish, has emphasised that *The General Theory* 'was of signal importance' in influencing the White Paper's contents, in conjunction with two other broadly Keynesian contemporary British documents: the British Government's own employment White Paper, and William Beveridge's, *Full Employment in a Free Society* (both published in 1944).[30] Evidence of Keynes' influence can be found in several of the White Paper's statements. For instance, the White Paper clearly enunciated the Keynesian logic that demand for goods and services determined their output, which in turn determined the aggregate level of employment.[31] In this context, the White Paper offered the Keynesian policy palliative that Australian 'governments should accept the responsibility for stimulating spending on goods and services to the extent necessary to sustain full employment'.[32] This constituted a demand-oriented explanation for structural unemployment, and a government interventionist policy solution, both of which are not accepted in market liberal theory.

This Keynesian appraisal was reflected in the Minister for Post-War Reconstruction (1945-1949), John Dedman's, parliamentary speech announcing the White Paper's publication. Like Curtin and Chifley, Dedman had become convinced during the 1930s that the credit restriction of Australian banks had exacerbated the Great Depression's severe demand shortage and mass unemployment. Consequently, he advocated for the reformation of the Commonwealth Bank as an appropriately empowered central bank, with control over credit and the nation's currency exchange rate. Dedman also became an adherent of the Keynesian deployment of public works, subsequent to the publication of *The Times* articles which later constituted Keynes' pamphlet, *The Means to Prosperity* (1933).[33]

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[28] Australian Commonwealth Government (ACG) 1945, *Full Employment in Australia*, Commonwealth Government Printer, Canberra, paragraph 39, p. 7.
See also: Cabinet 1946, 'Commonwealth Bank of Australia – Industrial Finance Department', Press Announcement for publication on Wednesday, 2 January 1946, NAA, Canberra, A571, 1958/464 Part 2.

[29] It should be noted that because of the Australian social context in which the Curtin Government presided, the government's full employment commitment only included all males of working age. See: Johnson, *The Labor Legacy*, pp. 20-1.

[30] Cornish, 'Full Employment in Australia', pp. 1-8 (quote from p. 2).
See also: H.C. Coombs 1994, *From Curtin to Keating: The 1945 and 1994 White Papers on Employment, A Better Environment for Human and Economic Diversity?*, North Australia Research Unit, Australian National University, Darwin, pp. 1-2.

[31] ACG, *Full Employment in Australia*, paragraph 12, p. 4.

[32] *Ibid.*, paragraph 5, p. 3.

[33] See: Andrew Spaull 1998, *John Dedman: A Most Unexpected Labor Man*, Hyland House, South Melbourne, pp. 16-7. Spaull also noted (p. 18) that in 1938 Dedman enrolled part-time in a Diploma of Commerce course at the University of Melbourne, as a means of furthering his understanding of Keynesian economics.

Within his parliamentary speech announcing the White Paper's publication, Dedman decried the previous acceptance of an average pre-war (1919-1939) Australian unemployment rate in excess of 10 percent, and a staggering Great Depression peak, which he measured at 25 percent.[34] Dedman also expressed the Keynesian sentiment that the idleness of human and material resources under the circumstances of mass unemployment constituted economic waste, which permanently lowered Australian living standards. In furnishing this argument, Dedman cited the example of the neglect which conservative governments of the 1930s were responsible for, through their failure to invigorate the building industry during the Great Depression. He contended that this failure contributed to the 'desperate housing shortage' which the nation still endured into the Second World War. In short, Dedman was expressing the Keynesian logic that unemployment did not just render costs upon the individual. It also cost the community in wasted, idle resources, and wasted opportunities for productive economic and social development.[35] Dedman did, however, also sincerely express the Labor Party's social democratic ideological concern for the suffering unemployment had on the physical and emotional wellbeing of its victims:

> To the individual thrown unwillingly into idleness by the failure of the economic system to provide employment, this failure meant poverty, frustration, disillusionment, and bitterness. Even those who were fortunate enough to remain in their jobs were threatened by a sense of insecurity.[36]

The clarity in the expression of these Keynesian ideas was jointly crafted by key government ministers and Commonwealth public servants, the latter of which were chiefly drawn from within the DPWR. Cabinet records reveal that in drafting and debating the contents of the White Paper, these Commonwealth public servants frequently reflected the sentiments of ministers, such as H.V. Evatt (Attorney-General and Minister for External Affairs, 1941-1949), who emphasised that the example of war-time economic organisation had expunged the myth that mass unemployment was inevitable under a capitalist system. Evatt alternatively argued that under appropriate governmental intervention, full employment could constitute a viable peace-time policy objective:

> We can no longer assert that the problem of unemployment is insoluble, that men are out of work only because they are unfit for work or unwilling to work, that financial policy prevents their employment, [and] that the task of maintaining full employment is not a responsibility of the national Government.[37]

The unambiguous support for the Keynesian method of stabilising demand through stimulatory public works (see below) was not without its bureaucratic critics, however. During the drafting of the White Paper, officials from many Commonwealth departments objected to the Paper not exploring methods of stabilising private sector expenditure, through such measures as variations in subsidies and tax

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[34] John Dedman 1945, Ministerial Statement: Employment Policy, 30 May, House, *CPD*, p. 2238.
[35] *Ibid.*
[36] *Ibid.*, pp. 2238-9.
[37] Evatt, *Post-War Reconstruction*, p. 57.
For examples of similar sentiments expressed within the DPWR, see: T.W. Swan to H.C. Coombs 1945, 15 March, NAA, Canberra, A9816, 1945/636, p. 1; H.C. Coombs 1944, *The Special Problems of Planning*, Melbourne University Press, Carlton, pp. 8-10.

obligations.[38] Treasury representative, William Dunk, was graphic in his denunciation of Draft C's excessive focus upon stimulatory public works: 'The theory that we can achieve full employment and prosperity by a little internal juggling of budgets is dangerously soporific. Only the red blooded virility of the nation will really achieve this objective'.[39] Cornish has documented that the criticism the White Paper received for its excessive reliance on intrusive public sector solutions to unemployment was echoed in the bulk of the mainstream press coverage, and from some business groups, such as the Associated Chambers of Manufacturers of Australia.[40]

Notwithstanding these pockets of criticism, however, a new orthodoxy had developed within both the Curtin Government and significant sections of the public service which accepted that markets do not, if left unplanned and unregulated, equilibrate at full employment. Rather, as Keynes had articulated, markets were believed to require government interventions to function efficiently and achieve sustainable full employment. Indeed, while some Treasury advice warned against taking the war-time example of a planned economy as workable inspiration for peace-time,[41] economic historians S.J. Butlin and C.B. Schedvin have documented the existence of Treasury support for stimulatory public works prior the appointment of the Curtin Government.[42]

Counter-Cyclical Public Investment

The White Paper envisaged that Keynesian demand management would be achieved through the periodic implementation of stimulatory public works, financed through a counter-cyclical fiscal policy, and accommodated through an expansionary monetary policy.[43] In this context, the White Paper laid down the decidedly Keynesian observation that Australian public capital expenditure had previously and ruinously 'fluctuated considerably' in accordance with the instability of private sector investment, and should alternatively be implemented in a counter-cyclical fashion.[44] The White Paper concluded that the Commonwealth Government should intervene by committing 'to act as soon as a

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[38] See: J.F. Nimmo 1944, 'General Comments on "The Means to High and Stable Level of Employment"', 15 November, NAA, Canberra, Series No. A9816, Control Symbol 1945/632, p. 1; E.J.R. Heyward to H.C. Coombs 1945, 'Comments on Draft White Paper', 28 February, NAA, Canberra, Series No. A9816, Control Symbol 1945/634, p. 2; F.H. Wheeler 1945, 'Proposed White Paper on Full Employment', 20 March, NAA, Canberra, Series No. A9816, Control Symbol 1945/636, p. 3.

[39] W.E. Dunk to H.C. Coombs 1945, 'Employment, Production and Expenditure in the Transition from War to Peace', 28 February, NAA, Canberra, Series No. A9816, Control Symbol 1945/634, p. 1.

[40] Cornish, 'Full Employment in Australia', pp. 186-90. The critical press outlets included: the Melbourne *Herald*, *The Daily Telegraph*, the Adelaide *Advertiser*, *The Bulletin*, and *The Sydney Morning Herald*.
Carol Johnson has argued, however, that while the business interests associated with the Victorian Institute of Public Affairs were opposed to 'excessive' measures of government planning and regulation, they did broadly support stimulatory public expenditures in times of recession. Johnson, *The Labor Legacy*, pp. 44-6.

[41] See: Treasury (anonymous official) 1945, 'Proposed Statement on Full Employment', 26 March, NAA, Canberra, A571, 1945/574 Part 1, p. 4.

[42] Butlin & Schedvin, *War Economy 1942-1945*, p. 627.

[43] ACG, *Full Employment in Australia,* paragraph 39, p. 7.

[44] *Ibid.*, paragraphs 17, 21, pp. 4, 5.

decline threatens' private sector investment,[45] so that 'the two together will provide a demand' capable of ensuring full employment.[46]

Consistent with Keynes' policy advocacy, the proposed periodic increase in stimulatory public works (such as bridges, hospitals, and roads) was favoured over short-term adjustments to government consumption expenditures (such as welfare benefits), or short-term adjustments to rates of taxation. This policy was consistent with Keynes' contention that the attempted manipulation of consumption through budgetary expenditures and temporary tax relief would not promote increased economic activity unless these measures were considered permanent by their recipients (see chapter three). The White Paper supported this fiscal logic in its statement that 'Public capital expenditure is the principal type of expenditure that can be readily varied to offset variation in the [other] unstable parts of expenditure',[47] and was also believed to be best capable of stabilising business confidence.[48]

Underlying this approach was a Keynesian understanding of the enhanced economic efficiency which could be garnered through the use of 'resources that would otherwise be idle'.[49] In this context, it was understood that resources used to construct public works would not 'crowd out' potential private sector investments, as the market liberal position argued, but would rather stimulate the otherwise sluggish private sector through the Keynesian multiplier effect.[50]

Moreover, just as the White Paper acknowledged that recessionary circumstances would require the construction of stimulatory public works, so it also recognised the Keynesian principle that increases in government expenditure would prove inflationary under the circumstances of full employment.[51] It is interesting to note, however, that under these circumstances the White Paper did not propose that public works expenditures should automatically defer to private sector investment. Rather, it proposed that any necessary anti-inflationary reductions in capital expenditures should be democratically determined by the relevant state or Commonwealth government, who were envisaged to adjudicate their priorities according to 'which capital projects, public or private, are considered more important to the community'.[52] In this manner 'the ephemeral demands of the private sector would not be permitted to "crowd-out" the resource requirements of the government'.[53] The market liberal crowding out theory had evidently been turned on its head.

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[45] *Ibid.*, paragraph 22, p. 5.
[46] *Ibid.*, paragraph 23, p. 5.
[47] *Ibid.*, paragraph 20, p. 5.
[48] *Ibid.*, paragraphs 36-8, p. 7.
[49] *Ibid.*, paragraph 21, p. 5.
[50] *Ibid.*, paragraph 22, p. 5.
[51] *Ibid.*, paragraph 29, p. 6.
[52] *Ibid.*, paragraph 43, p. 8. The White Paper intimated (paragraph 102, p. 15) that in the immediate post-war period public works such as homes, hospitals, schools and factories, would be considered urgent and not amenable to delay.
[53] Cornish, 'Full Employment in Australia', p. 34.

This policy principle had been put forward by the departmental officials and economic advisers who assisted in the drafting of the White Paper.[54] But it was not a Keynesian position. Keynes had advocated for the implementation of stimulatory public works in times of subdued private sector investment; he did not envisage that public sector investment would permanently replace that of the private sector. In this context it is important to note that Curtin, with the ascent of Treasury officials, eliminated from Draft B of the White Paper specific plans for the creation of public bodies to assist in the planning and regulation of public and private investment projects.[55] It can be observed, therefore, that many of the Curtin Government's economic advisers, and particularly those from within the DPWR, advocated for more interventionist investment and resource planning policies than either the Curtin Government or John Maynard Keynes would tolerate.

Counter-Cyclical Finance

With regard to the financing of these stimulatory public works, the Curtin Government displayed a significant level of timidity in publicly acknowledging the periodic increase in government expenditures which would be required. Indeed, the records of the drafting of the relevant sections of the White Paper reveal that many of the Curtin Government's public service advisers were encouraging more detailed statements about how the White Paper's stimulatory public works would be financed and implemented, than the Curtin Government would themselves tolerate.

It is highly probable that the broad Keynesian consensus which existed within the Commonwealth public service and economics profession at this time eased the Curtin Government's concerns about advocating an expansionary fiscal policy. During the drafting of the White Paper, DPWR officials were instrumental in the removal of references which pledged the Commonwealth Government's commitment to 'sane public finance'.[56] This decision echoed the opposition which was expressed by the government's key economic advisers against 'old fashioned' ideas about the appropriate role of government and budgetary policy. These economic advisers emphasised that financial policy should properly be conceived according to resource rather than financial constraints, and stressed in this context the Keynesian conclusion that the budget's bottom line is best assisted through the maintenance of full employment.[57] Even the Commonwealth Treasury was broadly supportive of

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[54] See: D.B. Copland to H.C. Coombs 1945, 'Notes on Paper on Full employment in Australia', 29 March, NAA, Canberra, A9816, 1945/638, p. 2; Coombs, *The Special Problems of Planning*, pp. 16-7; Cornish, 'Full Employment in Australia', pp. 34, 38, 87, 90; Stuart Macintyre 2015, *Australia's Boldest Experiment: War and reconstruction in the 1940s*, NewSouth, Sydney, p. 292.

[55] These proposed bodies included a National Investment Board, a Planning Office of Cabinet, and a Resources Planning Committee. See: Cabinet n.d., 'Full Employment in Australia', annotated copy carrying PM's comments and amendments to Draft 'D', NAA, Canberra, A9816, 1945/639, p. 38; Cornish, 'Full Employment in Australia', p. 141.
For details of how the DPWR envisaged that these institutions would be constituted and operated, see: Cornish, 'Full Employment in Australia', pp. 56-7.

[56] In objecting to the inclusion of this phrase, DPWR official, Gerald Firth, interestingly made a parallel with the pressure applied by the Bank of England for Australian government fiscal austerity during the Great Depression: 'I personally do not smell the Niemeyer brimstone - but others will'. G.G. Firth 1945, 'The White Paper: Interim Comments', 17 January, NAA, Canberra, A9816, 1945/632, pp. 2-3.

[57] See: T.W. Swan to H.C. Coombs 1945, notes for speech on Full Employment, 21 May, NAA, Canberra, A9816, 1945/646; Copland, *The Road to High Employment*, pp. 9-12.

Keynesian fiscal policy, notwithstanding its pre-Second World War conception that budgets merely constituted an accounting exercise in balancing tax revenues and loans with expenditures.[58] Treasury officials voiced their concerns about the possible reduction in business confidence which was anticipated to accompany excessive, inflationary central bank finance.[59] However, these officials also accepted the Keynesian understanding that this form of finance would only prove inflationary if pushed beyond 'the limit of available men and resources'.[60] As early as mid-1941 (prior to the appointment of the Curtin Government), Treasury echoed Keynes' perspective that the deployment of inefficient public works of limited utility was preferable to the widespread proliferation of unemployment.[61]

In this light, it was surprising that the Curtin Government baulked at detailing both their preparedness to create fiduciary currency in order to finance stimulatory public works, and their preparedness to construct inefficient public works if nothing more productive was available. In Curtin's own personal edits of the White Paper's Draft D, and in spite of his earlier trenchant support for the Theodore Plan (see above), Curtin deleted sections which referred to the Commonwealth Government's preparedness to use central bank fiduciary credit for stimulatory public works.[62] The government also removed a passage from Draft F of the White Paper which read: 'It will be better in any case to undertake even comparatively unproductive works than to leave men in idleness, where their productive capacity would be completely wasted'.[63] As chapter three established, Keynes preferred the deployment of less efficient public investments in times of economic depression to no government investment stimulus at all. It is therefore apparent that the Curtin Government was reluctant to promote some of Keynes' own fiscal logic.

However, of greater importance is the fact that the Curtin Government retained within its published White Paper its commitment to stimulatory fiscal expenditures '[a]s long as there are unemployed resources to be drawn into production'.[64] This statement, while less detailed, unambiguously committed the Curtin Government to Keynesian fiscal stimulatory policy, regardless of the financial implications, and to the extent necessary to ensure that the waste of unemployed labour was eliminated. In summation, while some of the Curtin Government's public service advisers advocated for more explicit statements, which detailed how Keynesian stimulatory policies would be financed and implemented, the Curtin Government nevertheless expressed its commitment to Keynesian stimulatory fiscal policy as a means to achieve full employment, and thereby improve the living standards of the Labor Party's working constituents.

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[58] See: Whitwell, *The Treasury Line*, pp. 53-4.
[59] Wheeler, 'Proposed White Paper on Full Employment', p. 2.
[60] F.H. Wheeler n.d., 'Public Finance', Re-written section of White Paper draft, NAA, Canberra, A9816, 1945/644.
[61] See quotations in: Butlin & Schedvin, *War Economy 1942-1945*, p. 627.
[62] 'Full Employment in Australia', annotated copy carrying PM's comments and amendments to Draft 'D', pp. 11-2.
[63] Cabinet 1945, White Paper as amended by Cabinet (Draft 'F' to 'G'), NAA, Canberra, A9816, 1945/644, p. 37.
[64] ACG, *Full Employment in Australia*, paragraphs 28-9, p. 6.

Social Expenditure

In adhering to the Party's social democratic ideological objective, the Curtin and Chifley Governments' commitment to full employment was accompanied by their desire to also ameliorate the perceived inequalities evident in the capitalist system through social welfare.[65] It was envisaged that while full employment would provide the key to civilising the capitalist system, social welfare services would provide the safety net.[66] For Chifley, this fulfilled society's 'moral obligation',[67] because 'until that stage' of full employment 'is well advanced, social security provision can and must make a real, if limited, contribution to better living conditions'.[68]

Importantly, this safety net was also envisaged to perform an important role in these governments' policies for effective counter-cyclical demand management. In accordance with Keynesian principles, Chifley believed that social security benefits would stabilise the purchasing power of its recipients, 'which is half the battle in maintaining full employment'.[69] In turn, full employment was anticipated to ultimately reduce the need for social welfare.[70] Redistributive taxation was the favoured method of financing welfare benefits, because unlike contributory social insurance schemes, Chifley argued that redistributive taxation would not diminish the purchasing power of lower income earners, who in Keynesian fashion were identified as more likely to consume a higher proportion of their income.[71] While labour historians have identified that finances for social welfare programs, such as the National Welfare Fund,[72] were in fact significantly raised by their targeted recipients (as occurs with social insurance schemes),[73] from a demand management perspective the National Welfare Fund can be identified to have siphoned away funds in a counter-cyclical manner similar to that described by Keynes in 'How To Pay For The War':

> From the point of view of the national economy as a whole, the great advantage of the scheme is that the fund accumulates surpluses in good times and distributes purchasing power widely at times when business conditions flag or falter. Social security payments have a real significance for our economy as a stabiliser. In conjunction with well-timed programmes of national development works or slum-clearance, they will help to iron out business fluctuations.[74]

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[65] See: Joseph Benedict Chifley 1943, 'Planning For Peace: III. - Social Security Scheme, National Insurance Rejected', *Sydney Morning Herald,* 3 December 1943, p. 4.
[66] Joseph Benedict Chifley n.d., *Social Security and Reconstruction*, Dep. of Post-War Reconstruction, Commonwealth Government Printer, Canberra, p. 1.
[67] *Ibid.*, p. 23.
[68] Chifley, 'Planning For Peace: III. - Social Security Scheme'', p. 4.
[69] *Ibid.*
[70] Chifley, *Social Security and Reconstruction*, pp. 3-4.
[71] Chifley, 'Planning For Peace: III. - Social Security Scheme'', p. 4.
[72] The National Welfare Fund was established on 1 July 1943 to raise finances for the Commonwealth Government's increased social security and health service obligations. See: Joseph Benedict Chifley 1943, Financial Statement, 11 February, House, *CPD*, pp. 548-52; Joseph Benedict Chifley 1943, National Welfare Fund Bill: Second Reading, 11 February, House, *CPD*, pp. 555-6.
[73] See: Rob Watts 1983, 'Revisiting the Revisionists: The ALP and Liberalism 1941-1945', *Thesis Eleven*, Vol. 7, No. 1, p. 75; Johnson 1989, *The Labor Legacy*, p. 38.
[74] Chifley, 'Planning For Peace: III. - Social Security Scheme', p. 4.

Indeed, as the supply of goods and services continued to remain short of national income after the Second World War, and available jobs exceeded those seeking employment,[75] the Chifley Government continued to alleviate these inflationary pressures through the use of both the National Welfare Fund and the War Gratuity Reserve to siphon funds away from immediate inflationary consumption.[76]

Implementation Problems

This chapter has established the Keynesian theoretical and policy foundations of parts of the Curtin Government's agenda for post-war reconstruction - a program designed to deliver macroeconomic stability and prosperity, and thereby improve the living standards of the Labor Party's working constituents in accordance with the Party's social democratic ideological objective. It was the implementation of this agenda, however, which occurred throughout the remainder of the Curtin and Chifley Governments, which encountered several implementation problems. In some instances these governments' reforms surpassed the regulatory interventions Keynes advocated; in others they encountered significant public opposition; and in still others they were confronted with serious diplomatic and deployment problems, the ramifications of which may have adversely influenced future Labor governments' perceptions of the feasibility of Keynesian policies, or were encountered in the Rudd Government's efforts to ameliorate the adverse effects of the Global Financial Crisis (see chapter ten).

Bank Nationalisation

As chapter three emphasised, Keynes was not supportive of a centralised, government controlled economic structure which usurped entrepreneurial prerogatives. His advocacy for demand management and regulatory policies were explicitly designed to provide a stable foundation for productive entrepreneurial activity. Keynes did not support the large-scale nationalisation of industries, including the nationalisation of private banks. While the Curtin and Chifley Governments also did not advocate for the widespread nationalisation of industry,[77] the Chifley Government did decide to nationalise the private banking industry in 1947.

From a demand management perspective, Chifley originally believed that the nationalisation of the private trading banks was unnecessary in light of the implementation of the 1945 banking legislation

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[75] Whitwell cited official Department of Labour and National Service figures to show that by late-1947 there were more than 100,000 job vacancies and virtually no unemployment in the Australian economy. See: Whitwell, *The Treasury Line*, pp. 84-5.
[76] See: Joseph Benedict Chifley1949, Financial Statement 1948-49, 15 February, House, *CPD*, pp. 241-2.
[77] For public statements made by Curtin and Chifley to this effect, see: Joseph Benedict Chifley, Address to the Federal Executive of the ALP, 5 October 1949, in Stargardt (ed.), *Things Worth Fighting For*, p. 71; Joseph Benedict Chifley, speech to the Triennial Conference of the ALP, 30 September 1948, in Stargardt (ed.), *Things Worth Fighting For*, p. 35; W.J. Waters 1970, 'Australian Labor's Full Employment Objective, 1942-45', *Australian Journal of Politics and History*, Vol. 16, No. 1, p. 59; Carol Johnson 1986, 'Social Harmony and Australian Labor: The Role of Private Industry in the Curtin and Chifley Governments' Plans for Australian Economic Development', *Australian Journal of Politics and History*, Vol. 32, Issue 1, April, pp. 45-6; Macintyre, *Australia's Boldest Experiment*, pp. 222-3.

(outlined above).[78] This legislation was thought to have provided the Commonwealth Government with sufficient powers, operated through the Commonwealth Bank, to control credit dispersal and thereby assist with the management of demand. However, Chifley's fear - expressed during 1947 - that key sections of the *Banking Act*, considered essential to the Commonwealth Government's control of credit and demand, might face constitutional challenge, convinced him of the case for bank nationalisation.[79] Indeed, with Australian trading banks holding more potentially liquid assets in 1947 than they had at the end of the Second World War, it was considered essential that the nation's central bank be permitted to continue to constrain credit dispersal through the Special Account deposit provisions legislated under the *Banking Act*.[80] In short, Chifley had identified that his government's Keynesian ambitions for full employment and economic stability depended on centralised banking controls, which he determined would be constitutionally threatened unless the banking industry was nationalised.[81] Unfortunately for the fate of the Chifley Government, it was the government's nationalisation of the private trading banks which was ultimately ruled unconstitutional,[82] and contributed significantly to the government's electoral defeat in December 1949.[83]

Rationing and Regulatory Controls

The attempts made by both the Curtin and Chifley Governments to retain war-time economic regulations beyond the end of hostilities also proved unpopular. Like the nationalisation of the private banks, these governments sought to retain war-time economic regulations in order to assist their efforts at restraining the inflationary pressures produced by a combination of the material shortages, and excessive accumulation of wages associated with the Second World War. It was determined by these governments, and their public service advisers in the DPWR, that these inflationary pressures could only be sufficiently restrained through the retention of intrusive war-time controls over many economic variables, including: credit; investment; prices; wages; materials; trade; and the rationing of consumption goods.[84] Those DPWR officials in support of the retention of these regulations joined with the Curtin Government in acknowledging how unpopular the retention of these regulatory controls would likely be.[85] However, they concluded that the successful management of aggregate

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[78] See: Johnson, *The Labor Legacy*, p. 25.

[79] For an account of the chain of events which led to the Chifley Government's decision to nationalise the banking industry, including the successful 1947 legal constitutional challenge from the Melbourne City Council against section 48 of the *Banking Act* - which required, in the absence of written consent from the Commonwealth Treasurer, that all state and local governments and their authorities bank exclusively with the Commonwealth Bank - see: Macintyre, *Australia's Boldest Experiment*, pp. 428-30.

[80] Crisp, *Ben Chifley*, pp. 325-6.

[81] Joseph Benedict Chifley, speech, 16 September 1947, in Stargardt (ed.), *Things Worth Fighting For*, p. 96; Crisp, *Ben Chifley*, p. 341; Coombs, *Trial Balance*, pp. 115-6.

[82] See: Crisp, *Ben Chifley*, pp. 335-8.

[83] See: Johnson, *The Labor Legacy*, pp. 43-4, 46, 48-9; Love, *Labour and the Money Power*, pp. 175-80, 187-91.

[84] See: Dep. of Post-War Reconstruction 1944, 'Economic Controls', 1 November, NAA, Canberra, A9816, 1945/628, pp. 1-8; G.G. Firth 1944, 'Notes for the White Paper = Price Stability', 18 August, NAA, Canberra, A9816, 1945/628; H.C. Coombs 1944, 'The Economic Aftermath of War', in D.A.S. Campbell (ed.), *Post-War Reconstruction in Australia*, Australian Publishing Company, Sydney, pp. 90-1.
See also the detailed case made for the Commonwealth's constitutional acquisition of the jurisdiction over these economic variables, in: Evatt, *Post-War Reconstruction*.

[85] Dep. of Post-War Reconstruction, 'Economic Controls', pp. 2-4, 6, 8.

demand required this type of government intervention.[86] For instance, Coombs estimated in 1944 that the nation's household savings were some £500,000,000 in excess of the liquid assets their pre-war consumption habits suggested they would need. The subsequent advice he offered was clear: 'In the absence of strict controls of prices and of consumption this excess purchasing power could lead only to an inflationary rise in prices'.[87] This advice was subsequently heeded in the 1945 White Paper,[88] and this message was replicated elsewhere.[89]

Consequently, in 1944 the Curtin Government attempted to retain many war-time regulatory controls through the colloquially named 14 Powers Referendum. This referendum sought Commonwealth constitutional authority (until five years after the end of hostilities) over several broad elements of policy-making, including: employment and unemployment; national works; profiteering and pricing; 'the production and distribution of goods' (with the exception of primary production); and 'the control of overseas exchange and overseas investment'.[90] The 14 Powers Referendum was rejected by the public on 21 August 1944;[91] as was the Chifley Government's subsequent referendum attempts held on 28 September 1946, which sought Commonwealth jurisdiction over the marketing of primary produce and conditions of employment;[92] and that held on 29 May 1948, which sought to obtain Commonwealth jurisdiction over prices, rents and charges.[93] By way of an explanation for these referendum defeats, it is interesting to note Australian historian Stuart Macintyre's observance of the dissipating public appetite for regulatory constraints and personal sacrifices, which occurred in anticipation of the end of the hostilities associated with the Second World War.[94]

It will be recalled that Keynes opposed direct price controls and rationing because he perceived that these measures were often grossly inefficient, administratively cumbersome, and constituted an incursion upon personal liberties (see chapter three). It should be noted, however, that in the particular economic circumstances involved with post-war reconstruction, Keynes conceded that in the period of approximately five years after the cessation of hostilities, the avoidance of damaging inflation would require the imposition of investment controls and the rationing of some consumption goods.[95] In this context, Keynes was prepared to compromise on his ideological liberal defence of personal liberties in preference to what he perceived to be the more urgent and important objective of inflation reduction.

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[86] *Ibid.*, pp. 6-8.
[87] Coombs, 'The Economic Aftermath of War', p. 74.
[88] ACG, *Full Employment in Australia*, paragraphs 101-2, p. 15.
[89] See: Whitwell, *The Treasury Line*, p. 94; Joseph Benedict Chifley 1943, Budget Debate 1943-44, 13 October, House, *CPD*, p. 484; Joseph Benedict Chifley, A reply in the Budget Debate, 19 September 1945, in Stargardt (ed.), *Things Worth Fighting For*, pp. 204-5.
[90] For the full list, see: Appendix 1, The Constitution Alteration Bill, 1944, in Campbell (ed.), *Post-War Reconstruction in Australia*, pp. 321-2.
[91] See: David Day 2001, *Chifley*, Harper Collins, Sydney, pp. 399-401.
[92] See: *ibid.*, pp. 431, 443.
[93] See: David Stephens 1976, 'The Effect of the Great Depression on the Federal Labor Governments, 1941-49', *Australian Journal of Politics and History*, Vol. 22, Issue 2, pp. 260-1.
[94] Macintyre, *Australia's Boldest Experiment*, p. 474.
[95] Keynes, 'The Long-Term Problem of Full Employment', p. 322.

The Curtin and Chifley Governments, therefore, proved unsuccessful in extending the economic regulatory controls over private investment and consumption which Keynes agreed were vital in avoiding a damaging level of inflation in the post-war reconstruction phase.

Wages Policy

The inflationary pressures associated with the post-war economy were also acknowledged, by both the Curtin and Chifley Governments and their public service advisers, to require a system of wages restraint. As was established in chapter three, Keynes' Cambridge followers recognised that the realisation of full employment would bolster the bargaining position of the labour force and its trade union representatives, and thereby place inflationary pressures upon wage negotiations. As a palliative to this occurrence these post-Keynesian economists suggested the implementation of a centrally regulated wages system which would trade-off wages restraint with the establishment of worker participation in the management of private industry, and increases in social spending.

DPWR officials broadly accepted these Keynesian palliatives. They advised the Curtin Government that wages should be adjusted by the relevant Commonwealth and state arbitration courts and wage boards in accordance with both increases in the overall price level and productivity improvements. This policy was designed to deliver a large measure of wage equity, while restraining any incipient inflationary wages demand which would likely result under the conditions of full employment.[96] Coombs also envisaged that broad workforce support for wages restraint would be assisted through both the education of workers on the economics of industrial relations, and their inclusion in 'the tasks of production planning, wage determination, and labour control'.[97] During the early drafting of the 1945 White Paper, DPWR officials expressed their hope that these latter forms of workforce participation in the management of private companies would spread throughout Australian industry.[98]

The Curtin Government was far more circumspect, however, in offering inducements to the labour force in exchange for wages restraint. For instance, Curtin Government ministers deleted from drafts of the 1945 White Paper pro-labour references which stated that the threat of unemployment constituted an inequitable and unsatisfactory method of attempting to maintain workplace discipline, and they deleted references to the virtues of worker participation in management affairs.[99] Curtin also personally removed any White Paper references to the redistribution of national income which might

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[96] Dep. of Post-War Reconstruction n.d., 'A Note on Price and Wage Policy', NAA, Canberra, A9816, 1945/628, pp. 1, 3.
See also: H.C. Coombs 1944, 'Problems of a High Employment Economy', Joseph Fisher Lecture in Commerce, University of Adelaide, 29 June, Hassell Press, Adelaide, pp. 30-1.
Not all Commonwealth public service advisers were in favour of the policy of wage indexation, however. Within a committee meeting of experts called on to revise the White Paper, prominent Treasury official, Fred Wheeler, suggested that regular institutional wage reviews would provide 'too definite [an] assurance of rising pay'. Cabinet 1945, notes of Expert Committee meeting on drafting of Employment White Paper, 4 April, NAA, Canberra, A9816, 1945/639, p. 5.
[97] Coombs, 'Problems of a High Employment Economy', pp. 33-4.
[98] Cornish, 'Full Employment in Australia', p. 53.
[99] Cabinet, White Paper as amended by Cabinet (Draft 'F' to 'G'), pp. 31-2.

be obtained through increased wage rates. He was keen, however, to emphasise the use of centralised methods of restraining inflationary wage pressures,[100] and the published White Paper emphasised that trade unions' interests were not upheld through sectional inflationary wage increases.[101] In short, while Curtin was keen to emphasise his government's intention to apply centralised wage restraints, he was not keen to emphasise the possibility that the labour force might obtain a higher share of national income or participate in managerial prerogatives.

Under the post-war conditions of full employment, the Chifley Government was aware of the growing incidence of industrial unrest, and demands for greater remuneration.[102] As Stuart Macintyre has emphasised, these demands were not merely the result of the labour force's enhanced bargaining power, but were also conceived as compensation for the hardships endured during the 1930s, and the demands already foregone to bolster the nation's war effort.[103] The broad dissatisfaction with wages and working conditions resulted in the June 1945 ACTU demands for workplace reform. These demands included an expedited hearing of their 40-hour week case, and a substantial increase in the basic wage.[104] In response, the Chifley Government established an inter-departmental committee to investigate the consequences of the ACTU wage demands, which reported that their excessiveness posed inflationary dangers, and alternatively suggested unpopular 'piece-rates and incentive payments, originally mooted in early drafts of the White Paper as a way of disciplining the work-force and tying wages to productivity'.[105] More broadly, the consistent efforts made by the Chifley Government to constrain real wage rates have been widely acknowledged by political and economic historians.[106] These efforts were only partially relaxed when in 1947 the Chifley Government yielded to the political pressures of industrial disputation and impending state elections, through amendments made to the war-time wages regulations to allow Commonwealth and state industrial authorities to increase wage rates in any type of case.[107]

It can be broadly observed that while the Chifley Government's management of wages policy was not as conciliatory and well supported amongst the labour force as post-Keynesian economists would have

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[100] 'Full Employment in Australia', annotated copy carrying PM's comments and amendments to Draft 'D', p. 30.

[101] ACG, *Full Employment in Australia*, paragraph 75, p. 12.
This latter stance overrode resistance within cabinet to the publication of government statements which emphasised trade union responsibility for preventing excessive sectional wage increases. Cabinet 1945, notes of Cabinet Sub Committee meeting on drafting of Employment White Paper, 25 April, NAA, Canberra, A9816, 1945/641, p. 33.

[102] See: Crisp, *Ben Chifley*, pp. 344-6, 355.

[103] Macintyre, *Australia's Boldest Experiment*, p. 347.

[104] See: Tom Sheridan 1989, *Division of Labour: Industrial Relations in the Chifley Years, 1945-49*, Oxford University Press, South Melbourne p. 43.

[105] Johnson, *The Labor Legacy*, pp. 29-30.
For the White Paper's inter-departmental debates which concentrated on the advantages, disadvantages, and predicted opposition from trade unions, of piece-rate and incentive wage structures, see: J.F. Nimmo1944, 'Notes for the White Paper – "Efficiency of Industry"', 17 August, NAA, Canberra, A9816, 1945/628, p. 1; L.F. Crisp 1945, 'White Paper – A Second Thought: Payment Based Upon Individual Output', 27 January, NAA, Canberra, A9816, 1945/632, pp. 1-3; Lloyd Ross 1945, 'RE: White Paper Again', 27 February, NAA, Canberra, A9816, 1945/632, p. 2.

[106] See: Sheridan, *Division of Labour*, pp. 38, 40, 124, 130-1, 134-5, 141; Johnson, *The Labor Legacy*, pp. 30-3; Selwyn Cornish 1993, 'The Keynesian revolution in Australia: fact or fiction?', *Australian Economic History Review*, Vol. 33, No. 2, p. 55.

[107] See: Sheridan, *Division of Labour*, pp. 141-8; Butlin & Schedvin, *War Economy 1942-1945*, pp. 782-3.

liked, it was broadly successful in restraining inflationary wage pressures in a fully employed economy.[108] Chifley did, however, lament the absence of broad support for wages regulation. He was disappointed that both employers and unions did not take a more holistic view of the economy in their demands, nor appreciate the balance which the Arbitration Court endeavoured in their deliberations.[109] Indeed, economic historian Tom Sheridan has emphasised that it was common amongst trade unions to want to implement a more decentralised wages system, based upon market forces, which were favourable to their interests during the immediate post-war period of full employment.[110]

Notwithstanding the Chifley Government's success in restraining inflationary wage pressures, the government was unable to quell trade union demands and achieve the level of broad workforce contentment desired by post-Keynesians and DPWR officials. Most famously, the Chifley Government's restraint of wages in the coalmining industry was so deeply opposed by the workforce that an industrial stand-off was precipitated, which culminated in the Chifley Government's controversial decision to break the coalminers' 1949 strike through the deployment of military labour.[111] It should be emphasised, however, that any decision which may have been taken by the Chifley Government to implement a policy which included the devolution of managerial prerogatives to the labour force or its representatives, would most likely have exacerbated the business community's suspicion that socialist ideology underpinned the Chifley Government's policy agenda,[112] and thereby have worsened the government's business relations and electoral stocks.

International Action

Like Keynes, the Curtin and Chifley Governments, and many of their public service advisers, acknowledged that the achievement of domestic full employment could be significantly thwarted by the economic policies of other nations. In this context, the Curtin and Chifley Governments, and their public service advisers, were concerned about the potential ramifications on Australia's balance of payments of their implementation of a unilateral domestic full employment policy. It was feared that this policy would predictably lead to Australia periodically importing a greater value of goods and services than they could support through the combination of export income, foreign reserves, foreign investment, and foreign loans. The most favoured resolution to this adverse occurrence, first mooted by the F&E Committee,[113] was for the Commonwealth Government to advocate at international

[108] Macintyre has noted, for instance, that the full basic wage case was dragged out until 1950 (after the defeat of the Chifley Government), and the only wages breakout which occurred during the Chifley Government's term of office was isolated to some skilled industries, following the June 1947 margins agreement negotiated by the Victorian Amalgamated Engineering Union. Macintyre, *Australia's Boldest Experiment*, p. 351.
[109] See: Crisp, *Ben Chifley*, p. 348; Sheridan, *Division of Labour*, p. 138.
[110] Sheridan, *Division of Labour*, pp. 151, 157-8.
[111] Cornish, 'The Keynesian revolution in Australia', pp. 55-6.
For a detailed account of the industrial conditions which led to the coalminers' strike, and the Chifley Government's response, see: chapters 11 and 12, in: Sheridan, *Division of Labour*.
[112] For evidence of the business community's suspicion of the Chifley Government's underlying socialist tendencies, see: Johnson, *The Labor Legacy*, pp. 40-4.
[113] See: Macintyre, *Australia's Boldest Experiment*, pp. 117, 242-4.

conferences for a binding international treaty, requiring all national governments to ensure the full employment of their own domestic workforces. An internationally mandated obligation of this type was anticipated to ensure adequate demand for Australian export products and avoid the potential obstacle to full employment presented by a current account deficit. This policy was adopted from 1942 and was pursued by Australian delegations in: the early diplomatic discussions on the post-war international monetary and trade system; the Bretton Woods Conference of July 1944, which established the institutions and principles upon which the post-war international monetary system was based; and the conferences which sought (unsuccessfully) to establish the International Trade Organisation (ITO).[114]

Coombs coined the phrase 'the positive approach' to describe this enlightened, multilateral approach to the implementation of Keynesian policies. He described it as 'another kind of Keynesian crusade – an attempt to use the Keynesian analysis with its emphasis on sustaining demand as the basis for a reform of the international economic order'.[115] Indeed, this approach was foreshadowed in Keynes' *General Theory*,[116] and was also broadly consistent with the approach advocated by Keynes in his proposals for an International Currency Union (outlined in chapter three).[117]

Amongst other diplomatic successes in this area,[118] the Australian delegation to the London session of the Preparatory Commission to draft the agreement establishing the ITO in 1946, were successful in obtaining within the draft Charter an international commitment to high levels of domestic employment, with prohibitive sanctions for noncompliant nations.[119] However, this proposal, in common with other attempts made to embed the 'positive approach' in international monetary and trade agreements, ultimately faltered because of the absence of United States' domestic political support.[120] Although an extremely ambitious objective, the failure of these diplomatic efforts meant

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A detailed account of the development of this policy, through the F&E Committee, can be found in: Butlin & Schedvin, *War Economy 1942-1945*, pp. 630-6, 640, 648-9, 654, 658, 669-71.

[114] See: Markwell, 'Keynes and Australia', pp. 55-7.

[115] Coombs, *Trial Balance*, p. 35.

[116] See: Rowse, *Nugget Coombs*, pp. 149-50.

[117] It has, however, been widely documented that Keynes himself 'regarded an international agreement on full employment as unnecessary or impractical'. Keynes was confident that the international monetary framework established at Bretton Woods would allow sufficient flexibility of exchange rates for the amelioration of current account imbalances. Furthermore, Keynes hinted in a letter to Coombs that it was wise for British diplomacy to pursue employment policies through indirect negotiations concerned with international monetary arrangements, particularly given the domestic political pressure on the Roosevelt Administration to avoid policies which could be construed as having socialist tendencies. Keynes also confided to the Australian Treasury Secretary, S.G. MacFarlane (1938-1948), that excessive wage rates may be a prominent factor in Australia's potential export difficulties. See: Markwell, 'Keynes and Australia', pp. 58-9; Rowse, *Nugget Coombs*, p. 150; Macintyre, *Australia's Boldest Experiment*, p. 249.

[118] For details of the Curtin and Chifley Governments' diplomatic endeavours in pursuing an internationally binding full employment commitment, see: Joseph Benedict Chifley 1943, 'Planning For Peace: II. – International Co-operation, Employment and World Trade', *Sydney Morning Herald,* 2 December 1943, p. 4; Cornish, 'Full Employment in Australia', p. 10; Crisp, *Ben Chifley*, pp. 189, 200, 202-3; Coombs, *Trial Balance*, pp. 35, 43, 91-6; Coombs, 'The Economic Aftermath of War', pp. 94-6; Macintyre, *Australia's Boldest Experiment*, p. 299.

[119] See: Coombs, *Trial Balance*, pp. 94-5; Rowse, *Nugget Coombs*, pp. 128-9.

[120] See: Coombs, *Trial Balance*, pp. 103-4; Markwell, 'Keynes and Australia', p. 57; Butlin & Schedvin, *War Economy 1942-1945*, pp. 647, 660-1, 665, 668-9, 673; Macintyre, *Australia's Boldest Experiment*, pp. 247, 251-3; Rowse, *Nugget Coombs*, pp. 122-6, 139-40.

that the nation's current account balance remained an impediment to the adoption of Keynesian stimulatory policies under future federal Labor governments.

Fiscal Restraint

It has been observed that while the Chifley Government broadly applied fiscal policy in a Keynesian counter-cyclical manner, economic historians have identified that the government's budgetary restraint was obscured from the public, and its application was unhelpfully relaxed in its last budget. Chifley warned in his 1945-46 Budget Speech that demand was likely to remain above supply in the immediate post-war years for several reasons: because it would take time for resources (including labour) to be restored to peace-time production; because Australia would likely experience prolonged import supply constraints; and because of the significant level of demand accumulated through war-time savings.[121] By late-1947 a paper prepared by the Investment and Employment Committee – composed predominantly of officials from within Treasury, the DPWR, and the Commonwealth Bank - noted that these conditions had become even more acute. Indeed, it was these factors, combined with a shortage of labour, which significantly contributed to the increase in the consumer price index, which was measured at: 4 percent in 1947, 10 percent in 1948, and 10 percent again in 1949.[122]

Amidst this inflationary environment a Keynesian counter-cyclical fiscal policy would recommend the implementation of surplus budgets, and Treasury did note in June 1950 that the significant redemption of Treasury bills during this period was evidence that the Chifley Government's fiscal policy had contributed to a reduction in demand.[123] However, the fiscal record of the Chifley Government is not so easily discernible. Economic historians have accused the Chifley Government of deliberately obscuring the true condition of the budget, through its disregard for established budgetary accounting practices, and through its practice of not expending as much on public capital expenditure and social security benefits as budgeted for. This was done, they argue, to hide the unpopular fact that the government was continuing to tax the population at levels not significantly reduced since the Second World War, as part of their efforts to accrue large anti-inflationary surpluses. In this context, the Chifley Government has been accused of not trusting the wisdom of the Australian public to appreciate this benevolent anti-inflationary purpose.[124] However, the pertinent sentiment of Douglas Copland is important to note in this context: public acceptance of large budget surpluses would have required 'more restraint than has been customary by individuals and groups in a free society in buoyant times'.[125]

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[121] Joseph Benedict Chifley 1945, 1946-46 Budget Speech, 7 September, House, *CPD*, p. 5216.
[122] Whitwell, *The Treasury Line*, pp. 84-6; M.J. Artis & R.H. Wallace 1971, 'A Historical Survey of Australian Fiscal Policy 1945-66', *Australian Monetary and Fiscal Policy: Selected Readings*, Vol. 1, University of London Press, Hornsby, pp. 407-8.
[123] See: Whitwell, *The Treasury Line*, p. 93.
[124] *Ibid.*, pp. 90-3; Artis & Wallace, 'A Historical Survey of Australian Fiscal Policy 1945-66', pp. 409, 414-5.
[125] Copland, *Inflation and Expansion*, p. 25.

Economic historians have also claimed that fiscal policy in the Chifley Government's latter years, and particularly in its final 1949-50 Budget, was decidedly expansionary and not an effective restraint on inflationary pressures.[126] In contrast, Greg Whitwell was laudatory of the Keynesian counter-cyclical fiscal restraint of the Chifley Government's conservative successor, the Menzies Government. He regarded the 1951-52 Budget as: 'the first explicit [Australian] use of fiscal policy for anticyclical purposes', and described it as 'Keynesian in practice, principle and spirit and openly so'. Whitwell implied that unlike Chifley, Treasurer Arthur Fadden (1940-1941, 1949-1958), had been transparent about the anti-inflationary need for measures of increased taxation during both the preparation for and communication of the 1951-52 Budget.[127]

Public Works Deployment

In establishing its Keynesian advocacy for stimulatory public works, the 1945 White Paper acknowledged that: 'Careful and detailed advance preparation will be required', for their deployment in recessionary economic conditions. This prudent approach was consistent with Keynes' advocacy for the maintenance of advanced plans and ordered priorities for stimulatory public works.[128] Accordingly, the White Paper stated that 'Plans, equipment and materials must be kept at an advanced stage of preparedness if men and women threatened with unemployment are to continue in employment'.[129] Prime Ministerial economic adviser, Richard Downing, provided a summation of the level of detailed plans that the National Works Council resolved to mandate for all prospective public works projects:

> (a) Each accepted proposal [is] to be completely planned to the stage where it can be held in readiness for the invitation of tenders or for the commencement of the work by day labour.
>
> (b) Detailed information relating to costs, extent and classification of labour, types and quantities of materials, shall be specified in relation to each proposal and then assembled in summary form to most comprehensive planning requirements.
>
> (c) That all formalities be concluded in respect of each proposal, including the obtaining of any necessary parliamentary approval, the acquisition of land and the like.[130]

In 1948 these works, prepared in conjunction with State and local government bodies, amounted to £569 million in potential investment, totalling 6,245 projects. Importantly, the National Works Council's list of stimulatory projects was never deployed, due to the sustained high level of demand for labour which persisted throughout the period of the Chifley Government.[131]

Notwithstanding this fact, however, likely implementation problems were anticipated by Australian economists to thwart the timely deployment of these public works projects. Public servants involved in

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[126] Whitwell, *The Treasury Line*, pp. 93-5, 100-1; Artis & Wallace, 'A Historical Survey of Australian Fiscal Policy 1945-66', pp. 410-1, 415.
[127] Whitwell, *The Treasury Line*, pp. 105-7.
[128] See also: Melville, 'Economics of New Orders', pp. 151-2; Gunnar Myrdal 1939, 'Fiscal Policy in the Business Cycle', *American Economic Review*, Vol. 29, March Supplement, pp. 183-6.
[129] ACG, *Full Employment in Australia*, paragraph 45, p. 8.
[130] Richard Downing 1945, 'The Planning of Public Investments in Australia', 4 August, NAA, Canberra, A571, 1945/574 Part 4, pp. 16-7.
[131] Artis & Wallace, 'A Historical Survey of Australian Fiscal Policy 1945-66', pp. 406-7.

the drafting of the White Paper, such as William Funnell, the Director-General of Manpower, anticipated that difficulties would be encountered in enticing labour in peacetime to accept unattractive employment on remote public works.[132] In conjunction with the Commonwealth Bank's economic adviser, Leslie Melville, and other departmental officials, Funnell doubted the ability of Australian governments to deliver full employment without the imposition of undemocratic war-time regulations over the distribution of manpower, and exchange controls - which he anticipated would pose a potential threat to foreign investment.[133] Melville was also disparaging of the large tax burden and high debt which would accompany the implementation of a program of stimulatory public works, as well as the possible empowerment of inefficient rent-seekers.[134] Furthermore, and despite their broad support for the implementation of Keynesian public works, Treasury officials doubted whether reductions in private sector demand could be accurately forecast,[135] or whether the construction of public works projects could be deployed quickly enough to stabilise demand and employment at a high level. They worried that unless these concerns were publicly acknowledged and addressed, they would be used by the government's opponents to undermine the public's confidence in Keynesian stimulatory public works.[136]

In the latter days of his government, Chifley himself also publicly lamented that: 'The great difficulty is to get the technical men to draw up the plans right down to the last detail to enable the work to be gone on with'.[137] Similarly, by 1948 Coombs also doubted the efficacy of an anti-cyclical fiscal policy that relied upon public capital expenditure, as planned through the National Works Council.[138] Coombs concluded that: 'it is clear that Government investment programmes are much less flexible than we had hoped'. He argued that public sector investments had often proved socially pressing, and were therefore unable to be delayed.[139] He doubted that governments would deploy public works programmes based purely on their contribution to demand management, and perhaps most importantly, Coombs pointed out the serious logistical problems of attempting:

> to get works of any complex character to final stages of planning and then hold them in suspense. Planning and executions are really a continuous process, and once planning is put under way, unless there is to be a serious and costly hiatus, the project will need to go ahead.[140]

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132 William Funnell to H.C. Coombs 1945, 13 March, NAA, Canberra, A9816, 1945/634, pp. 2-3; William Funnell to H.C. Coombs 1945, 4 April, NAA, Canberra, A9816, 1945/638, pp. 3-4.
See also: Haslam to H.C. Coombs 1945, 'Comments on Draft of "Full Employment in Australia"', 11 April, NAA, Canberra, A9816, 1945/638, pp. 1-2.

133 Funnell to Coombs, 4 April 1945, pp. 1-2; L.G. Melville to S.G. McFarlane 1945, 3 April, NAA, Canberra, A9816, 1945/638, p. 2; Melville, 'Economics of New Orders', pp. 154-5; A.C. Moore to H.C. Coombs 1945, 3 April, NAA, Canberra, A9816, 1945/638, pp. 1-2.

134 Melville, 'Economics of New Orders', p. 155.

135 This concern was also raised by Melville. See: L.G. Melville 1946, 'Some Post-War Problems', *Economic Record*, Vol. 22, Issue 1, June, pp. 6-7, 21-2.

136 Wheeler, 'Proposed White Paper on Full Employment', pp. 2-3.

137 Joseph Benedict Chifley, speech to the Annual Conference of the New South Wales ALP Branch, 12 June 1949, in Stargardt (ed.), *Things Worth Fighting For*, p. 62.

138 H.C. Coombs 1948, 'Australia's Ability To Avoid Booms and Depressions', *Economic Papers*, Vol. 8, p. 46.

139 This point had been raised previously by Melville, who cited the sentiment of William Beveridge. See: Melville, 'Some Post-War Problems', p. 6.

140 Coombs, 'Australia's Ability To Avoid Booms and Depressions', p. 47.

As an alternative, Coombs recommended that the reserve of public sector works should be used as a permanent, stable supplement to private investment, rather than being relied on for their ill-conceived counter-cyclical flexibility. Reliance on a stable and significant level of public sector investment was envisaged to provide the Commonwealth Government with a more permanent influence over aggregate investment and demand levels.[141]

Conclusion

This chapter has argued that the Curtin and Chifley Governments pursued Keynesian policies as a means to achieve macroeconomic stability and prosperity, and in this way assist their efforts in adhering to the Labor Party's social democratic ideological objective of attempting to improve the living standards of the Party's working constituents. In so doing, this chapter has established that unlike the experience of their Scullin Government predecessor, the Curtin and Chifley Governments were not stifled in their attempts to develop and implement Keynesian policies by either the economics fraternity or financial institutions. Indeed, this chapter has established that in some instances the advice provided by officials from within the DPWR advocated more intrusive public sector planning of investment and resource allocation than either the Curtin and Chifley Governments or John Maynard Keynes would tolerate.

This chapter also established, however, that the Curtin and Chifley Governments' implementation of Keynes' proposals proved problematic. Some were not strictly adhered to, others were poorly received by the Australian public, and others confronted significant deployment problems. Summary comments are limited here to those implementation problems which have subsequently and adversely impacted upon the deployment of Keynesian policies under subsequent federal Labor governments.

Although the Chifley Government proved successful in restraining inflationary wage pressures during its period in office, this chapter has established that it did not succeed in obtaining broad workforce support for its policies of wages restraint. The DPWR's post-Keynesian proposal for the extension of managerial prerogatives to the workforce as a means of placating their opposition to wages restraint, has been documented. However, it has been suggested that the likely business opposition to this proposal undermined its political viability. The following chapter establishes that the Whitlam Government's failure to similarly obtain broad workforce support for its policies of anti-inflationary wages restraint, proved significantly more damaging to its attempts at restraining the significant rate of inflation this government presided over.

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[141] *Ibid.*, pp. 46-7, 51.
See also: Copland, *The Road to High Employment*, pp. 73-4.

This chapter has established that the Curtin and Chifley Governments' efforts made towards the achievement of an internationally binding full employment commitment, ultimately proved fruitless. Although an ambitious objective, this failure left Australia vulnerable to worsening current account imbalances under Keynesian stimulatory policies. As chapter seven establishes, Australia's parlous current account imbalance became a particular concern for the Hawke Government from the mid-1980s, and was used as a justification for fiscal, monetary, and wages policy restraints.

Finally, this chapter established that by the late-1940s the deployment of stimulatory public works were anticipated to confront difficulties associated with labour immobility and the significant technical challenges involved in planning a list of shovel-ready public works projects for timely deployment. The planning experience of the Chifley Government suggested that the tap of public works could not be turned as quickly as Keynes and his supporters had originally hoped. The following chapters argue that this scepticism towards the efficacy of stimulatory public works was shared by future federal Labor governments, and influenced their perceptions of the viability of this unemployment palliative. It is also established, however, that the insights concerning the difficulties of planning future public works projects for stimulatory deployment were replicated in statements made much later by senior public servants during the period of the Rudd Government (see chapter ten). Their conclusions were essentially the same: the planning of shovel-ready, high quality public works, cannot likely be planned in advance, or delayed for stimulatory deployment.

Amidst the unpopularity of the Chifley Government's attempts to retain its intrusive war-time economic regulations, its nationalisation of the private banking industry, and the significant level of industrial disputation it presided over, the Chifley Government was defeated by the Menzies-led conservative parties at the December 1949 federal election.[142] This defeat was the first of nine successive election losses endured by the federal Labor Party, during a period of 23-straight years in Opposition. The next chapter analyses the macroeconomic management of the next federal Labor government, led by Edward Gough Whitlam, who won the December 1972 federal election under a public sector-oriented social reform agenda, known as 'the program'.

[142] See: Day, *Chifley*, pp. 496-501; Crisp, *Ben Chifley*, pp. 339-42, 353-4, 368-74.

CHAPTER SIX
MACROECONOMIC THEORY AND THE PROGRAM: THE POLICY BATTLE INSIDE THE WHITLAM GOVERNMENT

Nearing the end of the federal Labor Party's 23-year period in Opposition, the Caucus elected Gough Whitlam as its leader in February 1967. During his period as Leader of the Opposition, Whitlam notably increased the Parliamentary Party's influence over policy development,[1] which he used to ensconce his vision of a publicly-funded social reform agenda onto official Labor Party policy. This social reform agenda constituted 'the program', which aimed at: redistributing wealth; expanding opportunity (particularly through investments in education);[2] and providing expanded public services in areas such as health, urban infrastructure, and environmental conservation - areas where Whitlam had perceived private sector provision to have been either inadequate, inefficient, or inequitable.[3] The program energised the Labor Party's supporter base and underpinned the Whitlam Government's policy agenda at both the 1969 and 1972 federal elections[4] - the latter of which returned the Labor Party to government.

The social expenditures associated with the Whitlam Government's program constituted a significant component of the government's efforts targeted at upholding the Labor Party's social democratic objective.[5] Despite this however, a thorough analysis of these social expenditures does not concern the core enquiry of this chapter. Chapter two established that market liberal economists believe that largely unfettered markets produce the most efficient use of resources, which in turn ensure the greatest level of material prosperity and living standards. Consequently they advocated for only a minimal level of state social welfare assistance for society's most indigent. Not dissimilarly, chapter three explained that John Maynard Keynes was not primarily concerned with the material hardships which resulted from distributional inequality, but rather those hardships which resulted from

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[1] For an account of the internal Party battles Whitlam instigated to reform the Federal Executive's composition and predominance over Party policy, see: Jenny Hocking 2008, *Gough Whitlam: A Moment in History*, The Miegunyah Press, Carlton, pp. 242, 245-61, 288-94, 323, 355-62.

[2] See: Jenny Hocking 2012, *Gough Whitlam: His Time*, The Miegunyah Press, Carlton, pp. 85-7.

[3] These policy objectives were championed by Whitlam throughout his public life. See: E.G. Whitlam 1961, 'Socialism Within the Australian Constitution', Curtin Memorial Lecture, in Whitlam, *Labor and the Constitution*, pp. 45-54; E.G. Whitlam 1963, 'Labor Policies and Commonwealth Powers', ALP 25th Commonwealth Conference, in Whitlam, *Labor and the Constitution*, pp. 62-3; Gough Whitlam 1978, *Reform During Recession: The Way Ahead*, Inaugural T.J. Ryan Lecture, University of Queensland ALP Club, Toowong, pp. 13-5; Graham Freudenberg 1986, 'The Program', in *The Whitlam Phenomenon*, Fabian Papers, McPhee Gribble, Fitzroy, pp. 140-1.

[4] See: Hocking, *Gough Whitlam: A Moment in History*, pp. 279-81, 333-5, 349, 389; Gough Whitlam 1972, *Australian Labor Party Speech 1972*, Blacktown Civic Centre, 13 November.

[5] It needs to also be emphasised that many of the fiscal expenditures associated with the program also revealed the Party's expanded conception of its traditional constituency under the leadership of Gough Whitlam. In particular expanded Commonwealth Government expenditures and other legislative and regulatory reforms (attempted or realised) in areas such as women's advocacy, Aboriginal affairs, and support for migrants, revealed the ALP's developing acknowledgement of the need to extend state assistance to these groups, in addition to – and in the case of women not as addendums to - the Party's traditional concern for the material wellbeing of (white) male breadwinning workers (established in chapter one). See: Susan Ryan 2013, 'Women of Australia', in Troy Bramston (ed.), *The Whitlam Legacy*, The Federation Press, Annandale, pp. 206-15; Frank Brennan 2013, 'Aboriginal Affairs', in Bramston (ed.), *The Whitlam Legacy*, pp. 255-62; Carol Johnson 2017, 'Gough Whitlam and the re-imagined citizen-subject of Australian social democracy', in Jennifer Hocking (ed.) (forthcoming), *The Whitlam Government's Agenda for the 21st Century: Equality, Opportunity, Justice*, Monash University Publishing.

macroeconomic instability. Neither theory was therefore directly supportive of the expansion of social welfare expenditures commonly associated with the development of the welfare state. It has also been established that the analysis of this thesis is only concerned with those areas of significant policy disagreement which exist between Keynesian and market liberal theories. Accordingly, this chapter deals with the program only in so far as its implementation was either facilitated by, or constrained by, the influence of either of these macroeconomic theories, or in so far as the fiscal expenditure commitments of the program overrode countervailing macroeconomic policy concerns.[6]

It is this line of enquiry which reveals new insights into the macroeconomic management of the Whitlam Government. For instance, this chapter not only establishes that prominent departments within the Commonwealth public service - Treasury and the Department of Prime Minister & Cabinet (DPM&C) - opposed the implementation of the program on the grounds that its expenditure requirements were perceived to be extravagant, but this chapter also establishes that this advice was initially based upon Keynesian principles. It was only towards the end of the Whitlam Government's period in office that these prominent Commonwealth departments, and the Reserve Bank,[7] opposed the program's implementation on unambiguously market liberal principles. In establishing this point, this chapter refutes the conventional understanding that opposition to the implementation of the Whitlam Government's social reform program was predicated on the rising influence of market-based economic theories, and that Keynesian theory unquestioningly supported the program's expansion of public expenditures.[8]

The internal conflict which existed within the Whitlam Government's Cabinet over the direction of macroeconomic policy is also important in this context. This chapter argues that by the time the Whitlam Government was elected to office in December 1972, the nation had experienced a long post-war economic boom, the strength and longevity of which had convinced Whitlam that the macroeconomic debate had been resolved in favour of Keynesianism. Moreover, Whitlam believed that Keynesian macroeconomic management could be appropriately administered through the advice of public sector experts, removed from the political fray. This conception, combined with Whitlam's apathetic approach to economic enquiry, prior to his being elected Prime Minister, effectively pitted

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[6] For a useful overview of the purpose and underlying philosophy which underpinned the Whitlam Government's social reform program, see: Freudenberg, 'The Program', pp. 130-44.
For more detailed analyses of the specific reform programs and proposals variously pursued in the policy areas of: public health; education; social security; women's advocacy; environmental protection; immigration and multiculturalism; Aboriginal affairs; cultural policy; and law reform; see the various contributions made in: Bramston (ed.), *The Whitlam Legacy*.
See also Whitlam's own account of his government's policy reforms, which also includes analysis of urban development, transport, and housing policies, in: Gough Whitlam 1985, *The Whitlam Government: 1972-1975*, Penguin Books, Ringwood.
[7] The Menzies Government had formally separated the Commonwealth Bank's commercial trading activities from its central banking functions under the *Reserve Bank Act* 1959. For a brief account of this legislative change, see: Stephen Bell 2004, *Australia's Money Mandarins: The Reserve Bank and the Politics of Money*, Cambridge University Press, Cambridge, pp. 16-20.
[8] The apparent Keynesian underpinnings to the program have been variously asserted in: Freudenberg, 'The Program', pp. 135-6; Michael Costa & Mark Duffy 1993, 'Labor and economic rationalism', in Chris James, Chris Jones & Andrew Norton (eds), *A Defence of Economic Rationalism*, Allen & Unwin, St Leonards, pp. 121-31.

him as an ill-informed conciliator in the struggle which existed within cabinet to set macroeconomic policy. This cabinet struggle centred on the competition for influence which existed between: Frank Crean and then Bill Hayden, both of whom during their periods as Treasurer broadly embraced their department's calls for fiscal restraint - based successively upon Keynesian and then market liberal principles; and Jim Cairns, who upheld a broadly socialist critique of fiscal austerity – a position which exists outside of the theoretical contest between Keynesianism and market liberalism.

In analysing these theoretical divisions, this chapter does not seek to gloss over the macroeconomic instability which confronted the Whitlam Government, nor the impact that this instability had upon perceptions of appropriate macroeconomic policy. For instance, it must be acknowledged that the resurgent acceptance of market liberal principles towards the end of the Whitlam Government's period in office was significantly influenced by the first-hand experience of 'stagflation' - the simultaneous occurrence of both high rates of unemployment and inflation - the coincidence of which was thought impossible within the Phillips curve variant of Keynesianism.[9] Indeed, it was during the period of the Whitlam Government that the conditions of stagflation ensconced themselves onto the Australian economy.[10] Greg Whitwell has summarised the growing conventional wisdom of this period:

> In Australia and abroad, those whose understanding of the economy and whose policy prescriptions were based on the notion that (as the so-called Phillips curve suggested) there was a trade-off between unemployment and inflation, those who took for granted that unemployment could be dealt with by increasing expenditure and budgeting for deficits, were thrown into disarray.[11]

Moreover, as political scientist Brian Head has also usefully summarised, the occurrence of stagflation combined with the evident international 'volatility in financial markets, fluctuating commodity prices, trade conflicts, [and later] pressure on [the nation's] balance of payments',[12] all coalesced to restore a favourable light to the supply-side principles of market liberalism, which appeared to offer stability through prudence.[13] This catalyst for a market liberal resurgence in economic theory and policy advocacy is acknowledged throughout this and the following chapter which addresses the macroeconomic management of the Hawke and Keating Governments.

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[9] It needs to be emphasised that the 'law-like' methodology and apparent mathematical precision of the Phillips curve would likely have been opposed by Keynes. See: Greg Whitwell 1993, 'Economic ideas and economic policy: the rise of economic rationalism in Australia', *Australian Economic History Review*, Vol. 33, No. 2, pp. 17-8.

[10] At the end of the fiscal year 1974-75, registered unemployment recorded 4.6 percent, and the annual change in the consumer price index (CPI) recorded 16.7 percent. See: Russell Mathews & Bhajan Grewal 1997, *The Public Sector in Jeopardy: Australian Fiscal Federalism from Whitlam to Keating*, Centre for Strategic Economic Studies, Victoria University, p. 32.

[11] Greg Whitwell 1993, 'Economic Affairs', in Hugh Emy, Owen Hughes & Race Mathews (eds), *Whitlam Re-Visited: Policy Development, Policies and Outcomes*, Pluto Press, Leichhardt, p. 51.

[12] Brian Head 1988, 'The Labor government and "economic rationalism"', *The Australian Quarterly*, Vol. 60, No. 4, Summer, p. 468.

[13] Australian political scientist Ashley Lavelle has argued that the exhaustion of the long post-war economic boom in the mid-1970s, and the seeming inability of Keynesian economics to offer viable solutions to the conditions of stagflation, constituted the primary causal factor – over and above electoral motivations, the pressures of globalisation, and ideological realignment - in the ALP's adoption of neoliberal (or market liberal) economic policies from the last year of the Whitlam Government's period in office, in 1975. See: Ashley Lavelle 2005, 'Social Democrats and Neo-Liberalism: A Case Study of the Australian Labor Party', *Political Studies*, Vol. 53, Issue 4, December, pp. 753-71.

However, notwithstanding the significance that the experience of international macroeconomic instability had in providing a catalyst for the re-embrace of market liberal theory, it is central to the argument of this thesis that the adoption of macroeconomic theories and their advocated policies can reveal much about the ideological perspectives of policy makers. This thesis argues that ideological perspectives frequently underpin economic policy judgements. It is argued that while external economic circumstances may ostensibly alter the viability of economic theories, the interpretation of economic data and policy decisions made upon them are frequently underpinned by ideological assumptions. This thesis proposes that economic circumstances are often interpreted through the principles of competing economic theories, which are in turn underpinned by ideological assumptions, and are thereby often accepted or rejected by policy makers in accordance with their own ideological perspectives on issues such as the appropriate role for government economic intervention. Policy makers' assessments are not, therefore, always made according to an objective appraisal of a theory's predictive validity or the material consequences of its advocated policies. Chapters two and three established that libertarian ideology underpins the theoretical analysis of market liberalism, and that Keynes' middle way variant of liberalism underpinned his theoretical analysis. Ideology has therefore been established within this thesis as inherently intertwined with economic theorising and policy advocacy. Importantly, chapters two and three also established that market liberal and Keynesian theories attribute the occurrence of significant levels of unemployment and inflation to different causal factors. Furthermore, while the occurrence of stagflation may have ostensibly undermined Keynesian theory according to some contemporaries, Tim Battin has cogently argued that the Phillips curve variant – adopted by many who favoured a neoclassical-Keynesian theoretical synthesis - misrepresented Keynesian theory's acknowledgement of the political influences which can contribute (including simultaneously) to both high levels of unemployment and inflation.[14]

In keeping with the central argument of this thesis, this chapter argues that the Whitlam Government implemented those macroeconomic policies which it believed would best uphold the Labor Party's social democratic ideological objective of improving the living standards of the Party's working constituents. In making this assessment, however, this chapter acknowledges the widespread assessment amongst scholars and economic policy practitioners, that the macroeconomic policy confusion which existed under the Whitlam Government proved ineffective and damaging to the nation's prosperity. Two key examples of policies which formed the basis of this poor assessment are noted: the Whitlam Government's inability to restrain inflationary wage outcomes; and the Whitlam Government's apparent fiscal profligacy. These two areas of perceived policy failure provide valuable insight into this thesis' analysis of the deployment problems which have been encountered by successive federal Labor governments in their implementation of Keynesian policies. This analysis highlights the Whitlam Government's inability to obtain broad workforce approval for its anti-inflationary policy of wages restraint; and the Whitlam Government's reluctance to expend the

[14] See: Battin, *Abandoning Keynes*, pp. 123-7.

majority of its 1974-75 expenditure increases on public works, as Keynes had advocated. On this latter point, this chapter establishes that while the Whitlam Government did implement the Regional Employment Development Scheme (REDS), a stimulatory public works program compliant with many of the criteria established for the successful deployment of stimulatory public works by both Keynes and E.R. Walker, this chapter also establishes that the scheme did not receive the share of increased fiscal expenditures it required to maximise its alleviation of unemployment.

In forming a judgement on this latter point, this chapter suggests that the expenditure priorities of the program had more influence in determining fiscal priorities during this period. Indeed, this chapter argues that until the Whitlam Government embraced market liberal policies at the end of its period in office, the expenditure priorities of the program determined the government's fiscal policy and wider macroeconomic management. In this context, this chapter argues that until the Whitlam Government embraced market liberal policies in its final months, concerns about how adverse macroeconomic conditions might detrimentally impact upon the Labor Party's constituents were consistently overridden by cabinet's concern to uphold the Party's social democratic objective through the implementation of the program.

In establishing these points, this chapter begins by analysing the macroeconomic approach Gough Whitlam brought to government in December 1972. This section is followed by a lengthy assessment of the influence (or otherwise) of Keynesian theory upon the Whitlam Government's policy-making; a section which addresses the Whitlam Government's inability to convince the workforce of the merits of its policy of anti-inflationary wages restraint; and a final section which establishes the Whitlam Government's eventual embrace of market liberal fiscal restraint, in response to the adverse macroeconomic conditions it confronted.

Whitlam's Approach to Macroeconomic Management

The long-time Canberra press gallery journalist Wallace Brown wrote that Whitlam '[a] man of superb intellect, knowledge and literacy ... had little ability when it came to economics'.[15] This sentiment, while popularly accepted, is both simplistic and misleading. A more accurate summation is that, by his own admission, Whitlam had little interest in economic thought. He was apathetic: 'It is fair comment that my own preoccupations and predilections lay beyond the narrower field of economic theory'.[16] But while some of his extra-parliamentary colleagues, such as the then President of the ACTU (1969-1980) and President of the ALP (1973-1978), Bob Hawke, have suggested that this was an apathy born

[15] Wallace Brown 2002, *Ten Prime Ministers: Life among the politicians*, Longueville Books, New South Wales, p. 120.
[16] Whitlam, *The Whitlam Government:* p. 184.
See also: Barry Hughes 1980, *Exit Full Employment: Economic policy in the Stone Age*, Angus & Robertson, Sydney, p. 85.

of arrogance,[17] it is more accurate to suggest that Whitlam simply believed that debates in economic thought had already been solved.

Within his own extensive account of his government's record, Whitlam conceded that in coming to office he had perceived that the post-war economic boom of the 1950s and 1960s provided evidence that: 'The broad principles, and indeed objectives, of Keynesian economics', provided the policy toolkit needed to ensure the ongoing prosperity of low inflationary full employment. The controversy which had once surrounded economic theory had in his mind been resolved. Furthermore, he 'believed that the Australian Treasury could be absolutely relied on for loyal, disinterested and frank expert advice'.[18] This sentiment reveals that in Whitlam's mind, economic advice was no longer the product of competing economic theories or ideological judgements, but simply a technocratic matter of interpreting economic data and advising the appropriate policy responses. It was as if the 'Economic Problem' of poverty and want, which Keynes had hypothesised over, had been solved, and the role of government had by consequence changed in Whitlam's mind from being one where governments were concerned with the creation of maximum economic efficiency, to one where governments need only concern themselves with the delivery of economic equality, under an agreed Keynesian framework.

In this context, Whitlam's biographer Jenny Hocking has usefully explained the continuity and differences which Whitlam identified between his economic approach and that pursued under the post-war reconstruction plans of the Curtin and Chifley Governments. Hocking explained that Whitlam shared these governments' fervour for the objectives of full employment and social welfare, and she emphasised how this was symbolically supported through Whitlam's appointment of H.C. Coombs as his personal economic adviser.[19] More importantly, Hocking also usefully highlighted how Whitlam anticipated that his government would confront sharply divergent economic circumstances to those dealt with by his predecessors. Whereas the Curtin and Chifley Governments had presided over the necessary scarcities of wartime management and post-war reconstruction, Whitlam anticipated that he would govern amidst prosperity. As he famously stated in the lead-up to the 1972 election:

> We are now more concerned with the creation of opportunities than with the imposition of restraints. Within Australia today we do not have to plan to ration scarcity but to plan the distribution of abundance, not to restrict shares but to secure a fairer share for all.[20]

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[17] Hawke has claimed that Whitlam rejected his late-1972 offer of an expert economics tutor. See: George Megalogenis 2012, *The Australian Moment: How We Were Made For These Times*, Viking, Camberwell, pp. 31-2; Blanche d'Alpuget 1984, *Robert J. Hawke: A Biography*, Schwartz, Penguin Books, Ringwood, p. 212.
[18] Whitlam, *The Whitlam Government*, p. 184.
[19] Hocking, *Gough Whitlam: His Time*, pp. 11-2.
See also: E.G. Whitlam 1975, 'The Road to Reform – Labor in Government', Chifley Memorial Lecture, p. 6.
[20] EG Whitlam 1972, 'The choice for Australia', 1 May 1972, in *The Macquarie Broadcasts May-October 1972*, ALP, Canberra, p. 2, quoted in, Hocking, *Gough Whitlam: A Moment in History*, p. 390.
This sentiment was first expressed within Whitlam's 1961 Curtin Memorial Lecture, see: Whitlam, 'Socialism Within the Australian Constitution', p. 56.

Whitlam was, moreover, unconcerned about the government revenue which would be required to finance his redistributive program. He believed that revenue would naturally increase in line with the increased economic growth that he expected to be generated from his government's public sector expansion.[21] As Carol Johnson has explained, Whitlam envisaged that increased public expenditures on education, hospitals, transport, urban development, and housing, 'would provide new opportunities for [private sector] manufacturers who could produce the goods and materials needed', and this would further benefit the private sector indirectly by increasing the purchasing power of those consumers who were employed in the public sector.[22] In Whitlam's understanding there did not exist a zero-sum game between the resource requirements of the public and private sectors. Both were anticipated to share in the abundance of economic growth, and more specifically, public sector expansion was believed to stimulate private sector growth. This was the fiscal logic which underpinned Whitlam's belief that his program was neither fiscally profligate nor irresponsible.

However, Whitlam's conception of Keynesian economics did not appear to acknowledge the possibility that excess demand – whether emanating from the public or private sectors - could create damaging inflationary pressures, as Keynes had identified and explained (see chapter three). The following sections establish that during the period of the Whitlam Government, Treasury was not only aware of this possibility, but identified the occurrence of excessive inflationary demand pressures in the economic circumstances which the Whitlam Government inherited.

The Battle for Macroeconomic Policy: Keynesian Theory v The Program

Treasury's Call for Restraint

Treasury did not share Whitlam's sanguine perspective. Treasury officials did not believe that increased public sector expenditures unproblematically reinforced private sector growth. Rather, cabinet submissions produced by Treasurer Frank Crean (1972-1974) reveal that from the Whitlam Government's inception Treasury was primarily concerned with the inflation threat, which in accordance with Keynesian theory, they perceived to derive from the nation's overly buoyant demand.[23] Treasury advised that there would soon develop a surplus of jobs, and that this situation of overly buoyant demand should be ameliorated through budgetary expenditure restraint.[24] Perceptions of a demand-induced inflation threat also featured prominently in the advice of the DPM&C, who

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[21] Whitlam, *Australian Labor Party Speech 1972*, p. 6; Whitlam, *The Whitlam Government*, p. 185.
[22] Johnson, *The Labor Legacy*, pp. 54-7, 63.
[23] See: Frank Crean 1973, 'Economic Situation and Prospects', Cabinet Submission No. 104, NAA, Canberra, A5931, CL 155 Part 1, pp. 1-3, 6-7, 9.
[24] Frank Crean 1973, 'Budget Prospects and Expenditure Priorities', Cabinet Submission No. 105, 6 February, NAA, Canberra, A5931, CL 156, pp. 1-2, 4, 12, 14-5.

warned that the Whitlam Government should 'exercise ... great care [i.e. restraint] in the period ahead as the Government implements its social and economic programmes'.[25]

In assessing the influence of Keynesian theory on these calls for fiscal restraint, an analysis of the ideological foundation which underpinned the conflicting advice presented to cabinet by Jim Cairns is required, and is provided in the following passages.

The Economics and Ideology of Jim Cairns

Before Cairns was appointed to the Treasury portfolio in December 1974,[26] he used his authority as Deputy Leader of the FPLP to fight fervently within cabinet against the public service's attempts to restrain the implementation of the Whitlam Government's social reform program.[27] As alluded to above, Cairns' opposition to fiscal restraint was not based upon a commitment to Keynesian economics, but a socialist commitment to a participatory form of industrial democracy.

In assessing the political and economic philosophy of Jim Cairns, it is difficult to understate the divergence which existed between Gough Whitlam's apathy towards economic inquiry and Cairns' intense interest in this subject. As a young man Cairns experienced 'the loss of self-worth and demoralisation that went hand in hand with the [futile] search for employment', which occurred amidst the ravages of the Great Depression.[28] Like many in his generation, those experiences fostered a deep seated conviction that a largely unregulated capitalist economy could not be relied upon to provide prosperity. Subsequently, Cairns became influenced by the anti-rentier economist Henry George[29] and later studied commerce and economics at the University of Melbourne, where he was eventually appointed a Senior Lecturer in Economic History - after having completed a doctorate at Oxford University.[30] During this period Cairns was heavily influenced by the democratic, self-governing ethos of British guild socialism, and some aspects of Marxism.[31]

Interestingly, Cairns' biographer Paul Strangio has emphasised that amidst the Chifley Government's implementation of Keynesian policies, Cairns remained openly sceptical of their viability and effectiveness. Strangio notes that he was specifically critical that Keynesian economics did not seek to address the inherent inequality of market power which he believed existed within capitalist economies, and which was incompatible with the stable and co-operative society he envisaged.[32] Cairns

[25] DPM&C 1973, 'Notes on Cabinet Submission No. 104 – The Economic Situation and Prospect', 12 February, NAA, Canberra, A5931, CL 155 Part 1, pp. 1-2.
[26] Prior to his appointment, Cairns served variously as the Minister for Secondary Industries (1972-1973), and the Minister for Overseas Trade (1972-1974).
[27] See for instance: Bowen, *The Money Men*, pp. 207-9.
[28] Paul Strangio 2002, *Keeper of the Faith: A Biography of Jim Cairns*, Melbourne University Press, Carlton, South, p. 27.
[29] *Ibid.*, pp. 34-5.
[30] See: *ibid.*, pp. 36, 45-6, 57, 71, 75-8, 84.
[31] *Ibid.*, pp. 41, 49-55, 77-8.
[32] *Ibid.*, pp. 55-9.

consequently advocated for greater government intervention, designed to constrain acquisitive self-interest, than is proposed in Keynesian theory.[33]

In formulating this vision, however, Cairns appreciated that the Australian public did not share his socialist fervour for a wholesale (albeit peaceful) revolutionary overhaul of the capitalist system.[34] He instead envisaged a more moderate reform of the social framework in which workers and consumers, in conjunction with managers and employers, would cooperate through participation in the decision-making structures which affected their lives. This reform was envisaged to be facilitated through: the establishment of integrated industry planning structures; the expansion of various market regulations; the re-establishment of the Curtin and Chifley Governments' National Works Council; and most controversially, the establishment of a Ministry for National Planning. This latter institution was envisaged to usurp the responsibilities of Treasury, and additionally manage resource allocation between and within the public and private sectors. Essentially what Cairns described as his National Plan was designed to administer the distribution of resources according to national (including social) priorities,[35] and involve the nationalisation of the largest firms and employers - acknowledged as the greatest source of economic and power inequalities in Australia.[36]

Cairns' policy advocacy was far removed from the liberal paradigm Keynes had defended. Whereas Cairns believed that the profit motive inherent within the capitalist system had to be significantly restrained, Keynes believed that the market incentives within the capitalist system had to be tolerated if the Economic Problem of poverty and want was ever to be solved. Keynes made a liberal defence of managerial prerogatives, and he acquiesced (albeit reluctantly) in the capitalist system's dynamic profit motive. Keynes thereby confined his argument to the proposition that a *laissez-faire* capitalist economy does not naturally equilibrate at full employment, and so he advocated various government interventions designed to facilitate this achievement (see chapter three). Cairns, a doctorate in economics, understood the divergence which existed between his position and that of Keynes.[37]

Assessing the Influence of Keynesian Advice

In the cabinet deliberations which oversaw the preparations for the Whitlam Government's first budget, Cairns questioned Treasury's concern for the economic threat presented by a demand-induced inflation. He argued that projected private sector capital investment (a large component of aggregate

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[33] See the sentiments expressed in: J.F. Cairns 1956, Maiden Speech, 22 February, House, *CPD*, pp. 145-6; J.F. Cairns 1963, *Socialism and the ALP*, Victorian Fabian Society Pamphlet 8, Croydon West, pp. 4-6; J. F. Cairns 1971, *Tariffs or Planning?: The Case for Reassessment*, Lansdowne Press, St Kilda, pp. 34-5; Jim Cairns 1975, *The Quiet Revolution*, revised edn, Widescope, Camberwell, pp. 2, 19, 29-48, 67-8, 70-1, 118-9.

[34] See: Cairns, *Tariffs or Planning?*, pp. 63-4; Cairns, *The Quiet Revolution*, pp. 11-3, 19-20, 32-4, 46, 67, 111.

[35] Cairns, *Socialism and the ALP*, pp. 12, 14-9, 21-2; Cairns, *Tariffs or Planning?*, pp. 11-3, 20, 30-2, 39-49, 53-5, 58-62.

[36] Cairns, *Socialism and the ALP*, pp. 7-9; Strangio, *Keeper of the Faith*, pp. 103-4.

[37] See: Jim Cairns 1976, *Oil In Troubled Waters*, Widescope, Camberwell, p. 132; Cairns, *Tariffs or Planning?*, p. 36.

demand) was actually expected to deteriorate and thereby reduce inflationary demand pressure.[38] Moreover, Cairns emphasised a countervailing concern for 'the real growth of the economy, the high level of unemployment, and the excess of savings over investment'.[39]

In assessing the influence of Keynesian theory in this budgetary debate, it is instructive to take heed of Coombs' autobiographical account. As part of Treasury's efforts to restrain inflationary demand, the former Chifley confidant was employed to lead an audit of Commonwealth Government expenditures, with the objective of cutting inefficient or unnecessary spending inherited from the previous conservative government.[40] From this proximity Coombs has quite accurately assessed that Treasury's concern with inflationary pressures was underpinned by the belief that inflation derived from excessive demand, and particularly excessive government expenditures and wage rates in the context of full employment.[41] The importance of this point is that Treasury were still at that time operating under the existing Keynesian orthodoxy, and were not adhering to a market liberal understanding of inflation's cause. This meant that Treasury opposed the expansion of Commonwealth expenditures at this time, not because they were perceived to be inherently inflationary or inefficient (as market liberal theory argues), but because the economy was diagnosed to be temporarily overheated. The debate at this time, therefore, between the Treasury line of fiscal restraint and Cairns' fiscal expansionism, was not underpinned by competing market liberal and Keynesian theories. The difference of opinion merely centred around the extent to which demand pressures were perceived to be at that time significantly inflationary, or inadequate to maintain full employment. It was, in short, a debate centred on the diagnosis of economic data, not fundamental theoretical premises.

Indeed, if any of these protagonists questioned the Keynesian understanding of inflation's cause, it was Cairns. For Cairns upheld throughout his public life that all policies designed to constrain inflationary demand (whether fiscal, monetary or wages policies) would prove largely useless because he believed that inflation was mainly caused by the profiteering actions of monopolistic and oligopolistic private firms, who were deemed able to set prices free of effective market competition.[42] This perspective on inflation's cause revealed Cairns' deep scepticism about the ability of market competition to restrain prices, regardless of demand conditions – a scepticism not shared by Keynes. Based on this logic, Cairns believed that any pressure from employees for greater wages would, if granted, simply be offset through the private sector's inflationary imposition of higher prices. In Cairns' view, control of inflation would require the type of industry national planning and cooperation

[38] Jim Cairns 1973, 'Commentary on Treasurer's Submissions Nos. 104, 105 and 106', Cabinet Submission No. 149, February, NAA, Canberra, A5931, CL 155 Part 1, pp. 1-3, 11; J.F. Cairns 1973, 'Commentary on Treasurer's Submission No. 182 – "Expenditure Priorities"', Cabinet Submission No. 198, 12 March, NAA, Canberra, A5931, CL 156, pp. 1-4.
[39] Cairns, 'Commentary on Treasurer's Submissions Nos. 104, 105 and 106', Cabinet Submission No. 149, pp. 3-4, 11-2.
[40] See: Coombs, *Trial Balance*, pp. 303-5.
[41] H.C. Coombs to E.G. Whitlam 1973, 'Inflation and the National Wage Case', Minute No. 48/73, 13 February, NAA, Canberra, A5931, CL 245, pp. 1-2; Coombs, *Trial Balance*, p. 314.
See also: Whitwell, *The Treasury Line*, pp. 184-5, 192-3.
[42] See: Cairns, Maiden Speech, House, *CPD*, 22 February 1956, p. 149; Strangio, *Keeper of the Faith*, p. 108; Cairns, *Tariffs or Planning?*, pp. 37-40; Cairns, *Oil In Troubled Waters*, pp. 22, 66.

included within his National Plan (outlined above) - a more interventionist approach than Keynes had advocated.[43]

There also existed cogent grounds to support Treasury's Keynesian inflationary concerns. The DPM&C supported Treasury's interpretation of the economic data,[44] as have many retrospective economic analyses. It has been established that a number of domestic and external factors combined to cultivate significant inflationary pressures. These factors included: a sizeable excess of capital inflow from the late-1960s - which had resulted from an influx of foreign (including speculative) investment, as well as a boom in commodity and agricultural exports; a sharp increase in average weekly earnings; and the conservative McMahon Government's late-1971 introduction of stimulatory fiscal and monetary policies.[45] These inflationary challenges were also subsequently and grossly exacerbated in 1973 by the significant incidence of international food price inflation,[46] and the decision of the Organisation of Petroleum Exporting Countries (OPEC) to quadruple oil prices by constraining its international supply.[47]

Treasury's Keynesian inflationary concerns continued to be expressed in Crean's cabinet submissions throughout 1973 and 1974,[48] so that by the time of the preparations for the 1974-75 Budget, Crean reported the alarming news to cabinet that the annual increase in the CPI was estimated to exceed a staggering 20 percent, with '*no abatement of this upward trend ... in sight* [original emphasis]'.[49] For Crean the importance attached to inflation reduction derived from the deleterious effects that he believed its excessive rate had upon those 'little' Australians, the value of whose bank deposits and other financial assets would be reduced in real terms if inflation was left unrestrained.[50] This sentiment made clear that in Crean's mind the Party's social democratic objective would best be pursued through anti-inflationary measures, even though these would paradoxically include Treasury's proposals for the fiscal restraint of the program, which had been designed to directly assist the Labor Party's constituents.

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[43] Jim Cairns 1974, *The Impossible Attainment*, 1974 Chifley Memorial Lecture, Melbourne University ALP Club, pp. 6-12.
[44] DPM&C 1973, 'Notes on Cabinet Submission No. 149', 5 March, NAA, Canberra, A5931, CL 155 Part 1, pp. 1-3; DPM&C 1973, 'Paragraphs for consideration on opening Budget Cabinet by Prime Minister, and at such other times during the discussions as may be necessary', 15 July, NAA, Canberra, A5931, CL 135 Part 1, pp. 1-2.
[45] See: Whitwell, 'Economic Affairs', pp. 33-4, 36-7, 39; Hughes, *Exit Full Employment*, pp. 57-8; Dep. of Labour 1973, Attachment 4 to Cabinet Submission No. 285, 'Wages and their relationship to prices and other forms of incomes', 24 April, NAA, Canberra, A5915, 285, pp. 12-3.
[46] Hughes, *Exit Full Employment*, pp. 57, 59-60.
[47] Whitwell, *The Treasury Line*, pp. 265-6. Whitwell noted, however, that the 'Australian economy was to a large extent shielded from the direct impact' of the OPEC decision on oil prices 'because of the governmental practice [at that time] of setting oil price levels below world prices'.
[48] See: Frank Crean 1973, 'The Economic Context and Prospects', Cabinet Submission No. 508, 11 July, NAA, Canberra, A5931, CL 155 Part 1, pp. 1-2, 4-5; Frank Crean 1973, 'Premiers' Conference and Loan Council June 1973: The Economic and Budgetary Prospect', Cabinet Submission No. 453, 21 June, NAA, Canberra, A5915, 453, pp. 2, 8-9; Bill Hayden 1973, 'Inflation', Cabinet Submission No. 697, 5 October, NAA, Canberra, A5915, 697, pp. 1-2, 7-12; Frank Crean 1973, 'The Economic Outlook for 1973-74', Cabinet Submission No. 808, 3 December, NAA, Canberra, A5931, CL 155 Part 1, pp. 1, 4-5.
[49] Frank Crean 1974, 'The Inflationary Crisis', Cabinet Submission No. 1133, 20 July, NAA, Canberra, A5931, CL 155 Part 2, p. 2.
[50] Frank Crean 1974, Ministerial Statements: Inflation, 23 July, House, *CPD*, p. 507.

Within the cabinet preparations for the 1973-74 Budget, Crean explained that Treasury's calls for expenditure restraint would involve both delays and a reprioritisation of ministers' policy proposals.[51] Similarly, Whitlam's 7 June 1974 Premiers' Conference speech referred to the slowing of the implementation of the program;[52] and Crean's subsequent cabinet submissions, made as part of the preparations for the 1974-75 Budget, implored ministers to search for significant savings 'by deferring, stretching out or even abandoning' expenditures connected with the Party's program.[53] Elsewhere, Crean argued that it was inflation, more than insufficient growth, which most endangered the government's 'social and economic programs', and revealingly suggested that the Whitlam Government's policies had been chiefly responsible for the rapid inflationary increase in the nation's CPI.[54] In this context, Crean argued that the chief obstacle to the program's sustainability was its implementation over a short timeframe. Consequently, Crean spruiked Treasury's advice for fiscal restraint during the cabinet preparations for both the 1973-74 and 1974-75 budgets.[55]

Moreover, in the preparation for the 1974-75 Budget, Crean also explained his concern about the adverse indirect effect that the imposition of high interest rates were at that time having upon private sector confidence. Crean asserted that reduced fiscal expenditures would allow the government to reduce the severe anti-inflationary monetary restraint it had applied: the 90-day bank rate had been dramatically increased from 4.45 percent in December 1972 to 21.75 percent by May 1974.[56]

Cabinet Rejects Treasury's Keynesian Advice for Fiscal Restraint

Notwithstanding Treasury's consistent advocacy for fiscal restraint, throughout 1973 and 1974, Crean proved incapable of obtaining cabinet support for this policy. Instead, the 1973-74 Budget expanded social expenditures. For example, 'Pensions were raised in accordance with the objective of their reaching 25 percent average weekly earnings', and in nominal terms: education expenditures increased by 92 percent; health expenditures by 25 percent; and housing and community amenities were more than tripled.[57] Significant nominal expenditure increases followed in the 1974-75 Budget: 78 percent

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[51] Frank Crean 1973, 'Budget Prospects and Scope', Cabinet Submission 518, 13 July, NAA, Canberra, A5931, CL 571, p. 7. See also: Treasury 1973, 'Notes on Budget Submissions', 12 July, NAA, Canberra, A5931, CL 135 Part 1, p. 1.

[52] E.G. Whitlam 1974, speech by the Prime Minister at the Premiers' Conference, 7 June, Canberra, Whitlam Institute E Collection, http://library.uws.edu.au/whitlam/index.htm, accessed: 11 November 2014, pp. 2, 7-8.

[53] Frank Crean 1974, letter to Ministers, NAA, Canberra, A5931, CL 979, pp. 1-2.
See also: Crean, Ministerial Statements: Inflation, House, *CPD*, 23 July 1974, p. 505; Hughes, *Exit Full Employment*, p. 86.

[54] Frank Crean 1974, 'Economic Situation and Prospects', Cabinet Submission No. 1243, August, NAA, Canberra, A5931, CL 155 Part 2, pp. 3-4, Attachment: 6-7.

[55] Crean, 'Budget Prospects and Scope', Cabinet Submission 518, p. 5; Frank Crean 1974, 'Budget Parameters', Cabinet Submission No. 1245, 19 August, NAA, Canberra, A5931, CL 1217, pp. 1-4.

[56] Crean, Ministerial Statements: Inflation, House, *CPD*, 23 July 1974, p. 505; RBA n.d., Australian Financial Management Association statistics downloaded from the RBA's website under - 'Interest Rates and Yields – Money Market' , http://www.rba.gov.au/statistics/by-subject.html, accessed: 8 April 2014.
This significant level of monetary restraint had been implemented on the advice of Treasury and the Reserve Bank, and had been designed to discourage an inflationary excess of lending and investment. Whitlam later lamented that this monetary policy was unnecessarily draconian and ill-timed, and formed 'the greatest mistake' his 'Government made' due to its inordinate effect upon output and employment. Whitlam, *The Whitlam Government*, pp. 204-5.

[57] Robert Catley & Bruce McFarlane 1981, *Australian Capitalism in Boom & Depression: Options for the 1980's*, Alternative Publishing, Chippendale, p. 127; Treasury 1973, Statement No. 1 – Summary of the 1973-74 Budget, in Appropriation Bill (No. 1) 1973-74, 21 August, House, *CPD*, p. 50.

in education; 38 percent in social security and welfare; 30 percent in health; and 173 percent in urban and regional development.[58]

By the time of the 1974-75 Budget deliberations, it has been observed that neither Crean, Whitlam, nor Treasury were in control of budgetary policy.[59] Crean's parting advice as Treasurer was that the 1974-75 Budget offered 'our last chance to check the economy's headlong rush towards hyper-inflation'.[60] This advice was not heeded. Cairns, in conjunction with a cabinet which had lost confidence in Treasury prescriptions, took control of budget management. Whitlam has recalled that cabinet was incensed by what he perceived to be Treasury's deliberate deception during the 1974-75 Budget deliberations. Whitlam has alleged that Treasury deliberately underestimated the value of the expected domestic budget surplus for the 1974-75 fiscal year - in order presumably to convince ministers that they had less fiscal room to manoeuvre than they in fact did - and Whitlam has also alleged that Treasury withheld adverse unemployment figures from the government. As many have noted, this alleged deception represented the breaking of the final straw in a relationship already under immense pressure. Whitlam has recalled that as a consequence, Treasury's 'advice was rejected *in toto*'.[61] 'Cabinet effectively dismantled Treasury submissions: there was no carving into government expenditure'.[62] Predictably the main cabinet opposition to fiscal restraint derived from Cairns and his left factional colleagues: Clyde Cameron, Tom Uren, and more surprisingly (given his later embrace of Treasury opinion) Bill Hayden.[63]

The expansionary fiscal expenditures contained within the 1974-75 Budget were introduced without Treasurer Crean's support. Moreover, in humiliating fashion, Crean's Budget Speech publicly admonished his own department's strident advocacy for expenditure restraint; advice which he had himself prosecuted within cabinet:

> The conventional response to inflation has relied almost entirely on the creation of mass unemployment. Those who advocate such a course in present conditions are unable to say what level of unemployment would markedly reduce inflation. The Government is not prepared deliberately to create a level of 4 or 5 per cent, or perhaps even higher unemployment.[64]

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[58] Treasury 1974, Statement No. 1 – Summary of the 1974-75 Budget, in Appropriation Bill (No. 1) 1974-75, 17 September, House, *CPD*, p. 1295.
[59] See: Hocking, *Gough Whitlam: His Time*, p. 167.
[60] Crean, 'Economic Situation and Prospects', Cabinet Submission No. 1243, pp. 1, 5.
Crean was redeployed to the portfolio of Overseas Trade in December 1974.
[61] Whitlam, *The Whitlam Government*, p. 208.
See also: Bill Hayden 1996, *Bill Hayden: An Autobiography*, Angus & Robertson, Sydney, pp. 177-8, 592.
[62] Catley & McFarlane, *Australian Capitalism in Boom & Depression*, p. 134.
See also: Hocking, *Gough Whitlam: His Time*, pp. 167-8; Hughes, *Exit Full Employment*, pp. 89-90.
[63] See: Hocking, *Gough Whitlam: His Time*, pp. 101-2, 164-7; Strangio, *Keeper of the Faith*, pp. 290-1; John Stubbs 1989, *Hayden*, William Heinemann Australia, Port Melbourne, pp. 120-2.
[64] Frank Crean 1974, Appropriation Bill (No. 1) 1974-75: Second Reading (Budget Speech), 17 September, House, *CPD*, p. 1275.
This sentiment reflected that which Cairns had made public earlier in the year. See: Strangio, *Keeper of the Faith*, p. 281.

Instead, Crean announced that '[t]he Government has twice in less than two years been elected to carry out programs of social reform and progress',[65] and as a consequence, '[t]he Government's overriding objective is to get on with our various initiatives in the fields of education, health, social welfare and urban improvement'.[66] Ultimately, Crean implemented a budget not devised by him or his department, but the broader cabinet, and in particular Jim Cairns. Furthermore, it was a budget designed to uphold the Party's social democratic objective through the further implementation of the program, not one designed to manage the macroeconomy.

Assessing the Influence of Keynesian Theory: Fiscal Stimulation in 1974-75

Crean's latter public statement reveals much about the Whitlam Government's approach to fiscal management. Bernie Fraser, a distinguished public servant, who would rise to the positions of Secretary to the Treasury (1984-1989), and Governor of the Reserve Bank (1989-1996), under the Hawke and Keating Governments, and who has maintained a clear sympathy for Keynesian economic policy, has derided the Whitlam Government's fiscal management for its attempts to implement too many expensive social programs, too quickly. In explaining this point Fraser has argued that:

> The Whitlam Government in economic terms was quite disastrous, absolutely disastrous. They'd been 25 years, or 20 years in Opposition, and were still imbued with Keynesian kinds of notions, but if Keynes had heard them he would have disowned them. You know it was just to spend money basically and catch up on all kinds of things, and government spending was increasing by thirty or forty percent a year. ... [I]t was a bloody disaster in economic terms.[67]

Bernie Fraser's statement is instructive. In his mind, the Whitlam Government's implementation of its social reform program did not serve the useful function which Whitlam had originally envisaged of reinforcing private sector growth. Rather, in Bernie Fraser's Keynesian opinion, the Whitlam Government's social reform policies were implemented too quickly, drew upon too many resources, and were therefore inflationary.

Of course, the Whitlam Cabinet did not agree with similar contemporary appraisals offered to it. By the latter-half of 1974 they assessed that the depressed Australian economy required fiscal stimulus, and they garnered the Keynesian rhetoric to support this case. Under cabinet pressure, Crean was forced to eschew the concerns he had voiced in cabinet regarding the 'socially and economically destructive and divisive' effects of excessive inflation,[68] and instead publicly emphasised that the government had a clear mandate to adopt expansionary proposals, 'designed to take up the slack emerging in the private sector':

[65] Crean, Budget Speech, House, *CPD*, 17 September 1974, p. 1274.
[66] *Ibid.*, p. 1276.
[67] Interview conducted with Bernie Fraser, National Archives of Australia, Canberra, 14 June 2013.
[68] See: Crean, 'Economic Situation and Prospects', Cabinet Submission No. 1243, pp. 1-2.

> Crucial as the fight against inflation is, it cannot be made the sole objective of Government policy. This Government is committed to the program of social reform to improve the position of the less privileged groups in our society and to maintain employment opportunities.[69]

Chief amongst the fiscal stimulatory measures introduced was the Regional Employment Development Scheme (REDS), a classic Keynesian stimulatory public works program designed in September 1974 to 'create jobs in regions experiencing severe unemployment', through the 'funding [of] projects of a socially useful and economically viable nature', such as community amenities (see more below).[70]

In addition, Crean reassured the nation in his 1974-75 Budget Speech that the government stood prepared to apply further fiscal stimulus should the state of aggregate demand deteriorate further.[71] Subsequently, between November 1974 and February 1975, the Whitlam Government: reduced income tax rates and the company tax rate; delayed the planned introduction of a capital gains tax; increased the level of protection and provided tax subsidies to various industries (particularly the automotive and other manufacturing industries); removed the cap previously imposed by the Whitlam Government on the numbers of public servants; and increased expenditures on the REDS.[72] In all, Commonwealth Government expenditures for 1974-75 exceeded their original estimates by a significant $1.7 billion, and were $5.6 billion higher than they had been the previous year.[73] This equated to a staggering real increase in Commonwealth Government expenditures of 20.4 percent in a single year. As a consequence, and after having stabilised Commonwealth Government expenditures as a proportion of gross domestic product (GDP) in the 1973-74 Budget at 22.8 percent, they were subsequently expanded to 27.7 percent of GDP in 1974-75.[74] The nation's fiscal position deteriorated significantly on the back of these expenditures, over-and-above the effect the recession had upon increased social security expenditures and reduced taxation revenues. Political economist, Barry Hughes, has calculated the fiscal impact of these factors: the domestic budget deficit grew from $350 million in the last six months of 1974, to a 'whopping' $3.55 billion by the end of the financial year.[75] This is the context of the widespread perception of the Whitlam Government's fiscal profligacy. However, the question which concerns the analysis of this thesis is: 'was this expenditure justified according to fiscal Keynesian principles?'

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[69] Crean, Budget Speech, House, *CPD*, 17 September 1974, pp. 1275-6.
[70] Whitlam, *The Whitlam Government*, p. 223.
[71] Crean, Budget Speech, House, *CPD*, 17 September 1974, p. 1276.
[72] See: Gough Whitlam 1974, Ministerial Statements: Australian Economy, 12 November, House, *CPD*, pp. 3360-5; Hughes, *Exit Full Employment*, p. 104; Catley & McFarlane, *Australian Capitalism in Boom & Depression*, p. 141; Whitlam, *The Whitlam Government*, p. 209.
[73] Hughes, *Exit Full Employment*, p. 105.
[74] See the table of Commonwealth budget outlays, revenue and balance, in: Treasury 1995, Statement 1 – Summary of the 1995-96 Budget, *1995-96 Budget Paper No. 1*, AGPS, Canberra, p. 1-11.
[75] Hughes, *Exit Full Employment*, p. 106.
The eventual deficit for 1974-75 was recorded at: $2.274 billion. See: Treasury 1975, Statement No. 1 – Summary of the 1975-76 Budget, in Appropriation Bill (No. 1) 1975-76, 19 August, House, *CPD*, p. 68.

In answering this question, it needs to be re-emphasised that the Whitlam Government's fiscal commitment to the program outweighed its concerns for macroeconomic management at this time. Hughes has suggested, for instance, that despite Whitlam having advocated within cabinet for Treasury's package of a 'short, sharp, shock' of fiscal restraint in 1974, Whitlam never properly grasped the consequences of the restraint which Treasury was advocating.[76] Whitlam promised during the 1974 election campaign that his government would not renege on commitments contained within its social reform program or destroy jobs in order to defeat inflation.[77] Whitlam also remained wedded to his original conception that public sector expansion supports, rather than constrains, private sector growth and fiscal sustainability. In this context, Whitlam remained concerned that fiscal restraint ran the:

> risk [of] aggravating unemployment, not to mention undermining the confidence of that section of the business sector which depends on government orders. A reduction of budgetary expenditure would of necessity have a primary impact upon areas which provide demand for products of the private sector. Cuts in government spending would simply aggravate our present problems.[78]

Of course, Keynes did not believe that increased public sector expenditures unproblematically stimulated private sector growth under all economic conditions. It was only during times of deficient private sector demand that Keynes advocated stimulatory fiscal measures. In this context, Whitlam has clearly indicated that he believed the economic circumstances of 1974-75 constituted an instance of deficient demand. In his opinion, the 1973-74 Budget - which stabilised Commonwealth Government expenditures as a proportion of GDP - maintained a 'deflationary' character, 'helped to dampen demand', and delivered a domestic surplus of $211 million; 'hardly the stuff of which inflationary budgets are made'.[79] However, Whitlam argued that when the macroeconomic circumstances changed, his government implemented a 'sensible' fiscal stimulation which effectively 'erased the contractionary legacy of the credit squeeze'. He even boasted about the significant increase his government oversaw in the level of Commonwealth expenditures:

> The public sector's share of GDP rose because the private sector had slumped into recession. Had not the 1974 Budget been expansionary, GDP growth would have almost certainly been negative during that financial year. The growth in the public sector helped stimulate activity in the private sector by producing further demand for private sector goods and services and providing income for further expenditure in the private sector. The 1974 Budget did not create unemployment, it minimised it.[80]

In this context, Whitlam argued that '[t]he expanded deficit followed the onset of the recession; it did not precede or cause it'.[81] This is classic Keynesian rhetoric, and has been supported by the empirical

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[76] Hughes, *Exit Full Employment*, pp. 85-7.
[77] E.G. Whitlam 1974, speech by the Prime Minister at the Sydney Opera House, 13 May, Whitlam Institute E Collection, http://library.uws.edu.au/whitlam/index.htm, accessed: 11 November 2014, pp. 8-9.
[78] Whitlam, Ministerial Statements: Australian Economy, House, *CPD*, 12 November 1974, p. 3367.
[79] Whitlam, *The Whitlam Government*, p. 197.
[80] *Ibid.*, pp. 209-10.
[81] *Ibid.*, p. 210.

analysis conducted by Barry Hughes, which argues that the fiscal stimulus applied in 1974-75 both supported growth, and was not inflationary.[82]

It is also of significance that several of the criteria E.R. Walker established in the 1930s, for the successful planning and deployment of Keynesian stimulatory public works, were included within the criteria established for the REDS. Cabinet documents reveal that the scheme was originally designed around the finance of small-scale, labour-intensive projects in 'those areas where unemployment is worst'.[83] The scheme would include projects of: tourist facility extension; re-afforestation; environmental conservation; extension or development of cultural, social or recreational facilities and services; and provide some scope for the development of regular local government public works (i.e. street construction, sewerage and health facilities, youth hostels etc.).[84] To ensure sufficient labour-intensity, the guidelines for eligible projects included the provision that: 'not less than 50% of the Australian Government assistance under this Scheme … must be used to employ unemployed … at award wages'.[85] The scheme was also designed with '[t]he intention … to avoid purely "make-work" activities' by selecting projects which would likely 'result in continuing employment beyond the term of the project or otherwise contribute to permanent improvement in employment opportunities for those resident in the area'.[86] Safeguards were also designed to ensure that all persons employed through the REDS were 'work tested for suitable alternative employment at not less than monthly intervals and their continued employment on a project at Australian Government expense' was made 'conditional on there being no such alternative employment'. This latter condition was included in order to ensure that 'projects do not compete for labor with regular employers'.[87] Safeguards were also put in place to prevent REDS expenditures being used to finance projects for which alternative sources of finance would have been made available in the absence of the scheme.[88] It can be identified that these regulatory safeguards resemble several of the criteria established by Walker (documented in chapter four), and particularly those which ensured the labour-intensity of projects, and the encouragement of projects which promoted the ongoing use of capital goods and workforce skills developed under the scheme. The regional dispersal of projects, and the evident encouragement within the scheme's guidelines for those projects which were capable of providing as timely a fillip to employment as possible,[89] also satisfied the advice provided by Keynes himself (see chapter three). By

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[82] Hughes, *Exit Full Employment*, pp. 172-6, 179-81.

[83] Cabinet 1974, 'Revised Guidelines for the Assessment of Proposals - Regional Employment Development Scheme', Attachment A to Decision No. 2822 (Ad Hoc), Ad Hoc Committee, 16 October, NAA, Canberra, A5925, 2822/AD HOC, p. 1.

[84] Cabinet 1974, 'Regional Employment Development Scheme', Attachment to Decision No. 2645 (Ad Hoc), Ad Hoc Committee, 10 September, NAA, Canberra, A5925, 2645/AD HOC, p. 2.

[85] Cabinet, 'Revised Guidelines for the Assessment of Proposals - Regional Employment Development Scheme', p. 1.

[86] Cabinet, 'Regional Employment Development Scheme', Attachment to Decision No. 2645 (Ad Hoc), p. 1.

[87] Cabinet, 'Revised Guidelines for the Assessment of Proposals - Regional Employment Development Scheme', p. 2.

[88] Cabinet, 'Regional Employment Development Scheme', Attachment to Decision No. 2645 (Ad Hoc), pp. 5-6.

[89] For instance, revised criteria for the scheme advised that 'projects which are proposed to extend beyond 6 to 9 months will be carefully scrutinised and, where appropriate, project sponsors may be requested to rearrange the proposal to employ more workers for a more limited period'. See: Cabinet 1974, 'Current Guidelines for the Assessment of Proposals – Regional Employment Development Scheme', Attachment A to Decision No. 2839 (Ad Hoc), Ad Hoc Committee, 23 October, NAA, Canberra, A5925, 2839/AD HOC, p.4.

June 1975 the REDS employed 27,942 people – a sizeable 11.4 percent of the total number of registered unemployed.[90]

Notwithstanding the apparent influence of Keynesian stimulatory policy on the design of the REDS, however, subsequent economic analysis has questioned how much of the 1974-75 fiscal expansion was actually targeted into effective stimulatory programs. While generally supportive of the decision to use fiscal policy to stimulate the economy at this time, Barry Hughes has argued that the specific expenditures introduced after the 1974-75 Budget were not well directed for their short-term stimulatory capabilities. As has already been established, the major priority for Cairns and his like-minded cabinet colleagues was to ensure the implementation of the Party's social reform program, not to pump-prime the economy. In this context Hughes has emphasised that less than half of the expansionary fiscal measures introduced after the announcement of the 1974-75 Budget were expended upon effective stimulatory measures: the REDS; the government's retraining program (NEAT); assistance to the housing industry; and increased payments related to structural adjustment and unemployment benefits. A larger proportion was alternatively expended on increased general services and other welfare programs.[91] In this context, as valuable as the REDS may have been in restraining the rate of unemployment which would have otherwise prevailed, the scheme might have been even more effective had the Whitlam Government been more focused at this time in using fiscal policy as a tool of macroeconomic demand management, rather than a vehicle through which to deliver its social reform program.

Confronting the Inflation Challenge

Regulatory Measures for Inflation Reduction

Having rejected Treasury's repeated advocacy for fiscal restraint, the Whitlam Government implemented several regulatory measures designed to directly restrain the economy's inflationary pressures. In order to reduce inflationary liquidity, the government increased capital controls in 1973 through the Reserve Bank's Variable Deposit Requirement (applied to restrict excessive capital inflow from overseas), and the Statutory Reserve Deposit (SRD) ratio (applied to restrict bank lending). The exchange rate was also appreciated three times (in December 1972, April 1973, and September 1973); interest rates were substantially increased (see above); and tariff protection was reduced across-the-board by 25 percent - a measure designed to reduce inflationary pressures through the encouragement of market competition and the reduction of demand pressures on local resources. According to both

[90] Cabinet n.d., Report of Committee of Ministers on Regional Employment Development (RED) Scheme, NAA, Canberra, A5915, 1948, p. 1.
[91] Hughes, *Exit Full Employment*, pp. 105-6.

Whitlam and Cairns, these corrective measures had a significant and measurable effect in lowering the rate of inflation.[92]

The Whitlam Government also established a Prices Justification Tribunal (PJT), designed to apply regulatory pressure upon those businesses assessed to have implemented excessive price increases. Notwithstanding the Whitlam Government's unsuccessful attempt at garnering for the Commonwealth Government constitutional jurisdiction over the regulation of prices and incomes at the December 1973 referendums,[93] and the PJT's regulatory clout having consequently been limited to the application of moral suasion, Whitlam subsequently concluded that the force of public opinion 'proved 100 percent effective' in restraining identified profiteering.[94]

Anti-Inflationary Wages Policy

After having had both its constitutional referendums for Commonwealth jurisdiction over prices and incomes rejected by the Australian public, it has been widely documented that the Whitlam Government subsequently lost control of the economy's wage inflation. The following passages argue that this failure was due to an inability to obtain broad workforce support for its anti-inflationary policy of wages restraint. More specifically, the Whitlam Government proved unable to convince workers that they did not require large wage increases to improve their standards of living, because they had already been improved through the provision of the social wage benefits associated with the implementation of the program.

To begin this assessment, it is noted that senior Whitlam Government ministers have acknowledged the significant wage inflation which occurred during their period in office. For instance, Whitlam identified that the significant wage increases negotiated in May 1974 between General Motors Holden (GMH) and the Vehicle Builders Employees Federation, set in motion a damaging wage leap-frogging process throughout many other industries.[95] Similarly, Minister for Labour Clyde Cameron (1972-1975) lamented that the significant increases awarded in public service salaries in 1973 created broader wage flow-on demands in the private sector.[96] The broad statistics of wages growth are also significant: average weekly earnings increased in seasonally adjusted terms during the calendar year of 1974 by a staggering 28 percent,[97] a level Whitlam acknowledged as having been far in excess of the

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[92] Jim Cairns 1974, *Age*, 16 September, NAA, Canberra, A5931, CL 155 Part 2; Whitlam, *The Whitlam* Government, pp. 192, 194-5.
See also: Mathews & Grewal, *The Public Sector in Jeopardy*, pp. 31-3; Whitwell, 'Economic Affairs', pp. 36, 39; Whitwell, *The Treasury Line*, p. 212.
[93] See: Hocking, *Gough Whitlam: His Time*, p. 110; Whitlam, *The Whitlam Government*, pp. 202-3.
[94] Whitlam, *The Whitlam Government*, p. 202.
[95] *Ibid.*, pp. 199-201.
[96] Clyde Cameron & Daniel Connell 1990, *The Confessions of Clyde Cameron 1913-1990*, ABC Books, Crows Nest, p. 213.
[97] See: Whitwell, *The Treasury Line*, p. 211.

prevailing rate of inflation.[98] Indeed, Treasury figures have calculated that real average weekly earnings rose by 9.6 percent between March and December 1974.[99]

The evidence suggests that the Whitlam Government appreciated the destructive effect which excessive wages could have in exacerbating the rising rate of inflation and in discouraging investment and employment. But whilst there existed a common diagnosis of the policy problem, there did not exist a common policy solution between the government and its public service advisers, or within the cabinet itself. In their advice, Treasury emphasised that the excessive increase in real wages, relative to productivity growth, adversely reduced the profit share, and as a direct consequence reduced investment and employment.[100] Crean similarly argued that: 'If inflation now is to be mastered, there will have to be a situation in which, for a time, employees value their jobs and hesitate to put them at risk by attempting to push up wage rates further'.[101] The belief that excessive wage rates were costing jobs because of their effect on the profit share was also apparent in Whitlam's rhetoric:

> The rate of wage and salary increases has easily outstripped the rate of increase in prices. The consequential squeeze on profits has been sharp. This has in turn led to a loss of confidence by business in its ability to obtain an adequate return on capital in an inflationary environment. Employees can price themselves out of the market as effectively as business can. There are signs that this is happening. As the Treasurer said recently, in current circumstances: 'One man's larger paypacket may mean another man's job.'[102]

Somewhat surprisingly, there existed broad support for this sentiment within cabinet. Even Cairns articulated a clear understanding of the threat which wage inflation presented: '[W]age and salary earners have to realise that wage and salary increases beyond a certain point must spill over into inflation and cause unemployment as well'. In this context, Cairns presented an unequivocal choice for wage and salary earners: accept wage restraint or confront lower living standards 'as a result of ... bankruptcies, losses and unemployment'.[103] From the second half of 1974, therefore, there was no disagreement among key cabinet ministers regarding the existence of excessive, inflationary wage rates. The differences of opinion which existed between Treasury and both Cairns and Cameron, were instead centred upon the appropriate policy solutions.

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[98] Whitlam, *The Whitlam Government*, p. 201.
[99] See: Treasury 1976, Statement No. 2—The Budget and the Economy, in Appropriation Bill (No. 1) 1976-77, 17 August, House, *CPD*, p. 40.
[100] See: Whitwell, *The Treasury Line*, pp. 218-9.
Treasury calculated that the company gross operating surplus was reduced from 18% of gross non-farm product to approximately 12% in the year to the September quarter of 1974, and that the wages share of gross non-farm product increased from 64% to 71%. See: Treasury, Statement No. 2—The Budget and the Economy, House, *CPD*, 17 August 1976, pp. 40-1, 50-1.
[101] Crean, 'Economic Situation and Prospects', Cabinet Submission No. 1243, pp. 4-5.
See also: Crean, Ministerial Statements: Inflation, House, *CPD*, 23 July 1974, pp. 506-7.
[102] Whitlam, Ministerial Statements: Australian Economy, House, *CPD*, 12 November 1974, p. 3360.
[103] Cairns, *Age*, 16 September 1974.

In post-Keynesian fashion, Cairns emphasised that policies put forward to ameliorate wage inflation should 'be fair and balanced all round ... [and] convince people that they will not lose as a result of cost of living increases'. He argued that wage earners should receive full wage indexation, be compensated through reductions in income tax rates as inflation pushed wage earners into higher thresholds, and receive an increased social wage.[104]

During 1973 and 1974 Cameron similarly advocated for the implementation of wage indexation. But unlike Cairns, Cameron favoured the compression of wage relativities between various job classifications, and envisaged that this would be best achieved by only granting a flat-rate across-the-board wage indexation increase up to the value of the minimum wage. This flat-rate system of wage indexation was favoured by Cameron because of his belief that many white collar awards were excessive compared with those of blue-collar tradespersons and labourers.[105] Cameron's own department believed that wage indexation offered the least inflationary wage system available, but favoured full wage indexation (including over-award payments) in the interests of maintaining industrial peace.[106] Treasury similarly did not share Cameron's confidence that unions could be trusted to restrain their wage demands within a system of flat-rate indexation, as this system would alter established wage relativities.[107] Treasury also stated that 'indexation, in any form, applied to the great bulk of income earners would almost certainly *add* to inflationary pressures [original emphasis]'. Treasury essentially feared that wage indexation would involve awarding wage increases as compensation for previous increases in the CPI, for which wage earners had already been compensated through wage negotiations with their employer.[108]

Notwithstanding these departmental objections, however, cabinet endorsed Cameron's proposal that a flat-rate system of wage indexation be put forward as the Commonwealth Government's position before the Conciliation and Arbitration Commission at the 1974 National Wage Case.[109] On this

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[104] *Ibid.*

[105] See: Clyde Cameron 1973, 'National Wage Cases 1972-73', Cabinet Submission No. 194 (withdrawn), 9 March, NAA, Canberra, A5931, CL 245, pp. 1, 3-5; Clyde Cameron 1974, 'National Wage Case 1974', Cabinet Submission No. 876, 15 January, NAA, Canberra, A5931, CL 907, pp. 2-9; Hughes, *Exit Full Employment*, pp. 108-10.
Cameron later argued for indexation increases up to the plateau equivalent of average weekly earnings for the 1975 National Wage Case. This compromise was offered in the forlorn hope that this would form a united submission with the ACTU, who eventually, however, argued before the Commission for full wage indexation. The Arbitration Commission awarded full percentage compensation for the March quarter 1975. See: Clyde Cameron 1981, 'Industrial Labor and Political Labor: The Experience of 1972-1975', in Gareth Evans, John Reeves & Justin Malbon (eds*), Labor Essays 1981*, Drummond, Richmond, pp. 18, 22-4; Gwynneth Singleton 1990, *The Accord and the Australian Labour Movement*, Melbourne University Press, Carlton, pp. 42-3.

[106] Dep. of Labour 1974, 'Wage Indexation For Australia?: A Discussion paper', January, NAA, Canberra, A5931, CL 907, pp. 15-6, 21-4, 26-30, 33, 51-2, 58-9.

[107] See: Frank Crean to Clyde Cameron 1973, 1 March, NAA, Canberra, A5931, CL 245, pp. 2-4; Frank Crean 1974, '1974 National Wage Case – The Economic Background', Cabinet Submission No. 863, 9 January, NAA, Canberra, A5931, CL 907, pp. 6-8; J.O. Stone 1974, 'Submissions Nos. 863 and 876 – National Wage Case', Treasury Briefing Notes to the Acting Treasurer, 18 January, NAA, Canberra, A5931, CL 907, pp. 2-4.
For Clyde Cameron's rebuttal of Treasury's contentions, see: Clyde Cameron to Frank Crean 1973, 23 February, NAA, Canberra, A5931, CL 245, p. 2.

[108] Treasury 1974, 'Wages and Salaries Policy', 21 July, NAA, Canberra, A5931, CL 155 Part 2, p. 1.

[109] Cabinet 1974, Decision No. 1908, Minute, Sydney, 22 January, NAA, Canberra, A5931, CL 907.

occasion the Commission rejected the government's submission,[110] but at the following April 1975 National Wage Case the Commission awarded full wage indexation.[111] Whitlam has subsequently claimed that the belated implementation of a system of wage indexation ultimately proved '[t]he most important single factor in the eventual reduction in inflation'. By December of that year, Whitlam claimed that the system had successfully reduced increases in annual average weekly earnings from 28 percent to 13 percent, a rate slightly below the prevailing rate of inflation.[112]

In assessing his government's overall performance in managing inflationary wage pressures, Whitlam has both acknowledged and lamented that his government failed to sell the message of necessary wages restraint. According to his own account, the Whitlam Government failed to effectively communicate to workers and their trade union representatives the value they were receiving from the increased social welfare benefits and public services associated with the implementation of the program. Whitlam has estimated that these social welfare benefits had a monetary value of $16 per week, per family by 1974-75, which essentially constituted a form of de facto wage increase awarded outside of conventional industrial wage negotiations and the arbitration system. On a similar front, Whitlam has acknowledged his government's failure in not having implemented a system of income tax indexation.[113] The logic here is that a more effective collaboration with the trade union movement, and a fairer system of income tax, might have ameliorated trade union demands for greater wage increases. Despite his attempts,[114] Whitlam's inability to convince the workforce of the need for wages restraint had important consequences for the level of inflationary wage growth his government presided over.

While the concern for both the profitability of private firms and the excessive rate of wage inflation are concerns which have firm grounding in Keynesian theory, from the latter half of 1974 the advice emanating from prominent departments within the Commonwealth public service and the Reserve Bank changed in its theoretical complexion. From voicing a Keynesian critique of fiscal and wage excesses, these institutions embraced a broader market liberal critique aimed against the growth of government expenditures under all macroeconomic circumstances.

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[110] Whitlam, *The Whitlam Government*, pp. 287-8.
[111] *Ibid.*, pp. 203-4.
[112] Whitlam, *The Whitlam Government*, pp. 203-4.
See also: Mathews & Grewal, *The Public Sector in Jeopardy*, p. 38.
[113] Whitlam, *The Whitlam Government*, pp. 198, 201, 287; Whitlam, *Reform During Recession*, pp. 12-3.
Hayden produced statistics to Cabinet which revealed that income tax collections as a proportion of wages, salaries and supplements, were anticipated to substantially increase from the 14.1% they inherited in 1972-73, to an estimated 20.7% in 1975-76. Bill Hayden 1975, 'Budget Outlook 1975-76', Cabinet Submission No. 1927, 16 July, NAA, Canberra, A5931, CL 1448, p. 15.
[114] See, for example, Whitlam's contemporary emphasis on his belief that important elements of a wage earners' living standards were dependent on the adequate provision of public services – such as education, health, and child care services, and transport infrastructure – and not exclusively determined by wage incomes: E.G. Whitlam 1974, address to the Second National Convention of the Industrial Relations Society, Chevron Hotel, Surfers Paradise, 29 June, http://pmtranscripts.pmc.gov.au/release/transcript-3308, accessed: 16 April 2017, typescript, pp. 7-8.

The Embrace of Market Liberal Restraint

The adoption of market liberal policy advocacy, within prominent departments of the Commonwealth public service and Reserve Bank, has been identified to have been significantly influenced by the broader renaissance in these ideas, which occurred within the international economics profession from the mid-1960s. Treasury historian Greg Whitwell has noted, for instance, that during this period market liberal ideas (which he described as neoclassical) came to dominate the academic institutions of the US, and those inter-governmental institutions based within the US - the International Monetary Fund (IMF) and the World Banking Group - both of which had a significant intellectual influence on Australian economic thinking, and the Commonwealth Treasury in particular.[115] Whitwell also identified that by the 1970s most of the senior officials within Treasury's influential macroeconomic advisory group, the General Financial and Economic Policy (GFEP) division, had obtained their qualifications from the University of Melbourne, whose curriculums had privileged the economic theories of market liberals - such as Alfred Marshall - over and above the conflicting contributions made by John Maynard Keynes.[116] During this period the influence of market liberal ideas was also furthered by the publication of several of Hayek and Friedman's popular works - several of which were extensively cited in chapter two - and both men also visited Australia during this period: Hayek in 1976;[117] and Friedman in both 1975 and 1981. Interestingly, the former of Friedman's visits was financed by the stockbroking firm Constable and Bain, whose leader Maurice Newman was a member of the Mont Pelerin Society - the prominent libertarian forum of which Hayek, Friedman, and Mises were founding members (see chapter two).[118] Friedman's initial visit in 1975 has also been identified as having been pivotal to the Australian New Right's acceptance of monetarist principles. His 'charismatic and persuasive appeal' has been described as having met 'a generally compliant and uncritical media', and a supportive business community.[119]

By 1975 the economic principles and policy advocacy of Hayek and Friedman became evident within the critiques made of the Whitlam Government's macroeconomic management. The Reserve Bank, for instance, derided the ineffectiveness of Keynesian demand management policies:

> In essence, when inflation is high and expected to continue, a choice between unemployment and inflation virtually disappears; action designed to create more jobs then almost inevitably adds to inflationary expectations and will soon result in a further rise in unemployment. Achieving and maintaining full employment will be impossible if inflation is not reduced.[120]

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[115] Whitwell, *The Treasury Line*, pp. 205-6, 271-2.
[116] *Ibid.*, pp. 6-9, 179-81.
[117] See: Marian Sawer 1982, 'Political Manifestations of Libertarianism in Australia', in Marian Sawer (ed.), *Australia and the New Right*, George Allen & Unwin, Sydney, p. 7.
[118] See: Jerry Courvisanos & Alex Millmow 2006, 'How Milton Friedman Came to Australia: A Case Study of Class-Based Political Business Cycles', *Journal of Australian Political Economy*, No. 57, June, p. 120.
Excerpts from these two visits can be found in: Constable & Bain and the Graduate Business School Club 1975, *Milton Friedman in Australia 1975*, Clarendon Press, Kensington; Friedman, *Taxation, inflation and the role of government*.
[119] See: Courvisanos & Millmow, 'How Milton Friedman Came to Australia', pp. 122-4, 126, 129.
[120] John Phillips (Governor of the Reserve Bank) to Jim Cairns 1974, 18 December, NAA, Canberra, A5931, CL 155 Part 2, pp. 1-2.

This market liberal perspective on the ineffectiveness of fiscal stimulation was predicated firmly on the market liberal assertion that inflation was caused by excessive growth in the money supply, making any stimulatory fiscal intervention not only futile, but dangerously inflationary. In this market liberal synopsis, inflation, not insufficient demand, presents the real bulwark to employment growth, and fiscal restraint was advised not to rid the economy of its temporary excessive inflationary demand, but because growth in government expenditures was considered to be inherently inflationary as well as inefficient. Fiscal expansion was believed to either crowd out the more efficient private sector, or exacerbate the inflationary growth in the money supply. It was upon this logic that the Reserve Bank criticised the Whitlam Government's 'huge' 1974-75 Budget deficit, and argued that unless this situation was redressed, they would issue advice for the further draconian tightening of interest rates, which they accepted would crowd out business investment.[121] Moreover, just as Hayek and Friedman had argued that government intervention always adversely disrupted market efficiency, Reserve Bank officials also argued that the sooner the size of government was reduced, the less severe the corrective action would need to be.[122]

Ian Castles, then a senior departmental official at the DPM&C, also offered credence to Friedman's conception of the natural rate of unemployment: 'The truth is that full employment is no more than a slogan, and there is room for legitimate differences of opinion as to degree, and as to the consequences of pursuing it to extremes'.[123] This adherence to market liberal economic principles and policy advocacy was shared within his department,[124] the Ad Hoc Committee of Cabinet on Budget Expenditures,[125] and a cabinet submission Crean prepared as part of the review of the 1974-75 Budget.[126]

The Economics and Ideology of Bill Hayden

Into this turbulent policy environment stepped Bill Hayden. Following Cairns' dismissal from the Treasury portfolio, under the shroud of alleged impropriety surrounding his involvement in the loan scandal affair,[127] Hayden was appointed as his successor on 6 June 1975.

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[121] *Ibid.*, pp. 2-3.
[122] John Phillips (Governor of the Reserve Bank) to Frank Crean 1974, 13 August, NAA, Canberra, A5931, CL 1195, pp. 2-3.
[123] Ian Castles 1974, 'Notes on Cabinet Submission No. 1243 by the Treasurer', NAA, Canberra, A5931, CL 155 Part 2, p. 1.
[124] See: E.M.W. Visbord 1975, DPM&C, 'Notes on Cabinet Submission No. 1564: 1974-75 Budget Review', 7 February, NAA, Canberra, A5931, CL 1386, p. 2; J.L. Menadue (Secretary of DPM&C) to E.G. Whitlam 1975, 25 March, NAA, Canberra, A5931, CL 1430, pp. 1-3; J.L. Menadue 1975, 'The Treasurer's Submission – "Budget 1975-76: Options and Priorities"', 12 May, NAA, Canberra, A5931, CL 1457, pp. 2-4.
[125] Cabinet n.d., Attachment to Decision No. 3705 (Ad Hoc), Ad Hoc Committee on Budget Expenditures, NAA, Canberra, A5915, 1843, pp. 3-4.
[126] Frank Crean 1975, '1974-75 Budget Review', Cabinet Submission No. 1564, 5 February, NAA, Canberra, A5931, CL 1386, pp. 2-5.
[127] For Cairns' explanation of the rationale which underpinned the Whitlam Government's search for finance from oil-rich Middle Eastern states, and his detailed defence of his of own probity and conduct, see: Cairns, *Oil In Troubled Waters*, pp. 68-109.

Despite having been part of the cabinet opposition to the expenditure restraint advocated in Treasury's 'short, sharp, shock' of fiscal, monetary and wages restraint, during his period as Minister for Social Security, Hayden had also advocated within cabinet for general expenditure restraint based upon the Keynesian premise that demand had been overly buoyant, and that the government's regulatory, monetary and anti-protectionist policies would prove insufficient to restrain inflation.[128] Hayden also agreed with many of the perspectives which Treasury and Crean had been espousing. He agreed that the government's high interest rate monetary policy could have been eased if fiscal policy had been tightened, and he argued in the cabinet preparations for the 1974-75 Budget that a substantial reduction in Commonwealth expenditures was essential 'before we have too serious a collapse in the private sector'. 'In any case', Hayden asserted, 'our spending proposals in total seem too grand in scale for the present circumstances'.[129] Hayden also shared Bernie Fraser's later observation that the Whitlam Government had proved fiscally profligate in its attempts to implement too much of its social reform agenda too quickly, particularly in the context of significant international and inherited domestic inflationary conditions.[130] On this point Hayden was particularly scathing as well as prescient:

> ... all our programs are threatened by our continuing failure to control inflation and get the economy back onto a more stable footing. ... Our drive for social and economic reform through redistribution will be discredited for a decade or more. Our record as a Government will be jeered at and our capacity to manage the basic affairs of the country ridiculed. If we don't courageously and responsibly handle the present economic problems successfully, we will be seen to have wasted our chance to fulfil these promises we held out and talked about so articulately for so long. Our credibility would surely be destroyed for many years to come.[131]

Hayden also expressed a market liberal concern for the inflationary consequences of the excessive growth in the money supply used to finance the government's increased expenditures. In this context, Hayden believed that the economy's excessive inflationary conditions called for a reduction and a reprioritising of the scope of the program,[132] and he agreed with the newly orthodox Friedmanite perspective that 'the full employment target being aimed at by the Whitlam Government was, in fact, an over-full employment level' (i.e. above the natural rate of unemployment). In forming these opinions Hayden knew that he was rejecting many of what he later described as the shibboleths of the labour movement, those which had gained so much traction in response to the ravages of the Great

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128 Hayden, 'Inflation', Cabinet Submission No. 697, pp. 11-4.

129 Bill Hayden 1974, 'Notes on Current Economic Management', 22 July, NAA, Canberra, A5931, CL 155 Part 2, pp. 4-5. Hayden did, however, advocate for increased social security payments for the increasing number of involuntarily unemployed, as well as a guaranteed minimum income scheme for low income earners.

130 Hayden, *Bill Hayden: An Autobiography*, pp. 165-8, 170-1, 192-3.

131 Bill Hayden 1975, '1975-76 Budget Strategy: Overall Policy Options', Cabinet Submission No. 1928, 15 July, NAA, Canberra, A5931, CL 1576, p. 14.

132 See: Bill Hayden 1975, 'The Economic Context', Cabinet Submission No. 1778, 12 June, NAA, Canberra, A5915, 1778, pp. 2-4.

Depression: the primacy of full employment, the righteousness of collective action in industrial affairs, and the use of the budget to improve the lot of the Labor Party's working constituents.[133]

This rhetoric marked the end of the broad Keynesian consensus which had existed amongst policy-makers and their advisers in the post-war decades, and particularly within the Australian Labor Party. As Jenny Hocking has summarised, the eschewal of this Keynesian consensus was bound to cause severe ructions within a caucus made up of men who 'had built their political careers on the core belief that people should never again suffer the tragedies of unemployment, poverty and government inaction', which many of them were old enough to have experienced first-hand during the Great Depression.[134]

Cabinet Battle Lines Drawn

Cairns had objected to calls for fiscal restraint. His advice to cabinet, during his last weeks in the Treasury portfolio, echoed the sentiment expressed by John Curtin as an internal dissenter against the Scullin Government's implementation of the Premiers' Plan:

> We must not consent to surrender any significant part of our major social programmes and cultural advances as the result of pressure from the media and other anti-Labor forces. It is far better to be defeated while attempting to implement Labor policies than to be defeated after surrendering them.[135]

While Cairns showed significant concern for the effects that the excessive rate of inflation was having upon business confidence, and he acknowledged that this rate had been exacerbated by both growth in Commonwealth expenditures and excessive wage increases,[136] Cairns also objected to the destruction which precipitate action aimed at restraining inflation would incur. Cairns warned that an overly severe level of fiscal and monetary restraint would end up threatening investment and employment to a greater extent than would an excessive rate of inflation. As Cairns summarised: 'Our objective is to reduce inflation as fast as possible without causing unacceptable unemployment, production losses and surplus capacity'. 'We must never fail to re-employ people who can be re-employed productively merely because it would add to the deficit'.[137] In this vein, Cairns made an impassioned parliamentary defence of demand stimulation policies, against the goading of the Opposition's explicitly monetarist critique.[138]

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[133] Hayden, *Hayden: An Autobiography*, pp. 170-3, 229-31.
[134] Hocking, *Gough Whitlam: His Time*, pp. 163, 165.
[135] J.F. Cairns 1975, 'Budget 1975-76: Options and Priorities', Cabinet Submission No. 1698, 8 May, NAA, Canberra, A5931, CL 1457, p. 20.
[136] Jim Cairns 1975, 'Budget Outlook 1975-76', Cabinet Submission No. 1683, 14 April, NAA, Canberra, A5931, CL 1448, pp. 4-6.
[137] Cairns, 'Budget 1975-76: Options and Priorities', Cabinet Submission No. 1698, pp. 1-5, 10, 12-3, 20.
[138] See: Phillip Lynch 1975, Questions Without Notice: Budget Deficit, 9 April, House, *CPD*, pp. 1358-9; Bert Kelly 1975, Questions Without Notice: Unemployment, 15 April, House, *CPD*, p. 1584; Phillip Lynch 1975, Matter of Public Importance: Inflation, 15 April, House, *CPD*, pp. 1586-9; J.F. Cairns 1975, Matter of Public Importance: Inflation, 15 April, House, *CPD*, pp. 1589-91.

This outlook and policy strategy was, however, not only derided by the Opposition in Parliament, the financial press and elements of the business community;[139] it was by this time no longer the dominant position within cabinet. Ministers sympathetic to market liberal principles were inserted into key economic portfolios: Hayden into Treasury, and Jim McClelland into the ministry of Labour and Immigration.[140] Whitlam did not want to derail the economic recovery that he believed was in motion, but he had also come to believe that his government's excessive expenditures were most responsible for the inflationary increase in the money supply,[141] and as a consequence requested that ministers prepare expenditure reductions ahead of the 1975-76 Budget deliberations.[142] For his part, Hayden later offered the market liberal nostrum that Cairns had apparently 'appeared to have forgotten': 'that more inflation inevitably generates higher unemployment as well as undermining the general performance of the economy'. For Hayden the 'spend your way out of trouble' ethos, which he associated with Keynesianism, was simply nonsense.[143] It is evident therefore that substantive policy differences existed within as well as outside the cabinet, and that these differences were no longer concerned with the interpretation of economic data. In 1975 the division within cabinet over macroeconomic policy-making concerned the acceptance or rejection of market liberal principles.

The 1975-76 Budget

The adoption of market liberal economic principles amongst many of the Whitlam Government's senior cabinet ministers culminated in the deliberations and delivery of the 1975-76 Budget. Hayden warned ministers that their policy proposals would deliver a prospective deficit of $4.8 billion, and that this 'would mean abandoning the fight against inflation', the rate of which was anticipated to reach a staggering 25 percent under these conditions. Such a rate was anticipated to signal the 'throwing [of] our wages policies overboard just when the first tentative signs of results are appearing', and would also require a more draconian monetary policy, drawing capital away from private sector businesses. Hayden also argued that tax increases designed to ameliorate the deficit would only ferment greater compensatory (and inflationary) wage demands, or discourage private sector investment, depending on their composition.[144]

Expenditure restraint, therefore, was considered the crucial tool in the battle against inflation. Hayden was critical that under the Whitlam Government, Commonwealth Government expenditures had grown from just below 25 percent of GDP in the five years to 1973-74, to almost 31 percent in 1974-75.[145] With this proportion scheduled to increase to 33 percent, Hayden stressed the inflationary effect

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[139] See: Strangio, *Keeper of the Faith*, pp. 334-6.
[140] Catley & McFarlane, *Australian Capitalism in Boom & Depression*, p. 146.
[141] E.G. Whitlam 1975, 'Budget 1975-76: Options to reduce on-going expenditures', Cabinet Submission No. 1739, 6 June, NAA, Canberra, A5931, CL 1457, pp. 3-4.
[142] See: E.G. Whitlam 1975, letter to ministers, 23 April, NAA, Canberra, A5931, CL 1448.
[143] Hayden, *Hayden: An Autobiography*, pp. 174-5, 178-9.
[144] Hayden, '1975-76 Budget Strategy', Cabinet Submission No. 1928, pp. 1-2, 9-11.
[145] *Ibid.*, pp. 2, 5.

this threatened, and alternatively championed a deficit ambition of $2.5 billion – a Commonwealth Government share of approximately 30 percent of GDP. This would be achieved, Hayden argued, by significant reductions in expenditure, including the '*very painful decision[s]* [original emphasis]' of determining cuts to existing programs.[146] Cabinet agreed to this target, and accepted that it would 'be achieved overwhelmingly by reductions in presently-projected expenditures'.[147]

The extent of the expenditure reductions contained within the 1975-76 Budget did meet with the objections of many ministers,[148] and cabinet rejected the additional measures of expenditure restraint Hayden introduced late into the budget deliberations.[149] The most symbolic expenditure program to have been curtailed was the stimulatory REDS, which had been '[f]or the ALP rank and file ... testimony that something was being done for the jobless'.[150] Indeed, even James McClelland - as the responsible minister - objected to the complete curtailment of the program, arguing that while budget restraint would calm inflationary pressures and eventually lead to greater investment and employment levels, in some regions of particularly high unemployment this interventionist measure was considered essential for employment creation.[151]

The requirements of market liberal fiscal restraint prevailed, however. Moreover, the nostrums of Hayek and Friedman were echoed in Hayden's fiscal reasoning. While Hayden conceded that a projected Commonwealth deficit of $2.5 billion would involve 'a temporary pause in the recovery of activity and employment, and a lift in unemployment, in the short-term', he was convinced that '*it should be increasingly clear that the unemployment problem is now linked with the problem of inflation and will not be resolved for any length of time until that problem is resolved* [original emphasis]'.[152] This reasoning underpinned Hayden's significant Budget Speech line:

> We are no longer operating in that simple Keynesian world in which some reduction in unemployment could, apparently, always be purchased at the cost of some more inflation. Today, it is inflation itself which is the central policy problem. More inflation simply leads to more unemployment.[153]

The latter figure was later revised to a Commonwealth Government expenditures share of GDP of 27.7% for 1974-75. See: Treasury, Statement 1 – Summary of the 1995-96 Budget, p.1-11.

146 Hayden, '1975-76 Budget Strategy', Cabinet Submission No. 1928, pp. 3, 7-8, 11-2.

147 Cabinet 1975, Decision No. 3704, Minute, Canberra, 17 July, NAA, Canberra, A5931, CL 1576.
The projected deficit outcome came in at $2.798 billion, which was subsequently increased to $3.585 billion. This resulted, Whitlam later claimed, because Treasury had underestimated the growth in social security expenditures resulting from the increased number of unemployed. See: Whitlam, *The Whitlam Government*, pp. 213-4.

148 See: Tom Uren 1975, letter to the Prime Minister, 23 June, NAA, Canberra, A5931, CL 1457; J.M. Riordan 1975, Letter to the Prime Minister, 2 July, NAA, Canberra, A5915, 1945.

149 See: Bill Hayden 1975, '1975-76 Budget: Further Reductions in Expenditure', Cabinet Submission No. 1937 (withdrawn), 20 July, NAA, Canberra, A5931, 1582; Cabinet 1975, Decision No. 3710 (Ad Hoc), Minute, 21 July, NAA, Canberra, A5931, 1582; Cabinet 1975, Decision No. 3890, Minute, 25 July, NAA, Canberra, A5931, 1582.

150 Hughes, *Exit Full Employment*, p. 117.

151 James McClelland 1975, letter to the Prime Minister, 8 July, NAA, Canberra, A5931, CL 1457, p. 1.

152 Hayden, '1975-76 Budget Strategy', Cabinet Submission No. 1928, p. 13.

153 Bill Hayden 1975, *Budget Speech 1975-76*, 19 August, Australian Government Publishing Service (AGPS), Canberra, p. 3.

Conclusion

This chapter has argued that in common with their federal Labor government predecessors, the Whitlam Government implemented those macroeconomic policies it believed would best uphold the Labor Party's social democratic objective of attempting to improve the living standards of the Party's working constituents. However, this chapter has also argued that for most of its period in office, the Whitlam Government's fiscal policy was determined not by the policy advocacy of either Keynesian or market liberal macroeconomic theories, but by its determination to improve living standards through the implementation of its social reform program.

As detailed above, this approach to fiscal policy went against the consistent advice of both Treasury and the DPM&C, who during the first two years of the Whitlam Government's period in office argued fervently for fiscal and wages restraint - advice predicated on the Keynesian diagnosis that inflationary demand pressures were having an adverse affect on the economy and could be ameliorated through the restraint of budgetary expenditures and wages. The analysis above has established, however, that the Whitlam Government ignored this advice, and instead pursued the implementation of the program because of the approach to macroeconomics Gough Whitlam brought into office. It has been established that the long post-war economic boom had convinced Whitlam: that long before his government came to office in 1972, the macroeconomic debate had been resolved in favour of Keynesianism; that public sector growth unproblematically reinforced private sector growth; and as a consequence governments need no longer concern themselves with how they might create or encourage maximum economic efficiency, but need only concern themselves with how they might deliver economic equality under an agreed Keynesian framework. Whitlam's conception of Keynesian economics, however, did not appear to acknowledge the possibility that excess demand could create damaging inflationary pressures. This chapter has argued that Whitlam's sanguine and apathetic approach to macroeconomic enquiry, prior to his being elected Prime Minister, effectively pitted him as an ill-informed conciliator in the struggle which existed within his cabinet to set macroeconomic policy. Consequently, for the first two years of the Whitlam Government's period in office, Jim Cairns and his cabinet allies concentrated the government's fiscal policy priorities on the implementation of the program, against Treasury's Keynesian advice for fiscal restraint.

Moreover, this chapter has also established that the few Keynesian policies implemented by the Whitlam Government were at least to some extent poorly managed. Two prominent examples have been canvassed: the implementation of the government's stimulatory public works program, REDS; and the government's inability to garner the support of the workforce for an anti-inflationary policy of wages restraint. With regard to the former, it has been acknowledged that several of the criteria established for the successful deployment of public works programs by Keynes and E.R. Walker in the 1930s, were included within the guidelines set down for the REDS. In particular, it has been acknowledged that the REDS guidelines: ensured the labour-intensity of projects; encouraged projects which promoted the ongoing use of capital goods and workforce skills, developed under the scheme; and encouraged those projects which could provide as timely a fillip to employment growth as possible. However, it has also established that less than half of the expansionary fiscal measures introduced after the announcement of the 1974-75 Budget were expended upon effective stimulatory measures, such as the REDS. In this context, it has been argued that as valuable as the REDS may have been in restraining the rate of unemployment, the scheme might have been even more effective had the Whitlam Government been more focused at this time in using fiscal policy as a tool for macroeconomic demand management, rather than a vehicle through which to deliver its social reform program.

Similarly, this chapter has established that the Whitlam Government repeated the Chifley Government's inability to obtain broad workforce support for a post-Keynesian policy of wages restraint. Moreover, while the Chifley Government managed nevertheless to restrain inflationary wage pressures during its period in office, this chapter has established that under the Whitlam Government severe and inflationary nominal and real wage increases were allowed to proliferate. This chapter has argued that the Whitlam Government's policy failure in this regard stemmed from the government's inability to convince wage earners that the provision of increased social wage benefits, associated with the implementation of the program, meant they no longer required large wage increases to improve their living standards.

This chapter has also established that while the Whitlam Government may have largely ignored public service advice for Keynesian policies of fiscal and wages restraints, in its final months in office the Whitlam Government adopted a market liberal understanding of the adverse macroeconomic circumstances the nation faced; i.e. the Whitlam Government came to accept that its own excessive expenditures, and the wider economy's excessive wage rates, were responsible for the prevailing conditions of both very high levels of inflation and the rising rate of unemployment. This policy reorientation was significantly influenced by the advice received from prominent departments within the Commonwealth public service and the Reserve Bank, which had been influenced by the wider international reorientation towards market liberal theory and policy advocacy. The culmination of this policy reorientation was the Whitlam Government's application of market liberal fiscal restraint under the 1975-76 Budget.

Amidst the pall of allegations concerning the impropriety of the Whitlam Government's most senior cabinet ministers in relation to the so called 'Loans Affair', and the general atmosphere of profligate economic mismanagement which elements of the press and the Malcolm Fraser-led Opposition were successful in propagating against the government,[154] the Whitlam Government was dismissed by the Governor-General Sir John Kerr on 11 November 1975.[155] Subsequently, the Whitlam-led federal Labor Party also went on to be soundly defeated at both the December 1975 and 1977 federal elections.[156]

Despite the Whitlam Government having reorientated its macroeconomic policy in a market liberal direction in its final months, the next chapter will argue that the development of the original Accord agreement - negotiated between the ALP and ACTU prior to the election of the Hawke Government in 1983 - actually provided the Labor Party with an opportunity to implement a program of Keynesian demand management, amidst the recessionary conditions the Australian economy was at that time experiencing. As will be established in the following chapter, however, negative perceptions about the Whitlam Government's apparent poor record of economic governance were amongst the factors identified to have influenced the Hawke Government's adoption of market liberal macroeconomic policies, implemented most notably in the policy areas of financial deregulation, fiscal, monetary and wages restraints.

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[154] Carol Johnson has written on the press' influence, and in particular proprietor Rupert Murdoch's influence in propagating the perception of the Whitlam Government's impropriety. See: Johnson, *The Labor Legacy*, pp. 88-9.

[155] Several accounts have been published in recent years which have had the benefit of access to recently released archival material, including the personal papers produced by, and interviews conducted with, this episodes' major protagonists. See: Hocking, *Gough Whitlam: His Time*; Jenny Hocking 2016, *The Dismissal Dossier: Everything you were never meant to know about November 1975*, updated edn, Melbourne University Press, Carlton; Paul Kelly & Troy Bramston 2015, *The Dismissal: In the Queen's Name*, Viking, Australia.

[156] In 1975 the Labor Party won just 36 of the 127 House of Representatives seats, and just 44.3% of the national two-party preferred vote. In 1977 these statistics barely improved to 38 of the 124 seats in the House of Representatives, and a national two-party preferred vote of 45.4%. See: Australian Electoral Commission (AEC) 2011, *Electoral Pocketbook 2011*, Commonwealth of Australia, 4.2 Historical election results, http://www.aec.gov.au/About_AEC/Publications/electoral_pocketbook/2011/er-historical.htm, Last Updated: 15 June 2011, accessed: 6 November 2014; AEC, 'House of Representatives – Two Party Preferred Results 1949 – Present', http://www.aec.gov.au/Elections/Australian_Electoral_History/House_of_Representative_1949_Present.htm, Last Updated: 28 January 2011, accessed: 6 November 2014.

CHAPTER SEVEN

FROM KEYNESIANISM TO MARKET LIBERAL RESTRAINT: THE HAWKE GOVERNMENT'S MACROECONOMIC POLICY IN THE 1980s

The chastening dismissal of the Whitlam Government, and the decisive election defeats subsequently suffered by the Whitlam-led federal ALP at both the 1975 and 1977 elections, have been widely identified to have influenced a conservative shift in the federal ALP's economic policy-making, as well as having influenced the Party's subsequent aversion to the type of precipitate social reform embodied within the Whitlam Government's program.[1] However, while this chapter acknowledges that the macroeconomic experience of the Whitlam Government served to influence the Hawke Government's later adoption of market liberal policies, this chapter also establishes that the Hawke Government was elected to office in March 1983 upon an identifiably Keynesian-influenced platform embodied within the Statement of Accord agreement negotiated between the federal ALP and ACTU.

This chapter establishes that this platform was underpinned by two key factors: the shared interests of the ALP and the ACTU in formalising a national 'social contract', designed to assist the economy out of the deep stagflationary recession it was at that time experiencing; and the federal ALP's rejection of the Fraser Government's (1975-1983) monetarism. The Statement of Accord's macroeconomic strategy was conceived to facilitate a sustainable economic recovery through the alleviation of the type of inflationary social conflict for income shares which had previously existed between labour and capital. As detailed in chapters five and six, this form of social conflict had previously hampered the macroeconomic management efforts of both the Chifley and Whitlam Labor Governments, and had more recently exacerbated the nation's excessive rate of wages inflation experienced amidst the incipient commodities boom of the early-1980s. This chapter explains that in order to subvert this predicament, the Statement of Accord provided the Hawke Government with trade union support for a system of centralised wages restraint, sufficient to restrain inflationary pressures and accommodate an expansionary policy of Keynesian fiscal stimulation. Moreover, it is argued that this platform broadly directed the Hawke Government's macroeconomic policy-making during its first term in office (1983-1984).

Notwithstanding this Keynesian influence, however, this chapter also acknowledges that the Hawke Government's first term witnessed the incipient influence of market liberalism. It is established that this influence was initially manifest in the Hawke Government's implementation of policies broadly associated with financial deregulation: the floating of the nation's currency exchange rate; the abolition of exchange controls; the abolition of several banking regulations; and the introduction of foreign banking competition. These policies removed regulations which had previously been designed in accordance with a Keynesian suspicion of the instability and inefficiency of unfettered financial

[1] See: Singleton, *The Accord and the Australian Labour Movement*, pp. 97-8, 103-4, 107-9, 114, 118-9; Paul Kelly 1994, *The End of Certainty: Power, Politics & Business in Australia*, Allen & Unwin, St Leonards, pp. 20-4.

markets, and were themselves underpinned by a belief in the efficient resource distribution of financial market exchange.

It is also established that the Hawke Government's first term culminated in the acceptance of the market liberal crowding out theory of public expenditure (outlined in chapter two). The crowding out theory's message of fiscal restraint underpinned the Hawke Government's fiscal trilogy commitments of deficit reduction and budgetary restraint, announced during the federal election campaign in November 1984. These commitments were also later accompanied and reinforced by the Hawke Government's allied adherence to the twin deficits theory – a theory which also advocated significant cuts in public expenditures, in the interests of improving the nation's parlous current account deficit (see below). It is argued that these two market liberal theories of fiscal restraint underpinned the Hawke Government's fiscal policy for the remainder of its period in office, and were applied in spite of two distinct episodes of macroeconomic instability, experienced during the terms-of-trade and current account deficit crisis of the mid-1980s, and the early-1990s recession (the latter of which is analysed in chapter eight).

This chapter and chapter eight also establish the developing influence of market liberal theory in the changes which occurred in the Hawke and Keating Governments' regulation of wage rates, and the broader development of their industrial relations policies. It is established that from 1985 the various renegotiated forms of the Accord included instances of severe wages restraint, and from 1987 an increasingly decentralised form of industrial wage bargaining. These revisions sought respectively: to reapportion a larger share of national income to business profits; and to apply an ever greater level of market distribution to the national system of wages determination. Both objectives accorded with market liberal principles outlined in chapter two. In this context, it is argued that these revisions to the original Statement of Accord reneged on this agreement's adherence to a post-Keynesian understanding of the justice associated with full wage indexation.

Importantly, this chapter and chapter eight also acknowledge the hardships which accompanied the Hawke Government's implementation of its market liberal policies of fiscal, monetary and wages restraints. In particular both chapters acknowledge the adverse effects these policies had upon the ALP's traditional working constituents. However, and in accordance with the core argument of this thesis, these chapters also argue that the Hawke and Keating Governments – like their federal Labor government predecessors - implemented those macroeconomic policies which they believed best facilitated the ALP's social democratic objective of attempting to improve the living standards of the Party's working constituents and their dependents. More specifically, throughout most of the period of the Hawke and Keating Governments, it is established that market liberal policies were embraced and Keynesian policies eschewed because senior cabinet ministers believed that the former were better suited to facilitating market efficiency and the conditions of low inflationary, full employment macroeconomic prosperity, while Keynesian policies came to be considered as both ineffective and redundant.

In this context, the following two chapters acknowledge the significant influence upon the Hawke and Keating Governments of the market liberal policy advice received from prominent departments within the Commonwealth public service, and most particularly from within the Treasury department. This influence constituted a continuance of the market liberal policy advice previously received by the Whitlam Government in its latter months in office (see chapter six). However, under the Hawke and Keating Governments, Treasury's vigorous market liberal advocacy significantly influenced these governments' macroeconomic policies for more than a decade. This chapter argues that Treasury's market liberal adherence performed a key role in reinforcing Treasurer Paul Keating's (1983-1991) already developing belief that a greater reliance upon private sector resource distribution would increase economic efficiency and macroeconomic prosperity, and would thereby improve the living standards of the ALP's working constituents.

This chapter establishes that from the mid-1980s the Hawke Government believed that it was only through the greater empowerment of competitive financial markets and a restrained public sector and wages system, that macroeconomic prosperity could be restored. In accordance with Treasury's market liberalism, the Hawke Government came to perceive Keynesian policies of fiscal stimulation as both ineffective and inflationary, and they prosecuted the case that public expenditures necessarily, and at all times, damagingly crowd out the more efficient private sector. It was in this context also, that the Accord was renegotiated repeatedly in order to restrain wages and restore the nation's profit share ratio to levels which were identified to have previously supported full employment, prior to the excessive wage outcomes of the Whitlam Government's period in office. It was in accordance with these market liberal principles, therefore, that the Hawke and Keating governments shifted resources from the public sector and wage earners, towards the private sector. It was believed that this process would benefit the Party's working constituents because it was expected to produce a more efficient distribution of resources, and facilitate greater levels of investment and employment, and ultimately better standards of living.

As outlined in the opening chapter, given the long duration of the Hawke and Keating Governments, and the multiple episodes of macroeconomic instability which occurred during this period, the analysis of the Hawke and Keating Governments has been separated into two chapters. This chapter analyses most of the subject matter outlined above, while chapter eight is concerned with analysing the macroeconomic policies which had an impact upon the early-1990s recession. Chapter eight also provides an overall assessment of the Hawke and Keating Governments' macroeconomic policy record. This chapter begins its analysis with an account of the development of the Statement of Accord's Keynesian platform.

The Hawke Government's Keynesian Platform

The Development of the Accord

In the midst of the recessionary conditions of stagflation which engulfed the Australian economy during the financial year 1982-83,[2] the federal ALP negotiated a social contract with the ACTU under the Statement of Accord, formally agreed in February 1983. This agreement sought to ameliorate the divisive and inflationary competition for income shares between labour and capital which had previously hampered the macroeconomic management efforts of both the Chifley and Whitlam Labor Governments, and had stifled the incipient commodities boom of the early-1980s.

Although there is not sufficient space within this section to chart in detail the course of events and changes in policy which took place within the labour movement, and particularly within the ACTU in the period between the Whitlam and Hawke Governments, several points need to be explained in order to establish the Keynesian shift in policy which occurred within the federal Labor Party at this time. The example of Prime Minister Bob Hawke is of particular importance in this context. As alluded to within the previous chapter, Hawke held the prominent positions of President of the ALP (1973-1978), and President of the ACTU (1969-1980). From this position of influence, Hawke shifted his policy advocacy from an active opposition to the Whitlam Government's December 1973 referendum proposal for Commonwealth constitutional jurisdiction over the regulation of incomes, to an acceptance that adequate control over inflation required a centralised system of wages restraint.

In Whitlam's own published account of his government's record in office, he lamented that it had been the trade union movement's opposition to his government's 1973 incomes referendum which ensured its defeat and that of the referendum proposal for Commonwealth constitutional jurisdiction over the regulation of prices. Whitlam claimed that under Hawke's leadership the union movement simply did not appreciate the importance of wages in the inflationary process.[3] Hawke had objected to wage controls at this time because he believed that only prices needed to be regulated to contain inflation. He cited international empirical research to argue that regulated prices and profits removed the capacity for industries to pay excessive wage rates, and he thereby concluded that the direct regulation

[2] Whitwell noted that 1982-83 marked just the second occurrence in the post-war era in which annual GDP growth recorded a negative result. He also noted the significant increase in the unemployment rate which was recorded during this period: from a rate of 6.2% in 1981-82, to a peak of 10.4% recorded in the September quarter 1983 – 'the highest figure for 50 years'. See: Whitwell, *The Treasury Line*, pp. 244-5.
Mathews and Grewal noted that the real reduction in GDP for the financial year 1982-83 was 1.7%, and the annual change in the CPI recorded for the June quarter 1983 reached 11.2%. See: Mathews & Grewal, *The Public Sector in Jeopardy*, p. 376.
[3] Whitlam, *The Whitlam Government*, pp. 202-3.

of wages was unnecessary.[4] In opposition to this appraisal, Whitlam concluded that ‘the industrial wing of the Labor movement worked against its own long-term interests and those of the parliamentary wing’. He claimed that the union movement ‘inadvertently hastened the electoral demise of my Government through the promotion of wage-push inflation’, and noted that his government was not offered the type of support for wages restraint from the ACTU which Hawke himself was to subsequently receive as leader of the federal Labor Party (1983-1991).[5]

Labour movement historian Gwynneth Singleton has provided context to the trade union movement’s opposition to a centralised system of wages restraint during this period. She noted that while the ACTU had long supported a centralised system of wage indexation, this system included wage compensation for past price increases at the value of the minimum wage, in addition to provisions for award margins based upon skill and comparative wage justice, and collective bargaining based upon productivity increases and work-value cases.[6] In short, much of the trade union movement jealously guarded access to a wage bargaining system which could offer more than simply compensation for past price increases. In this context, Singleton also established that during the period of the Whitlam Government trade unions were ultimately unwilling to accept anything less than a minimum guarantee of real wage maintenance, with provisions for further margins and collective bargaining.[7] Subsequently, during the period of the Fraser Government, ‘there was a body of opinion within the ACTU, especially among the strong metal industry unions, that wage increases did not contribute to unemployment or to inflation’.[8] Accordingly, the ACTU continued to consider a centralised system of wages restraint as unjust and unnecessary, and alternatively emphasised that unemployment could be effectively ameliorated through government policies designed to increase demand, including through measures designed to ensure the maintenance of wage earners’ purchasing power. In this vein, the 1979 ACTU Congress blamed the evident rising levels of unemployment upon the Fraser Government’s policies, and accounted for the prevailing high level of inflation on the absence of adequate controls over prices and non-wage incomes.[9]

Industrial realities were to transform trade union attitudes, however. The reality of the wages restraint applied during the period of the Fraser Government formed part of this context. During this period the Conciliation and Arbitration Commission abandoned full wage indexation in May 1976, and subsequently brought down a series of decisions which delivered only partial or plateau wage indexation. In December 1982, after having abandoned the wage indexation system completely in July

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[4] Bob Hawke 1973, ‘Economic Policies of Curtin and Beyond’, John Curtin Memorial Lecture, October, Bob Hawke Prime Ministerial Library Archival Database, University of South Australia, Reference RH10/29/F289/1, p. 15.
[5] Whitlam, *The Whitlam Government*, p. 203.
[6] Singleton, *The Accord and the Australian Labour Movement*, pp. 32, 55-8, 76-7.
See also: Jan Marsh 1981, ‘Wage Indexation: An ACTU Perspective’, in Gareth Evans, John Reeves & Justin Malbon (eds), *Labor Essays 1981*, Drummond, Richmond, pp. 92-106.
[7] Singleton, *The Accord and the Australian Labour Movement*, pp. 34-44, 76-7.
[8] *Ibid.*, p. 73.
[9] *Ibid.*, pp. 73-5, 79.

1981, the Commission also upheld the Fraser Government's request for a six month wages pause.[10] During this period the Fraser Government also made significant cuts to the social wage, and diluted and subsequently abolished the system of income tax indexation it had earlier introduced.[11] These decisions had obvious adverse effects upon the living standards of the ALP's traditional working constituency.[12]

The ability of trade unions to effectively negotiate wage increases through industrial bargaining with employers was also severely impacted by the onset of the early-1980s recession. In these circumstances, job security became of larger concern to the union movement, over and above their previous preoccupation with real wage maintenance.[13] In any case, according to Hawke, by the time his government was elected, ACTU economists well appreciated the futility of excessive sectional wage demands. 'They well knew the cycle: economic growth, a big wage increase, inflation, a fiscal or monetary crunch, and mounting unemployment'.[14] This had been the experience of the excessive wage outcomes achieved by some unions – particularly those representing metal workers - in the early-1980s. They have been widely identified to have thwarted the incipient resources boom of this period, and created the conditions for the widespread unemployment which followed.[15] These experiences undoubtedly combined to present unions with the distinct advantages of a centralised system of wage indexation, which guaranteed real wage maintenance, and a Labor government's greater commitment to the improvement of the social wage.[16]

Fighting Unemployment and Inflation Simultaneously: The Return of Keynesianism

Published accounts of the development of the Statement of the Accord have credited two central figures within the federal Labor Party for its achievement: Ralph Willis, variously ALP Opposition spokesperson for industrial relations, economic affairs and shadow treasurer (1976-1983), for his pursuit of the social contract idea; and Bob Hawke for his ability to leverage the personal relationships

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[10] See: *ibid.*, pp. 52-3.

[11] See: *ibid.*, pp. 53, 55, 64-5.

[12] For instance, senior ACTU official Jan Marsh documented that as a result of partial and plateau wage indexation, the average award wage was reduced by more than 4% between 1975-76 and 1979-80. See: Marsh, 'Wage Indexation: An ACTU Perspective', p. 100.
Frank Stilwell also noted that during the period of the wages pause, there was a reduction in the average level of real wages of 9.1%. See: Frank Stilwell 1986, *The Accord ... and Beyond: The Political Economy of the Labor Government*, Pluto Press, Sydney, pp. 42-3.

[13] See: Singleton, *The Accord and the Australian Labour Movement*, pp. 56-69, 77-8.

[14] Bob Hawke 1994, *The Hawke Memoirs*, William Heinemann Australia, Port Melbourne, p. 178.

[15] See: Paul Keating 1986, *Australian Financial Review*, 17 July, quoted in, Singleton, *The Accord and the Australian Labour Movement*, p. 184; Kelly, *The End of Certainty*, p. 63; Shaun Carney 1988, *Australia in Accord: Politics and Industrial Relations Under the Hawke Government*, Sun Books, Macmillan, South Melbourne, pp. 13-5.
The excessive wage outcomes of the early-1980s were also ascribed by senior Hawke Government ministers to the irresponsible 'resources boom' populism encouraged by the Fraser Government at the time of the 1980 federal election. See: R.J. Hawke, 'Industrial Confrontation: Can We Survive It?', address to the Australian Institute of Political Science Summer School, Canberra, 30 January 1983, in R.J. Hawke 1984, *Principles in Practice: The First Two Years*, Australian Fabian Society Pamphlet 43, Melbourne, pp. 4-5; Paul Keating 1983, Matter of Public Importance: Government's Wages Accord, 19 May, House, *CPD*, pp. 735-7.

[16] See: Singleton, *The Accord and the Australian Labour Movement*, pp. 61, 64-9, 79-80, 93-5, 144, 146-9, 152-3.

he had within the ACTU to forge agreement.[17] As the following passages establish, however, it was Ralph Willis, in conjunction with his senior economic adviser John Langmore, who spearheaded both the federal Labor Party's critique of the Fraser Government's monetarist policies, and its acceptance of Keynesian macroeconomic management. Moreover, once in government their critique against monetarist policies was enthusiastically joined – somewhat surprisingly given his later embrace of market liberal policies – by Treasurer Keating.

Keating parodied what he perceived to have been the Fraser Government's unrealistic hope that its policies of monetary and fiscal restraint, designed to fight inflation first, would 'miraculously witness a non-inflationary phoenix rise from the ashes', once these policies had devastated the national economy. Keating observed that these monetarist policies only resulted in 'murdering growth', and in the process 'traded away hundreds of thousands of jobs without making any real progress against inflation'.[18] Willis and Langmore agreed, and pointed to research which had established that restrictive monetary policies were far more likely to only succeed in restricting demand, investment and employment, but not inflation.[19] Indeed, Willis and Langmore argued that even if inflation was 'bludgeoned to low levels by severe recession and unemployment', the true causes of inflation - competition for income shares, rather than excessive growth in the money supply - would not have been addressed, so that as soon as the economic cycle recovered, this latent underlying inflationary pressure would return.[20] This is the context within which senior Hawke Government ministers were repeatedly critical of their Fraser Government predecessors for having irresponsibly allowed the free competition for profits and wages to create 'a most damaging wage-inflation'.[21] Indeed, it was the absence of an effective policy of wages restraint under the Fraser Government - at least within the early-1980s period in which excessive wage agreements were made in anticipation of an incipient resources boom - which Keating used in government to chide the Liberal Party Opposition.[22]

With regard to fiscal policy, Willis and Langmore argued that Australian and international experience had revealed that no inherent correlation existed between a nation's budgetary position (i.e. whether

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[17] See: *ibid.*, pp. 150-2; Carney 1988, *Australia in Accord*, pp. 17-20; John Langmore 2000, 'Some Background Context to the Origins of The Accord', in Kenneth Wilson, Joanne Bradford & Maree Fitzpatrick (eds), *Australia in Accord: An evaluation of the Prices and Incomes Accord in the Hawke-Keating years*, South Pacific Publishing, Footscray, pp. 19-25.
See also the advice provided to FPLP caucus leaders in 1978 by Ralph Willis' senior economic adviser John Langmore, in favour of a social contract agreement: John Langmore 1978, 'The Political Economy of Incomes Policy', Appendix 2.1, in Langmore, 'Some Background Context to the Origins of The Accord', pp. 26-8.

[18] Paul Keating 1987, 'Traditions of Labor in Power; Whitlam and Hawke in the Continuum', in *Traditions for Reform in New South Wales: Labor History Essays*, Pluto Press, Sydney, p. 181.

[19] Ralph Willis & John Langmore 1983, 'Unemployment and Inflation', in John Reeves & Kelvin Thomson (eds), *Labor Essays 1983*, Drummond, Blackburn, p. 4.

[20] *Ibid.*, pp. 7-8.
See also: P. J. Keating 1983, speech to the National Economic Summit Conference, Parliament House Canberra, 11 April 1983, *Commonwealth Record*, Vol. 8, No. 15, 11-17 April, p. 467.

[21] Keating, 'Traditions of Labor in Power; Whitlam and Hawke in the Continuum', pp. 179-80.
See also: Hawke, 'Industrial Confrontation: Can We Survive It?', pp. 4-5; R. J. L. Hawke 1983, speech to the Brisbane Chamber of Commerce, 8 August 1983, *Commonwealth Record*, Vol. 8, No. 32, 8-14 August, p. 1213.

[22] See: Paul Keating 1983, Ministerial Statement: National Economic Summit Conference, 3 May, House, *CPD*, pp. 98-9; Paul Keating 1986, speech at ALP business briefing, 16 June, *Commonwealth Record*, Vol. 11, No. 23, 16-22 June, p. 1017.

the budget was in surplus or deficit) and its rate of inflation, or interest rates. Accordingly, they dismissed the market liberal crowding out theory's applicability, and particularly amidst the widespread occurrence of unemployment.[23] Instead, Willis and Langmore argued in accordance with Keynes that the most likely consequence of a policy of market liberal fiscal restraint, amidst recessionary conditions, would be an exacerbated budget deficit, because of its effects in further stifling economic growth, increasing the numbers of unemployment beneficiaries, and reducing taxation revenues.[24]

Later sections in this chapter establish that these Keynesian approaches to fiscal and wages policies were eventually overturned by the Hawke Government's own adoption of market liberalism. In the meantime, however, the Keynesian foundation to these statements was reflected in the preamble and policy measures contained within the Statement of Accord, the contents of which are canvassed within the next section.

The Statement of Accord

In accordance with Keynesian priorities, the Statement of Accord pronounced 'the prime importance placed by both parties [the ALP and the ACTU] on the objective of full employment'.[25] In addition, the agreement's explicit criticism of the Fraser Government's monetarist policies reflected that articulated by Willis and Langmore:

> The continuance of widespread unemployment is abhorrent, and economic policies which rely on unemployment to control inflation are completely rejected. ... Many countries, including Australia, adopted monetarist policies, on the assumption that they would gradually bring inflation down to low levels, thus breaking inflationary expectations, and enabling a non-inflationary expansion of the economy to then occur. In practice, monetarism proved disastrous, leading universally to spiralling unemployment and interest rates, low or negative growth, stagnant or declining living standards and continuing high inflation. ... The Fraser Government's adoption of monetarism has ... produced similar results in Australia.[26]

As an alternative, the Statement of Accord emphasised the relative international success of consultative policies of prices and incomes regulation, and emphasised how the co-operative resolution of competing income claims would restrain inflationary pressures and thereby facilitate expansionary fiscal and monetary policies, designed to stimulate economic and employment growth, and increase living standards.[27] Hawke spruiked the macroeconomic advantages of the Accord at the ALP's official 1983 campaign launch: 'the purpose of our prices and incomes policy is to ensure that

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[23] Willis & Langmore, 'Unemployment and Inflation', pp. 4-5, 16.
[24] *Ibid.*, pp. 8, 15; Ralph Willis 1980, 'Employment', in J. North & P. Weller (eds), *Labor: Directions for the Eighties*, Ian Novak, Sydney, pp. 92, 94.
[25] ALP-ACTU 1983, Statement of Accord by the ALP and the ACTU regarding economic policy, February 1983, in 'Appendix A.', Stilwell, *The Accord ... and Beyond*, p. 160.
[26] *Ibid.*
[27] *Ibid.*

the benefits of recovery, the benefits of growth are not wasted by inflation through another bout of the wage-price spiral'.[28] This was the Keynesian method, recognised by many Australian social democratic political economists,[29] which underpinned the Statement of Accord's method of upholding the ALP's social democratic objective.[30]

A centralised system of wage adjustments was agreed as the co-operative method of wages restraint between the ALP and ACTU. This system offered full cost of living adjustments to all wage and salary earners, but also required a corresponding commitment from trade unions to suppress their sectional claims for increased wage rates above this level, through the agreement's 'no extra claims provision'. It was proposed that this system would be advocated by both the ALP and the ACTU within tripartite consultations and before industrial tribunals. The Statement reasoned that a wages deal which offered less than full wage indexation would be unjust and would threaten continued economic recession because of its adverse impact upon wage earners' purchasing power and aggregate demand. It was also reasoned that a wages policy which offered greater wages growth would likely be inflationary and a potential cause for greater unemployment.[31]

In accordance with the policy recommendations of a post-Keynesian wages policy (outlined in chapter three), the Statement of Accord also included several proposals to expand the social wage. For instance, under the Statement of Accord improvements in living standards – for wage and salary earners, as well as non-income earning groups - were envisaged to reflect increases in national productivity, and were to be distributed not only through increases in industrial wages, but also through improvements in the social wage, and particularly in the areas of social security, education and health expenditures, and an expansion of superannuation coverage.[32]

As outlined above, from 1985 the various renegotiated forms of the Accord included instances of severe wages restraint, and real wage cuts. The development of the Hawke and Keating Governments' wages and industrial relations policies are analysed later in this chapter, and in chapter eight. The following section establishes the Hawke Government's first term implementation of much of the Statement of Accord's macroeconomic strategy.

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[28] R. J. L. Hawke 1983, Labor Party policy speech for the 1983 Federal election, Sydney Opera House, 16 February 1983, *Commonwealth Record*, Vol. 8, No. 7, 14-20 February, p. 210.
[29] See: Hugh Stretton 1987, *Political Essays*, Georgian House, Melbourne, p. 7; Battin, *Abandoning Keynes*, pp. 107-9; Stilwell, *The Accord ... and Beyond*, p. 61.
[30] The influence of Keynesian theory on the Accord's macroeconomic framework was explicitly acknowledged by the Hawke Government's first Minister for Finance John Dawkins (1983-1984): 'increasingly we are seeing both in Australia and elsewhere a return to interventionist policies of reflation which have their own origins in Keynesian theory. Those who were apparently caught up in the latter day tirade of abuse designed to discredit Keynes forever have through their intellectual arrogance overlooked the revival of interest in his theories'. See: J. S. Dawkins 1984, speech to an Australia Day reception, Fremantle, 26 January 1984, *Commonwealth Record*, Vol. 9, No. 4, 23-29 January, p. 92.
[31] ALP-ACTU, Statement of Accord, pp. 161-4.
[32] *Ibid.*, pp. 161-2, 166, 171, 173-5.

Keynesian Policy in Action: The Hawke Government's First Term (1983-1984)

The Keynesian foundation of the Hawke Government's strategy for macroeconomic recovery was emphasised throughout Hawke's 1983 federal election campaign. For instance, within Hawke's official campaign launch speech, he revealed his 'recognition of the interdependence between the private and public sectors', as well as his appreciation that: 'The health of one requires the health of the other. Private industry stands to benefit most from increased [public] activity in capital works and infrastructure'.[33] Here, Hawke's Keynesian logic was stated plainly:

> Recovery can only be achieved and sustained by a change to national economic policies which lift and sustain demand. There can be no lift in profits or a lift in growth unless there is a lift in demand. And that ... certainly can't be done by squeezing the public sector even further.[34]

Hawke also echoed the Keynesian fiscal logic of Willis and Langmore (cited above). Within his campaign rhetoric, Hawke emphasised that a prudent long-term strategy of deficit reduction involved a temporary, targeted fiscal stimulus. This involved a larger deficit in the short-term - designed to stimulate private sector activity - and a longer-term path back to fiscal sustainability. In this context, Hawke argued that:

> unless there is a change from present economic policies, Australia will be building into her annual national Budgets, deficits of ever-increasing proportions – as growth goes down, revenue goes down, unemployment goes up and unemployment payments and the cost of relief measures goes up and up.[35]

This statement revealed the Party's acceptance of the Keynesian multiplier effect, as well as the eventual fiscal savings which can be generated from macroeconomic growth. In accordance with this sentiment, Hawke announced that his government would deliver an additional fiscal stimulus of $1.5 billion (0.9 percent of GNP) above the fiscal expenditures of the Fraser Government - 'the minimum additional deficit needed to provide a worthwhile stimulus and to provide some lift in demand'.[36]

Keynesian rhetoric was also repeated within Keating's first budget speech. Here Keating variously refuted the Fraser Government's monetarist policies, upheld the government's platform of fighting inflation and unemployment simultaneously, and reemphasised the government's commitment to 'provide a floor of activity in the economy' while 'private sector spending is at a low ebb'.[37] The Hawke Government's Keynesian concern for the involuntarily unemployed was also evident: 'Today's

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[33] Hawke, Labor Party policy speech for the 1983 Federal election, 16 February 1983, p. 212.
[34] *Ibid.*, p. 211.
[35] R. J. L. Hawke 1983, speech to the Committee for Economic Development of Australia (CEDA), Melbourne, 27 February 1983, *Commonwealth Record*, Vol. 8, No. 9, 28 February-6 March, p. 312.
[36] *Ibid.*
It is interesting in this context to note Hawke's later denial of the influence of Keynesian theory upon his first term government. Within his memoirs, Hawke variously but erroneously described how his government immediately rejected Keynesian fiscal policy on the grounds that: the deleterious fiscal position of the Commonwealth budget could not facilitate an expansion of the budget deficit; and the government did not want to repeat, particularly in the minds of financial markets, the perceived record of fiscal mismanagement of the Whitlam Government. See: Hawke, *The Hawke Memoirs*, pp. 174-5.
[37] Paul Keating 1983, *Budget Speech 1983-84*, 23 August, AGPS, Canberra, pp. 1-3.

unemployed are victims of events beyond their individual control. It is unconscionable that they also be made victims of government indifference'.[38]

The 1983-84 Budget consequently projected real growth in Commonwealth expenditures of a significant 7.2 percent.[39] In so doing, it built upon several of the initiatives contained within the government's earlier May Economic Statement. It provided a total of $2.5 billion in extra expenditures for: the labour-intensive housing sector (both public and private); health services (including the establishment of Medicare); increased social security provisions; increased grants and loans to the states;[40] and the establishment of the Community Employment Program (CEP) - a program of community-based employment and job training assistance targeted at the long-term unemployed.[41] The establishment of the CEP contributed significantly to the 80 percent nominal increase in the amount expended on employment and training schemes, which when fully operational were expected to provide some 300,000 placements.[42] The 1983-84 Budget also provided a 22 percent nominal expansion in infrastructure expenditures, justified in part on the government's advocacy for measures of counter-cyclical pump-priming:

> Contrary to the failed approach of our predecessors, this Government supports the use of expansionary fiscal policy during economic downturns, including by way of capital works spending which directly stimulates employment. Substantial capital works spending is warranted by the overall slack in the economy, and in particular by the spare capacity at present in the construction sector.[43]

Despite the identifiable Keynesian influence upon the 1983-84 Budget, however, many political economists have denied this influence. For instance, Graham Maddox argued that after coming to office and having been informed by Treasury that the inherited budget deficit had been revised upward to $9.6 billion, the Hawke Government 'grew nervous about deficit budgeting and reneged on important election promises'. In this context, Maddox made the unfavourable comparison with the Whitlam Government, which had previously upheld its social reform expenditure commitments despite Treasury's similar fiscal concerns (see chapter six).[44] Frank Stilwell has offered a similar appraisal. He argued that from the 1983-84 Budget the federal ALP's 'initial commitment to a

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[38] *Ibid.*, p. 3.
[39] Treasury 1983, Statement No. 1 – Summary of the 1983-84 Budget, *1983-84 Budget Paper No. 1*, AGPS, Canberra, p. 5.
[40] Mathews and Grewal have noted that the 1983-84 Budget was the only Hawke-Keating budget which transferred increased payments to the states - with the exception of the specific purpose grants contained within 1990-91 Budget. See: Mathews & Grewal, *The Public Sector in Jeopardy*, p. 418.
[41] P. J. Keating 1983, speech to the National Press Club, Canberra, 24 August 1983, *Commonwealth Record*, Vol. 8, No. 34, 22-28 August, p. 1358; Keating, *Budget Speech 1983-84*, pp. 6-8, 12-3; R.J.L. Hawke 1983, speech to Australian Council of Social Security (ACOSS) Congress, 8 September 1983, *Commonwealth Record*, Vol. 8, No. 36, 5-11 September, pp. 1450-1.
[42] Keating, *Budget Speech 1983-84*, p. 12.
[43] *Ibid.*, pp. 13-4.
[44] Maddox, *The Hawke Government and Labor Tradition*, p. 65.
Cabinet records reveal that in early budget deliberations, the Hawke Government did canvass options for deferring 'lower priority election proposals'. See: P.J. Keating & J.S. Dawkins 1983, '1983-84 Budget – Economic Policy Considerations', Cabinet Submission No. 16, 29 March, NAA, Canberra, A13977, 16, p. 7.

Keynesianism-plus approach' was replaced by a 'monetarist-oriented strategy in which reducing the budgetary deficit is regarded as an end in itself'.[45]

The context of the Hawke Government's first budget lends cogency to the appraisals of Maddox and Stilwell. The Hawke Government had been elected under the understanding that the deficit stood at $4.5 billion, and that their proposed additional expenditure commitments would only add to this deficit by only a further $1.5 billion (as noted above). This understanding was superseded, however, when Treasury informed the Hawke Government – the day after its election - that the estimated deficit had been revised upward to $9.6 billion with no change in policy, $1.8 billion more if the ALP's election expenditure commitments were implemented.[46] Within the Treasury document 'Current Fiscal Situation and Outlook', Secretary to the Treasury John Stone (1979-1984) informed the Hawke Government that the budget deficit projected to result from the implementation of the ALP's full election commitments, would amount to 6.5 percent of GDP, 'the highest in Australian post-war history'. Even more seriously, in this analysis Stone documented that a major component of the deficit was structural rather than cyclical, which meant that much of the deficit was embedded, rather than subject to the expenditure and revenue effects of the business cycle.[47] It was certainly Treasury's intention to influence a reduction in the Commonwealth budget deficit, but the 1983-84 Budget remained structurally expansionary.

While Keynesian theory is not unconcerned with fiscal sustainability, it is argued that where sufficient measures are taken to restrain inflationary pressures (such as through the prices and incomes Accord), governments should in times of recession stimulate demand through fiscal policy. Moreover, if stimulatory fiscal policies adhere to Keynes' preference for the deployment of public works projects, this type of expenditure would induce a structural - not merely a cyclical - budget deficit.[48] In this context, it is interesting to note that during 1983 the Hawke Government boasted of its willingness to stimulate the economy through an increase in the structural component of the budget deficit. Keating's pronouncements made at the National Economic Summit Conference are instructive:

> ... the cyclical component is estimated to comprise about three-quarters of the deficit in 1982-83 and about half in 1983-84. The resultant increase in the structural deficit indicates the expansionary nature of the projected 1983-84 Budget in relation to earlier years and, according to a recent comparable analysis published by the OECD [Organisation for Economic Co-operation and Development], in relation also to the current fiscal policies of the major OECD countries. ... I note that spokesmen for the

[45] Stilwell, *The Accord ... and Beyond*, pp. 62-3.

[46] See: John Edwards 1996, *Keating: The Inside Story*, Viking, Ringwood, pp. 193-6.
Within Cabinet deliberations, Keating and Dawkins established that the projected budget deficit would be $12 billion if all of the Hawke Government's election policies were implemented. See: Keating & Dawkins, '1983-84 Budget – Economic Policy Considerations', Cabinet Submission No. 16, p. 5.

[47] Edwards, *Keating*, pp. 196-7.

[48] Chapter three established that Keynes actually advocated for the 'ordinary' budget to be maintained in permanent surplus, and for stimulatory public works to be accounted for under an alternative capital budget. It is reasonable to assume, however, that in the absence of this accountancy method, the ordinary budget would fall into a structural deficit when stimulatory public works programs are deployed.

> Opposition have indicated that they would have brought down a 1983-84 Budget with a deficit well below that illustrated above. The magnitude and composition of our 1983-84 Budget will [therefore] impart a much greater fiscal stimulus than would have occurred had there been no change in Government.[49]

It is noteworthy in this context that Frank Stilwell also acknowledged the structural deficits included in the Hawke Government's first two budgets.[50]

The 1983-84 Budget did, however, constitute a compromised policy document. It was crafted according to both Keynesian macroeconomic principles, and a concern for the budget's long-term fiscal sustainability. The cabinet approved a deficit of $8.5 billion,[51] which constituted both a projected real increase in Commonwealth Government expenditures of a significant 7.2 percent, but which also represented a cut of $1 billion from the Fraser Government's existing expenditure programs, and $4 billion from those proposed within the ALP election platform.[52] Interestingly, this deficit figure had been determined in close consultation with Treasury and had the imprimatur of John Stone.[53] The countervailing influences upon the budget were summarised within Keating's Budget Speech: 'The Government believes that this [deficit] outcome represents the right balance between the immediate need for a fiscal stimulus and the on-going requirement for fiscal responsibility'.[54]

The Hawke Government's broad Keynesian macroeconomic strategy continued within the 1984-85 Budget. Key planks of the previous year's stimulus were retained and modestly expanded, including: indexation increases in some social security benefits; significant increased expenditures on housing assistance; capital expenditures (such as roads projects); and labour market programs, which included a 44 percent nominal increase in funding for the CEP, justified on the Keynesian grounds that 'the number unemployed is still far too high and our responsibility in this area, especially to the long-term unemployed, remains'.[55] Hawke revelled in the apparent success of the government's macroeconomic strategy. Inflation had recorded appreciable reductions - from an annual figure of 11.4 percent at the March 1983 quarter, to just 2.5 percent at the December 1984 quarter[56] - as had interest rates,[57] and the

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[49] Keating, speech to the National Economic Summit Conference, 11 April 1983, p. 467.
[50] Stilwell, *The Accord ... and Beyond*, p. 68.
[51] See: Cabinet 1983, Decision No. 659(M), 'Without Submission – Budget Parameters', Minute, 31 May, NAA, Canberra, A13979, 659/M.
[52] Edwards, *Keating*, p. 199.
[53] See: Kelly, *The End of Certainty*, p. 59.
[54] Keating, *Budget Speech 1983-84*, p. 29.
[55] Paul Keating 1984, *Budget Speech 1984-85*, 21 August, AGPS, Canberra, pp. 5-6, 14-6, 18.
[56] ABS 1985, Consumer Price Index – December Quarter 1984, Catalogue No. 6401.0, p. 3, Table 2.
This especially low December quarter 1984 CPI figure owed much to the reduced cost of health care services associated with the introduction of Medicare. The underlying rate of inflation during this period was later cited as around 5%. See: P.J. Keating 1986, 'The Economic Situation and Policy', Cabinet Submission No. 4041, 29 June, NAA, Canberra, A14039, 4041, Attachment A, p. 21.
[57] Observe the interbank (cash) rate's reduction from a monthly-average of 16.73% in March 1983: RBA statistics for 'Interest Rates and Yields - Money Market', at http://www.rba.gov.au/statistics/tables/xls/f01hist.xls?, accessed: 10 January 2012.

government was ahead of schedule in achieving its self-imposed target of creating 500,000 new jobs within its first three years of office;[58] a target met in November 1985, five months ahead of schedule.[59]

Shortly after Keating delivered his 1984-85 Budget Speech, however, Secretary to the Treasury John Stone publicly expressed his disapproval of the Hawke Government's macroeconomic strategy. The views he expressed were representative of those market liberal ideas already prevalent within the Treasury department. The following section establishes Treasury's market liberal adherence, and places John Stone's critique within this context. This section is then followed by another which establishes the growing influence of market liberal ideas upon Treasurer Paul Keating.

Market Liberal Policy Shift

Treasury's Market Liberal Policy Advocacy

As identified within the previous chapter, the Commonwealth Treasury was profoundly influenced by the renaissance in market liberal macroeconomic theory which had occurred internationally from the mid-1960s. Chapter six documented how Treasury's opposition to the Whitlam Government's social reform program had changed in complexion from a Keynesian concern for the inflationary dangers which the expansion of Commonwealth budget expenditures presented within the context of a buoyant economy, to an opposition predicated on the market liberal understanding that expanded public sector expenditures simply crowd out the more efficient private sector, under all economic circumstances. During the years of the Fraser Government, Treasury's opposition to Keynesian theoretical principles and demand management policies was sustained. The work of Treasury historian Greg Whitwell is instructive in this context.

Whitwell has documented that during the latter-half of the 1970s the sentiment expressed by Bill Hayden in his 1975-76 Budget Speech (quoted in the previous chapter), that 'More inflation simply leads to more unemployment',[60] became the 'the keystone of the Treasury's approach to economic policy'. According to Whitwell, Treasury not only rejected the Phillips curve notion that there existed a trade-off between the levels of inflation and unemployment, but the department believed that if inflation was not significantly reduced from the very high levels it had attained by the mid-1970s,[61] the rate of unemployment would as a consequence also increase.[62] As Whitwell explained:

> From this premise the department derived its policy prescription: 'Fight Inflation First'. In 1977 it argued that 'control of inflation is fundamental to the achievement of other economic policy

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[58] Bob Hawke, speech to the 1984 National Conference of the ALP, Canberra, 10 July 1984, in John Cook (ed.) 1984, *National Reconciliation: The Speeches of Bob Hawke, Prime Minister of Australia*, Fontana/Collins, Sydney, p. 219.
[59] Stephen Bell 1997, *Ungoverning the Economy: The Political Economy of Australian Economic Policy*, Oxford University Press, Melbourne, p. 143.
[60] Hayden, *Budget Speech 1975-76*, p. 3.
[61] The rate of annual increase in the CPI peaked at 16.7% for the financial year 1974-75. See: Mathews & Grewal, *The Public Sector in Jeopardy*, p. 32.
[62] Whitwell, *The Treasury Line*, p. 217.

> objectives'.[63] The other major problem, that of unemployment, had to stand in line behind inflation and could not be attended to until prices and wages had been brought into order. That the twin problems of inflation and unemployment could not be dealt with simultaneously and that the unemployment situation might in fact deteriorate in the meantime, was taken to be an unfortunate but unavoidable fact of life.[64]

Significantly, the acceptance of the view that unemployment and inflation could not be dealt with simultaneously was at odds with the Keynesian macroeconomic platform established within the Statement of Accord.

With regard to the Keynesian advocacy for fiscal stimulatory intervention in times of deficient demand, the experience of the Whitlam Government had served to instill within Treasury opinion the belief that this type of policy intervention produced only fleeting stimulatory increases in economic activity, which could not be sustained because of its inflationary effects.[65] In accordance with the market liberal theorising enunciated within chapter two, Treasury opinion also proffered that fiscal stimulatory intervention crowded out more efficient private sector investment, and created an undesirable dependency upon government intervention.[66]

Similarly, Treasury also rejected any policy suggestions for the regulation of prices and incomes, as these measures were perceived to interfere with the efficiency of market distribution, and (as alluded to in the previous chapter) Treasury did not trust that trade unions would restrain their sectional wage demands in the public interest. Treasury was also critical that the Conciliation and Arbitration Commission had entrenched excessive wage rates, which it claimed had priced workers out of employment. As an alternative, Treasury advocated for the market distribution of wages, to be achieved through a system of bargaining at the enterprise level. It was envisaged that this type of market-based wages system would return the wages and profit shares of the national economy to the levels which previously matched worker productivity, supported full employment, and avoided wage-push inflationary pressures.[67]

During the first term of the Hawke Government, Treasury reinforced its adherence to the market liberal beliefs that unfettered markets tend towards full employment equilibrium, and that market interferences such as stimulatory fiscal policies or excessive wage outcomes do not achieve their objectives, but alternatively and inevitably exacerbate inflation and ultimately unemployment.[68] Within cabinet preparations for the 1984-85 Budget, Treasury - in conjunction with DPM&C and the

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[63] Treasury 1977, 'Statement No. 2 – The Budget and the Economy', attached to *Budget Speech 1977-78*, Canberra, AGPS, p. 31, quoted in: *ibid.*
[64] Whitwell, *The Treasury Line*, p. 217.
[65] *Ibid.*, pp. 225-7.
[66] See: *ibid.*, pp. 225-7, 234, 243-4, 251-5, 262.
[67] *Ibid.*, pp. 191-2, 218-24, 256-8.
[68] Treasury 1983, Statement No. 2 – The Budget and the Economy, *1983-84 Budget Paper No. 1*, pp. 53-62.

Department of Finance – goaded ministers with unfavourable comparisons between the Whitlam Government's fiscal profligacy and their own irresponsible fiscal trajectory.[69]

This was the context which underpinned John Stone's August 1984 Shann Memorial Lecture. Within this speech, Stone praised Edward Shann's role in the championing of fiscal austerity and real wage reduction which had been reluctantly implemented by the Scullin Labor Government amidst the ravages of the Great Depression (see chapter four). Stone was also critical of the central elements of the Hawke Government's macroeconomic strategy. He variously argued:

- that public works should be, and were not then, justified according to their economic dividend;
- that debt was at that time being raised irresponsibly for current consumption;[70]
- that increased public debt raised interest rates,[71] which in turn increased the cost of debt servicing and postponed the time 'when meaningful reductions in taxation can be made'; and
- that the labour market should be sufficiently flexible so that wage rates adjust to the forces of supply and demand. A policy of wages flexibility was believed to be the only one capable of increasing employment, and was preferred to the perceived futility of pursuing reductions in the unemployment rate through public demand stimulus.[72]

As established earlier, these ideas came to significantly influence several senior Hawke Government ministers; the most prominent of which was Treasurer Paul Keating. Given Keating's key influence upon the market liberal shift in the Hawke Government's macroeconomic policy-making, the following section provides a brief outline of Keating's ideological outlook, his perception of the inefficiencies of the nation's financial system, and the respective roles he envisaged for the public and private sectors in the pursuit of macroeconomic prosperity, and the fulfilment of the ALP's social democratic objective.

<u>Paul Keating's Faith in Market Distribution</u>

Within biographical accounts, Keating's concern for the ravages of those left impoverished by Australia's economic system appear reminiscent of the concerns previously expressed by Chifley and Cairns (see chapters five and six). David Day has written, for instance, that Keating's experience of working as a young man in the working class Sydney suburb of Pyrmont, during the early-1960s, exposed him to a level of poverty and deprivation which provided him with:

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69 DPM&C, Treasury & Dep. of Finance 1984, 'Expenditure Review Committee: Review of 1984-85 Budget Outlays and Staff Estimates', Memorandum No. 380, 25 June, NAA, Canberra, A13978, 380, p. 5.

70 See also: Treasury 1986, Statement No. 2 – The Budget and the Economy, *1986-87 Budget Paper No. 1*, AGPS, Canberra, p. 45.

71 Within the 1986-87 Budget Papers, Treasury claimed to have witnessed the consequences of the crowding out theory in the domestic economy, see: *ibid.*, p. 42.

72 John O. Stone 1984, '1929 and all that ...', The Shann Memorial Lecture No. 23, delivered at the University of Western Australia, 27 August, Discussion Paper 84.12, pp. 6-7, 15, 22, 27-35, 37-46.

> a compelling reason for a better society, for a society in which such deprivation becomes a thing of the past. It adds an edge to his long-held attachment to Labor, as the only party offering solutions to the inequalities of Australian society.[73]

Troy Bramston similarly emphasised that the Catholic tradition of social justice and equality had had a discernible influence upon Keating's formative political thinking.[74] This background provides evidence of Keating's desire to uphold the ALP's social democratic objective. But how was this to be achieved? Day pointed to Keating's maiden speech in the House of Representatives, delivered on 17 March 1970, for an early indication. Within this speech, Keating emphasised the cost-of-living pressures his constituents were at that time experiencing, and he argued that these pressures would best be solved through the centralised regulation of prices and generous wage rates, increased family payments, and the provision of greater public amenities - in accordance with Whitlam's program of urban development. As Day summarised, 'There is no veneration of the market in Keating's speech. Instead, the unfettered market is portrayed as the cause rather than the cure of the problem'.[75] Keating also defended the Whitlam Government's policy of fiscal stimulation pursued during the financial year 1974-75. In a parliamentary address, he stated that 'I believe that unemployment has a more important priority than inflation in the immediate term and if unemployment can be corrected with a deficit of this nature then I think it ought to be corrected'.[76] Keating subsequently, however, supported Hayden's 1975-76 Budget proposals for market liberal fiscal restraint. He justified this support on the grounds that this budget sought the right compromise between the consolidation of the Whitlam Government's programs and reforms, and fiscal sustainability.[77]

In interviews conducted over the past few years, Keating has presented a different interpretation of the ideas which shaped his ideological foundation. Within these accounts the influence of his father's experiences are central. Keating recounts that the development of his father's business – Marlak Engineering, a manufacturer of ready-mix concrete machines – had instilled within him the notion that the nation's capitalist system did not feature a definitive contest between labour and capital. Keating recalled that although his father was 'loyal to Labor to a fault', his father also 'knew that the days of robber-baron capitalism were over'.[78] Keating was also significantly influenced by what he perceived to have been the thwarting of his father's business interests by an inefficient and elitist banking structure, which featured neither the wit nor the market-driven incentive needed to finance aspiring and enterprising businesses.[79] In part because of this experience, and like many of his ALP predecessors, Keating had identified that financial markets were not used for the most productive

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[73] David Day 2015, *Paul Keating: The Biography*, Fourth Estate, Sydney, pp. 55-6.
[74] Troy Bramston 2016, *Paul Keating: The Big-Picture Leader*, Scribe, Brunswick, pp. 20-2.
[75] Day 2015, *Paul Keating*, pp. 103-4.
See also: Paul Keating 1970, Maiden Speech, 17 March, House, *CPD*, pp. 513-4.
[76] Paul Keating 1975, 17 April, House, *CPD*, p. 1822.
[77] Paul Keating 1975, 28 August, House, *CPD*, p. 753.
[78] Kerry O'Brien 2015, *Keating*, Allen & Unwin, Sydney, pp. 11-2.
[79] *Ibid.*, pp. 74-5.
See also: David Love 2008, *Unfinished Business: Paul Keating's interrupted revolution*, Scribe, Melbourne, pp. 69-71; Bowen, *The Money Men*, pp. 295-6.

purposes, and in the public interest. But rather than seeking redress for this market failure through greater regulation, or public ownership of financial capital, as Chifley had done (see chapter five), Keating rejected these palliatives and instead advocated for the deregulation of financial markets, so that the distribution of capital would more closely resemble that achieved under free market competition.[80] It was through greater financial market empowerment that Keating believed more resources could flow to efficient and enterprising firms, which would in turn bolster economic growth and employment, and ultimately improve the living standards of the ALP's working constituents. This was how Keating believed the ALP could better uphold its social democratic objective, and this formed part of the logic which has underpinned Keating's belief that the Hawke and Keating Governments remained within the ALP tradition.[81]

It was in this context that Keating linked the Hawke Government's economic agenda with that of the Curtin and Chifley Governments. All were in Keating's opinion interested in creating economic and employment growth.[82] Keating could link the Keynesian regulatory agenda of these governments to his own belief in the rational efficiency of market distribution, because in his mind these simply constituted the means by which the overarching objective of better living standards for Australian working people could be achieved. It was this social democratic objective which defined the ALP tradition, not the means used. In similar fashion, Keating praised the Whitlam Government for placing the concerns of Labor's constituents on the national political agenda, and listed those reforms in the areas of public health, education, urban and regional development, and social security, which had been retained under the Hawke Government. However, while Keating identified with the ends sought by the Whitlam Government's social reform program, he was critical of the fiscally profligate means used to achieve them. In his opinion, insufficient policy effort had been put into how economic growth could be sustainably maintained.[83] It was in this context that Keating came to believe that a market liberal application of competitive financial markets, and greater resource distribution to the private sector, would best uphold the ALP's social democratic ideological objective.

At the time of the Hawke Government's election, two maneuverings also revealed the developing market liberal orientation of Keating's thinking. Upon taking office as Treasurer Keating moved quickly to both replace John Langmore as his principal private secretary (having inherited his services from his predecessor Ralph Willis), and Keating confirmed John Stone as Secretary to the Treasury.[84] Within a recent interview Keating has recounted that at this time he reassured Treasury that:

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[80] See: O'Brien, *Keating*, pp. 47-8.
[81] See: Keating, 'Traditions of Labor in Power; Whitlam and Hawke in the Continuum', pp. 173-5, 186.
Keating differentiated this approach from that of the Liberal Party, which he argued was more interested in defending the interests of privileged and protected domestic businesses, and particularly banks. See: O'Brien, *Keating*, pp. 48-9, 73-4, 647.
[82] Keating, 'Traditions of Labor in Power; Whitlam and Hawke in the Continuum', pp. 172-3.
[83] *Ibid*., pp. 177-9.
See more on Keating's critique of the Whitlam Government's fiscal profligacy in: O'Brien, *Keating*, pp. 69-70.
[84] See: Edwards, *Keating*, pp. 177-82; John Stone 2013, 'Paul Keating: A Memoir', *Quadrant*, Vol. 57, Issue 3, March, pp. 44-6; O'Brien, *Keating*, pp. 134-7; Day, *Paul Keating*, pp. 226-7; Bramston, *Paul Keating*, pp. 192-4.

> I accept at face value that Treasury should be the primary economic adviser to the government of the day. To the extent this position has been diminished by the events of recent years [and particularly the Fraser Government's establishment of the Department of Finance], let's try to re-establish that, and Treasury's views and the imperatives of Australian economic policy at least will be put at first hand and in a primary way, in any Cabinet I belong to.[85]

Writing at the end of Keating's period as Treasurer, another Secretary to the Treasury Bernie Fraser (1984-1989) commented that: 'Under a Treasurer committed to delivering real reforms ... a string of rational economic policy decisions was implemented during this period. ... a period when the Treasury was much more persuasive with ultimate decision makers than it had been for some time'. Specifically, Fraser listed those policy areas in which the Hawke Government had acted in broad accordance with Treasury's long-standing market liberal advice: the restraint of fiscal expenditures and the achievement of budget surpluses; the restraint of wages, designed to increase the national profit share and investment; and financial deregulation.[86] The following sections establish the extent of the market liberal influence in these key macroeconomic policy areas in the period until the onset of the early-1990s recession (analysed in chapter eight).

Financial Deregulation

Whereas the Curtin and Chifley Governments implemented Keynesian-inspired legislative banking reforms in 1945, designed partially to curb the banking industry's destabilising influence on credit dispersal and the level of aggregate demand (see chapter five), from the Hawke Government's first year in office decisions were made to alternatively deregulate financial markets and the banking industry. These decisions loosened rather than extended state controls over the dispersal of credit, and were at odds with Keynes' advocacy for the 'socialisation of investment'. As chapter three explained, while Keynes did not support proposals for the nationalisation of the banking system, he did advocate for various state controls over the dispersal of credit, the aggregate level of savings, monetary variables, the exchange rate and foreign investment (see chapter three). Subsequent to the electoral defeat of the Chifley Government, and during the long period in which H.C. Coombs served as the head of the nation's central bank,[87] it has been documented that Keynes' desire for the regulatory 'euthanasia of the rentier' was encouraged, and key banking regulations were enforced: interest rates were commonly set at low enough levels to accommodate full employment; and credit was controlled through the quantitative restraint of SRDs and qualitative directives. Foreign exchange was also controlled, and the exchange rate was fixed.[88]

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[85] O'Brien, *Keating*, p. 136.
[86] B.W. Fraser 1991, 'Chris Higgins – Policy Adviser', *Economic Record*, Vol. 67, Issue 198, September, p. 261.
[87] Coombs served in this role successively as: Governor of the Commonwealth Bank (1949-1960) and Governor of the RBA (1960-1968).
[88] Stephen Grenville 1991, 'The Evolution of Financial Deregulation', in Ian Macfarlane (ed.), *The Deregulation of Financial Intermediaries*, RBA Research Department, Sydney, pp. 9-11.

Proponents of financial market deregulation have argued that from as early as the 1960s, it became evident that these controls no longer fulfilled their demand management or regulatory purposes. Many have argued, including Keating within cabinet deliberations, that restrictive banking regulations encouraged financial intermediation into the less regulated non-bank financial sector, which in turn undermined the demand management purposes these banking regulations were designed to affect, and also contributed to higher-cost methods of finance for various purposes: consumer durables; housing; and business fixed investment.[89] By the late-1970s it had become apparent that for the nation's financial markets to operate efficiently, and to facilitate the transmission of the Commonwealth Government's monetary policy, the regulations applicable to the banking industry would either have to extend to the non-bank finance sector, or be abolished.[90] In the midst of the market liberal intellectual climate which predominated at this time, the momentum for financial deregulation coalesced in the recommendations of the Campbell Committee of Inquiry's report into the Australian financial system, published in 1981 under the Fraser Government: 'The Committee starts from the view that the most efficient way to organise economic activity is through a competitive market system which is subject to a minimum of regulation and government intervention'.[91] The Campbell Committee therefore concluded that the Commonwealth Government should significantly reduce its regulatory intervention in the banking industry, and ensure that monetary variables - such as interest rates and the exchange rate - were 'determined by the balance of supply and demand'.[92]

At the time of its publication the federal Labor Opposition did not accept the recommendations of the Campbell Committee's report. According to Edwards, only Hawke and Keating cautiously welcomed the Committee's proposed reforms, while the FPLP officially publicly rebuked them.[93] In his role as shadow treasury spokesperson, Ralph Willis criticised the free market ideology which underpinned the Fraser Government's brief, as well as the biased financial institution perspective of the Campbell Committee's members:

> ... there was no Ben Chifley in this committee ... as there was in the previous committee in the 1930s. There was no-one with an opposing view or a broader view than the very narrow view of the technocrats involved in the finance industry of this country.[94]

Willis concluded that the Committee's recommendations for the deregulation of the banking industry and financial exchange would increase the level of interest rates charged upon certain consumers: home buyers; small businesses; and farmers. He also predicted a more volatile exchange rate, and

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[89] See: *ibid.*, pp. 11-5, 30-1; P.J. Keating 1984, 'Martin Group Report: Controls on Acceptance by Banks of Various Types of Deposits', Cabinet Submission No. 718, 4 April, NAA, Canberra, A13977, 718, p. 4.
[90] See: Grenville, 'The Evolution of Financial Deregulation', pp. 24-6; Bell, *Ungoverning the Economy*, p. 144.
[91] *Final Report of the Committee of Inquiry into the Australian Financial System*, Canberra, AGPS, 1981, p. 1, quoted in, Whitwell, *The Treasury Line*, p. 247.
[92] Edwards, *Keating*, p. 206.
[93] See: *ibid.*, pp. 205-6.
Hawke has disputed this account. Within his memoirs, Hawke argued that although Keating had an open mind, he was not at that stage 'an ardent deregulator'. Hawke recalled that it was John Dawkins and Peter Walsh who, along with himself, supported the recommendations of the Campbell Committee's report. See: Hawke, *The Hawke Memoirs*, pp. 234-5.
[94] Ralph Willis 1981, Ministerial Statement: Australian Financial System – Committee of Inquiry Final Report, 17 November, House, *CPD*, p. 2856.

generally 'less control by the government over the form of development of the Australian economy'. He concluded that the federal Labor Opposition could not accept the report's 'ideological basis': a belief that a 'reliance on markets will bring about a more optimum result for society than will government regulation'.[95] Willis' position was subsequently reflected within the Party's 1982 Platform, which contained the following directives:

- 'Maintain and extend essential regulatory power available to the Australian government for control of interest rates and lending policies of financial corporations';
- 'Retain a central role for government in the determination of the exchange rate'; and
- 'Maintain the existing restrictions on foreign entry to strategic sectors of the economy including banking'.[96]

Moreover, in the interests of reducing excessive profitability in the non-bank finance sector, the Statement of Accord proposed the extension of interest rate regulations to this sector, through the proclamation of Section 4 of the *Financial Corporations Act* 1974.[97]

The regulatory sentiment expressed within these statements and directives was not reflected in the policies of the Hawke Government, however. Instead, a financial deregulatory agenda was pursued through the establishment of the Martin Committee Review Group; a committee established in order to take ownership of the Campbell Committee's recommendations.[98] The Martin Committee's report, published in February 1984, rejected the proclamation of Section 4 of the *Financial Corporations Act*,[99] and supported much of the Hawke Government's subsequent deregulatory agenda (see below).

Prior to the Martin Committee report's publication, however, the Hawke Government had already implemented two important reforms recommended by the Campbell Committee's report. On 9 December 1983, the Hawke Government announced: the float of the Australian currency; and the abolition of exchange controls.[100] The former decision had been taken in accordance with Friedman's market liberal advocacy for a market determined currency exchange rate (outlined in chapter two); a mechanism Friedman believed would promptly adjust exchange rates to the ever-changing dynamics of world trade in products and capital, and thereby balance national accounts. In the Australian case the initial lag expected in this process lent it the moniker of the 'j-curve' effect.[101] The decision to

[95] *Ibid.*, pp. 2856-7.
[96] ALP 1982, *Platform, Constitution and Rules*, pp. 40, 44, quoted in, Kevin Davis 1989, 'Managing the Economy', in Brian W Head & Allan Patience (eds), *From Fraser to Hawke: Australian Public Policy in the 1980s*, Longman Cheshire, Melbourne, p. 98.
[97] ALP-ACTU, Statement of Accord, p. 164.
[98] See: Hawke, *The Hawke Memoirs*, pp. 235-6; Edwards, *Keating*, pp. 207-8.
[99] See: John Langmore & John Quiggin 1994, *Work for All: Full Employment in the Nineties*, Melbourne University Press, Carlton, p. 69.
[100] See: Cabinet 1983, Economic Policy Committee, Decision No. 2620 (EP), 'Memorandum No. 323 – Intervention under a Floating Rate System', Minute, 9 December, NAA, Canberra, A13978, 323.
See also: Edwards, *Keating*, pp. 214-32.
[101] As Kevin Davis has explained, 'The J curve refers to the anticipated shape of the path of the current account balance following exchange rate depreciation [which was expected following the exchange rate's float]. Valuation effects tend to initially worsen the current account [due to the reduced value of exported goods and services] before volume effects yield an

abolish exchange rate controls had been taken because they were believed to no longer function effectively, and the RBA believed they were incompatible with a floating currency exchange rate.[102]

The decision to float the currency exchange rate was also taken because the Hawke Government had come to accept that regulatory intervention had become futile against the weight of financial market speculative pressure.[103] Hawke and Keating later recalled that resistance to such vast quantities of speculative finance simply led to profits being made at the expense of the nation's currency reserves.[104] It has been argued that this assessment was particularly prescient given Treasury's well-known preference for an anti-inflationary, high managed exchange rate, which apparently offered speculative capital a one-way profitable bet.[105] The RBA also argued that management of the currency's exchange rate increased the volatility of domestic interest rates.[106]

Several other measures of financial deregulation were introduced during the period of the Hawke Government. In accordance with the recommendations of the Martin Committee report, the most notable reforms were: the removal of various maturity controls on trading and savings bank interest bearing deposits; the removal of controls and ceilings on bank interest rates; and the 1985 approval of sixteen foreign bank licenses, allowing their entry into the Australian domestic market.[107] These reforms fulfilled Keating's long-held desire to subject what he perceived to be the cosseted, conservative, and inefficient Australian banking industry to rigorous foreign competition (see above).[108] Keating's thesis was simple: 'Creative people with ideas and drive could not obtain the funds to grow', and even in the circumstances in which they could, they were 'charged the largest average margin between borrowing and lending costs' in the world.[109] Alternatively, as Keating later explained, the Hawke Government's suite of financial deregulatory reforms brought into existence,

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improvement [due to the exchange rate's depreciation having enhanced the cost competitiveness of the nation's exports]'. See: Davis, 'Managing the Economy', p. 108.
See also: INDECS 1990, *State of Play 6: The Australian Economic Policy Debate*, Allen & Unwin, North Sydney, p. 166.
[102] See: Edwards, *Keating*, pp. 214-5, 225, 228.
[103] The Hawke Government had experienced the force of financial market speculation when they were forced to gradually reverse their earlier March 1983, 10% currency devaluation. See: Edwards, *Keating*, p. 214; Kelly, *The End of Certainty*, p. 80.
[104] R.J.L. Hawke 1991, 'Change is Not Optional', John Curtin Memorial Lecture, Curtin University, Perth, 5 October, Bob Hawke Prime Ministerial Library Archival Database, University of South Australia, Reference RH20/8/F103/4, typescript p. 10; Paul Keating, personal interview, May 1991, quoted in, Kelly, *The End of Certainty*, p. 86; Paul Keating 1996, 'Appendix: Paul Keating's Account of the Decision to Float' in, Edwards, *Keating*, pp. 543-4.
[105] Edwards, *Keating*, pp. 214-6.
Upon coming to office, the Hawke Government accepted the existing management of the exchange rate system. Under this system a four member committee ensured the valuation (through market operations) of the nation's currency exchange rate on behalf of the Commonwealth Government. The committee was comprised of: the Governor of the RBA (Chair); Secretary to the DPM&C; Secretary to the Treasury; and Secretary to the Department of Finance. See: Cabinet 1983, Decision No. 64, 'Without Submission – Arrangements for Management of the Exchange Rate: The Management Group', Minute, 16 March, NAA, Canberra, A13979, 64.
[106] See: Edwards, *Keating*, pp. 218-9; Grenville, 'The Evolution of Financial Deregulation', pp. 26-7; O'Brien 2015, *Keating*, pp. 145-6.
[107] See: Langmore & Quiggin, *Work for All*, p. 69; Cabinet 1984, Decision No. 3075, Minute, 9 April, NAA, Canberra, A13977, 718.
[108] See also: Paul Keating 1977, Matter of Public Importance: Australia's Coal Resources, 15 September, House, *CPD*, pp. 1175-6; Paul Keating 1985, 'Labor's Commitment to Smaller Government', *Institute of Public Affairs Review*, Vol. 39, No. 3, p. 21; O'Brien 2015, *Keating*, pp. 171-6; Bramston, *Paul Keating*, p. 224.
[109] Keating, 'Traditions of Labor in Power', p. 184.

'[l]ow margin, big volume, fungible financial services ... able to help the great body of the community into assets and services they require ... [and in the process] promote higher GDP growth'. This logic turned the ALP's previous Keynesian scepticism towards the efficiency and stability of financial markets on its head. Instead of financial market regulation facilitating the use of financial resources in the public interest, Keating argued that 'financial regulation represents a set of structures most valuable to the already wealthy while deregulation, openness and fungibility present avenues which are most valuable to the clever and the imaginative'.[110]

Several of the arguments in favour of financial deregulation will be evaluated against the subsequent empirical record within the next chapter, as part of the overall assessment of the macroeconomic policy record of the Hawke and Keating Governments. Within this chapter, some of the implications associated with the floating of the currency's exchange rate and the abolition of exchange controls provide the context for the fiscal and wages policy restraints implemented by the Hawke Government in the mid-to-late 1980s. These policy changes are analysed within the final sections of this chapter.

Fiscal & Wages Restraints: The New Response to Macroeconomic Instability

The float of the currency's exchange rate valuation and the abolition of exchange controls facilitated the judgements of financial markets with regard to the policy settings of Australian governments, and the Commonwealth Government in particular. Almost immediately, as political economist Stephen Bell has documented, financial market critiques of the Hawke Government's perceived fiscal profligacy were communicated through a sharp 25 percent depreciation in the value of the Australian dollar - which occurred between November 1984 and April 1985; a 'punitive sell-off' which was repeated in November 1985, and again between May and August 1986, so that in total between late-1984 and late-1986 the Australian dollar lost approximately 42 percent of its trade weighted value in nominal terms.[111] Much of the subsequent reductions in the currency's valuation were also influenced by financial market perceptions of the importance of the steep reductions which had also occurred during this period in the value of the nation's terms-of-trade and the burgeoning of the nation's current account deficit: the nation's terms-of-trade were reduced by approximately 14 percent between the December quarter 1984 and the June quarter 1986; while Australia's current account deficit increased sharply from a level of 3.7 percent of GDP ($7.299 billion) in 1983-84, to 6.1 percent of GDP ($14.597 billion) in 1985-86.[112] Importantly, as the following sections will demonstrate, these adverse economic occurrences were interpreted by the Hawke Government as permanent market judgements

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[110] Paul Keating, 'Financial Innovation and Labour Reform in the Post-Industrial Age', speech to the Asian Leadership Conference, Seoul, 21 February 2008, in P.J. Keating 2011, *After Words: The Post-Prime Ministerial Speeches*, Allen & Unwin, Sydney, p. 544.

[111] Bell, *Ungoverning the Economy*, pp. 145-6.
See also: RBA statistics for 'Monthly Exchange Rate Data', at http://rba.gov.au/statistics/tables/xls/f11hist-1969-2009.xls, accessed: 19 January 2012.

[112] See: Bell, *Ungoverning the Economy*, p. 148; R.J.L. Hawke 1986, address to the nation on economic situation, 11 June, *Commonwealth Record*, Vol. 11, No. 22, 9-15 June, p. 950; R.J.L. Hawke 1986, speech to a Labor business forum, Adelaide, 27 August 1986, *Commonwealth Record*, Vol. 11, No. 33, 25-31 August, p. 1438.

on the inadequacies of the Australian economy's international competitiveness. In this context, the Hawke Government not only concluded that these adverse macroeconomic variables required Australians to endure short-term downward adjustments in their living standards – a temporary breach of the ALP's social democratic objective – but the government's longer-term solution to the nation's trading difficulties also centred on a market liberal policy framework which required a substantial shift in resource distribution away from the public sector and wage earners, and towards the private sector. In accordance with market liberal theory, it was hoped that the more efficient resource use of the private sector would facilitate a more sustainable, internationally competitive base for economic growth, from which all Australians, including the ALP's traditional working constituency would benefit. In addition, this strategy was pursued in spite of the significant decline in economic and employment growth which occurred amidst the macroeconomic instability of the mid-1980s – a clear breach of Keynesian policy.

The Fiscal Trilogy Commitments

As early as the cabinet deliberations which presided over the Hawke Government's first budget, Keating informed his colleagues that the Commonwealth's deleterious fiscal position was variously: contributing the lion's share to the projected increase in the public sector borrowing requirement (PSBR); he intimated that the projected growth in the structural deficit was irresponsible; and he warned that a lax fiscal policy would place undue weight upon monetary policy restraint.[113] Keating's public pride in a stimulatory structural deficit (quoted above), was not evident in these sentiments. His adherence to Keynesian fiscal principles was in the process of being replaced with a market liberal acceptance of the principles of the crowding out theory. Keating's concerns about the increasing size of the PSBR and the adverse effects that its growth would have in placing upward pressure upon both interest rates and the exchange rate, continued into the cabinet deliberations for the 1984-85 Budget.[114]

Subsequently, amidst the 1984 federal election campaign, and widespread accusations of the Hawke Government's apparent fiscal profligacy,[115] Hawke announced his government's commitment to a trilogy of fiscal commitments:

> In our next three year term of government:
>
> - the overall level of taxation will not increase as a proportion of gross domestic product
> - the deficit will not increase as a proportion of gross domestic product
> - government spending increases will be restrained below the rate of economic growth.[116]

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[113] See: Paul Keating 1983, 'The Budget and Economic Policy', Cabinet Submission 312, 21 July, NAA, Canberra, A13977, 312, pp. 4-5.

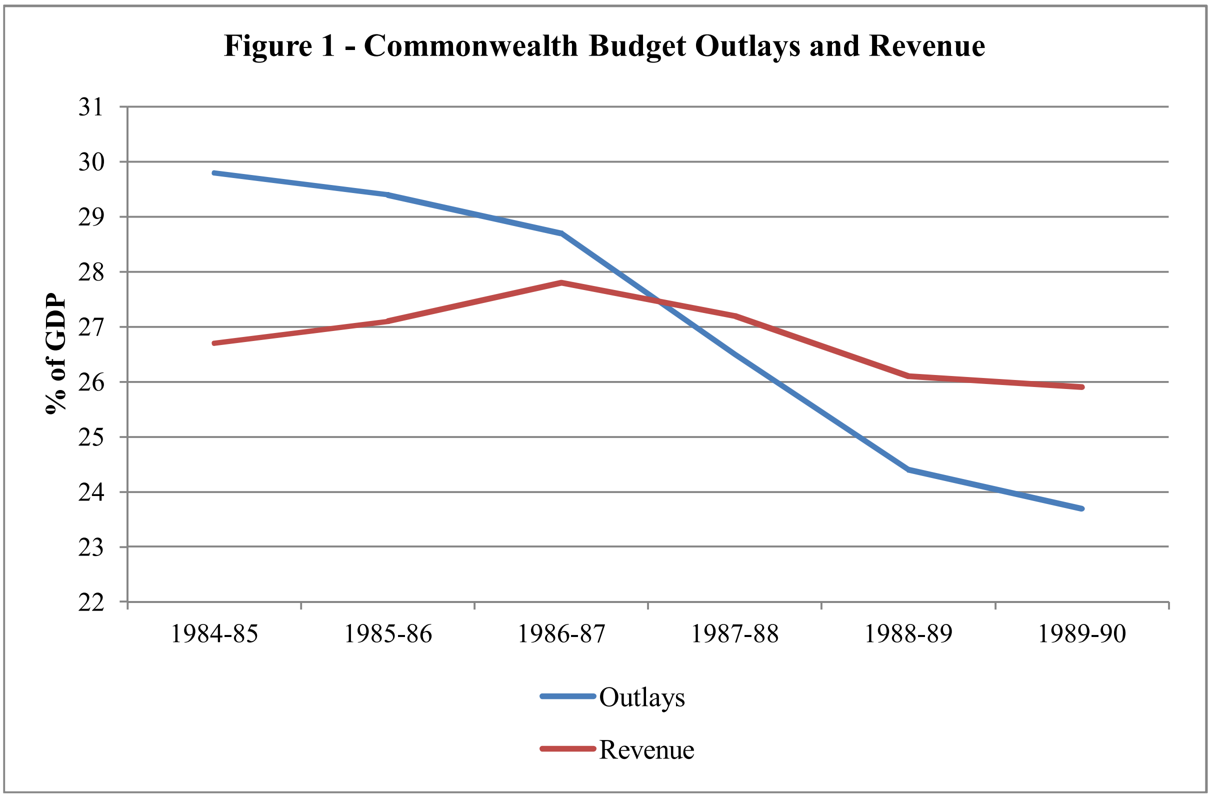
[114] See: Paul Keating 1984, '1984-85 Budget – Economic Policy Considerations', Cabinet Submission No. 700, 23 March, NAA, Canberra, A13977, 700, pp. 6-8.

[115] See the suggested talking points which Prime Minister Hawke and Treasurer Keating had adopted in response to 'criticism of the apparent excessive growth in Budget outlays': Cabinet 1984, Decision No. 4274, 'Without Submission – Presentation of the 1984-85 Budget', Minute, 3 September, NAA, Canberra, A13979, 4274, pp. 1-2.
See also: Kelly, *The End of Certainty*, p. 143.

These commitments constrained the Hawke Government's use of counter-cyclical fiscal policy, and were thereby definitively anti-Keynesian. Stilwell's appraisal of the trilogy commitments was apposite:

> This is a set of financial constraints that clearly inhibits a public-sector led recovery, Keynesian macroeconomic management in general and delivery of the Accord commitments to social wage increases.[117]

Keating also later summarised the importance of the trilogy commitments: 'Our trilogy of fiscal commitments was directed at restraining the size of Government over the medium-term and we reaffirm that fundamental objective'.[118] The resultant expenditure cuts were significant. Figure 1 graphically illustrates the trilogy's influence upon fiscal policy throughout the remainder of the 1980s. It can be observed that although the level of taxation did not decline as a proportion of GDP in every year, Commonwealth Government outlays were reduced consistently and substantially.



Source: Treasury, Statement 1, *1995-96 Budget Paper No.1*, p. 1.11.

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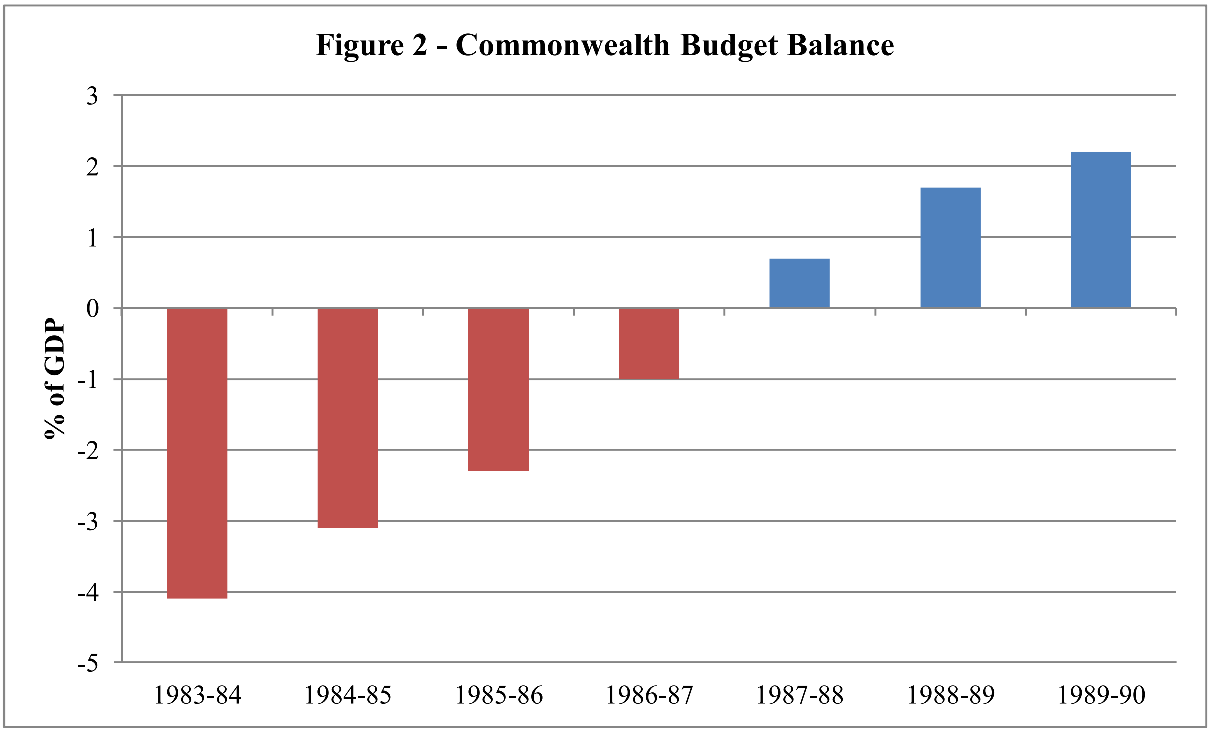
[116] R. J. L. Hawke 1984, speech to the National Press Club, Canberra, 29 November 1984, *Commonwealth Record*, Vol. 9, No. 48, 26 November-2 December, pp. 2502-3.
[117] Stilwell, *The Accord ... and Beyond*, pp. 64-5, 69.
See also: Head, 'The Labor Government and "economic rationalism"', pp. 471-2.
[118] Paul Keating 1986, *Budget Speech 1986-87*, 19 August, AGPS, Canberra, p. 8.

Significant reductions in Commonwealth Government budget expenditures were achieved from the 1986-87 Budget. That year registered only a slight increase in real Commonwealth Government expenditures (0.2 percent),[119] and delivered a deficit projection of just 1.4 percent of GDP - favourably compared within Keating's budget speech with the frugality of the conservative Coalition governments of the late-1950s and 1960s.[120] Similar measures of fiscal restraint were implemented throughout the remainder of the 1980s. This included several years of significant real reductions in Commonwealth expenditures: 2.2 percent for 1987-88, 3.8 percent in 1988-89, and 0.4 percent in 1989-90; so that Commonwealth Government expenditures constituted their lowest level in 1989-90 as a proportion of GDP (23.7 percent) since the early-1970s.[121] As a consequence, sizeable Commonwealth Government surpluses were achieved: over $2 billion for 1987-88, $5.9 billion in 1988-89, and $8 billion in 1989-90 (see Figure 2, for a graphical depiction of the budget balance turnaround).[122] As discussed within the following passages, this level of fiscal restraint was supported by the Hawke Government's adherence to the twin deficits theory.



Source: Treasury, Statement 1, *1995-96 Budget Paper No.1*, p. 1.11.

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[119] See the table of Commonwealth budget outlays, revenue and balance, in: Treasury, Statement 1, *1995-96 Budget Paper No.1*, p. 1.11.
[120] Keating, *Budget Speech 1986-87*, p. 8.
[121] Treasury, Statement 1, *1995-96 Budget Paper No.1*, p. 1.11; Paul Keating 1989, Appropriation Bill No. 1 1989-90: Second Reading (Budget Speech), 15 August, House, *CPD*, p. 51.
[122] Treasury, Statement 1, *1995-96 Budget Paper No.1*, p. 1.11.

The Current Account Deficit, the Twin Deficits Theory, and Wage Discounting

As already outlined, the Hawke Government interpreted the decline in the nation's currency exchange rate and terms-of-trade, as well as the significant increase in the nation's current account deficit, as evidence of the Australian economy's lack of international competitiveness. The Hawke Government concluded that these adverse macroeconomic variables required reductions in Australian living standards in the short-term, and a significant redistribution of resources away from governments and wage earners and towards the private sector over the longer-term. In this context, New Right protagonists and the Commonwealth Treasury argued that Australia's reduced terms-of-trade was not a cyclical phenomenon, but indicative of a longer-term decline in the fortunes of nations, like Australia, which relied upon primary exports rather than value-added manufacturing. For these groups, Australia's burgeoning current account deficit served as evidence for the urgent need to apply market liberal, supply-side reforms to both improve the nation's deficient international competitiveness, and its parlous state of national savings.[123] Specifically, these groups advocated that improvements in the nation's international competitiveness should be tackled through various measures of microeconomic structural reform:

- the privatisation or corporatisation of state-administered transport and telecommunications services;
- liberalised trade (rather than the replication of the Hawke Government's interventionist industry plans, such as those designed for steel production at BHP (implemented in August 1983),[124] or the Button Motor Vehicle Plan (implemented in May 1984));[125]
- reductions in business regulations; and
- labour market reforms which included suggestions for the direct negotiation of workplace bargaining between employers and their employees.[126]

To ameliorate the parlous level of national savings, these groups emphasised the necessity for further fiscal restraint, encapsulated within the twin deficits theory. This theory - effectively an extension of the crowding out theory - 'broadly argue[d], ... that the government's budget deficit, through its impact on savings, is a major contributor to the current account deficit'.[127] More specifically, the twin deficits theory 'is based upon the assumptions that:

[123] See: Kelly, *The End of Certainty*, pp. 199-201; John Freebairn, Michael Porter & Cliff Walsh (eds) 1987, *Spending and Taxing: Australian Reform Options*, Allen & Unwin, Sydney, p. 5.
[124] See: Jenny Stewart 1994, *The Lie of the Level Playing Field: Industry Policy and Australia's Future*, Text, Melbourne, pp. 143-6.
[125] See: Randal G. Stewart 1990, 'Industrial Policy', in C. Jennett & R.G. Stewart (eds), *Hawke and Australian Public Policy: Consensus and Restructuring*, Macmillan, Melbourne, pp. 114-9.
[126] See: Freebairn *et. al.* (eds)., *Spending and Taxing*, pp. 20, 32; John Nurick (ed.) 1987, *Mandate to Govern: A handbook for the next Australian Government*, Australian Institute for Public Policy, Australian Chamber of Commerce, Perth, pp. 127-32; Treasury 1984, Statement No. 2 – The Budget and the Economy, *1984-85 Budget Paper No. 1*, AGPS, Canberra, p. 64; Treasury, Statement No. 2, *1986-87 Budget Paper No. 1*, p. 37; Treasury 1988, Statement No. 2 – The Budget and the Economy, *1988-89 Budget Related Paper No. 1*, AGPS, Canberra, p. 51; Treasury 1989, Statement No. 2 – The Budget and the Economy, *1989-90 Budget Paper No. 1*, AGPS, Canberra, pp. 2.51-2; Treasury 1991, Statement No. 2 – The Budget and the Economy, *1991-92 Budget Paper No. 1*, AGPS, Canberra, pp. 2.35, 2.38; Treasury 1992, Budget Statement 2, *1992-93 Budget Paper No. 1*, AGPS, Canberra, p. 2.63.
[127] Bell, *Ungoverning the Economy*, p. 151.

a) a reduction in the government deficit will lead to an increase in the level of savings, and

b) an increase in savings will lead to an increase in the level of investment'.[128]

Keynesian economic theory explicitly refutes these underlying assumptions. It does not accept that savings will necessarily be invested, nor that reductions in government expenditures will necessarily increase the level of aggregate national savings, given the possible deleterious effects that public sector expenditure cuts can have on aggregate demand, investment, profits and wages - from which savings themselves are derived (see chapter three).

The twin deficits theory soon became accepted within 'mainstream economic theory' as merely a 'remote special case'.[129] However, within the economic context of 1986, Treasury and key New Right proponents used the theory to argue that a reduction in public sector expenditures was central to any serious attempt to increase the level of national savings and thereby affect a reduction in the level of the current account deficit.[130] For instance, the 1986-87 Budget papers argued that although '[t]here is no simple relationship between the current account deficit and the PSBR ... its high level, in circumstances of a dramatic deterioration of Australia's terms of trade, has contributed to the current account deficit remaining *stubbornly* wide [original emphasis]'.[131] Treasury believed that the effect of the PSBR in increasing domestic interest rates encouraged private sector borrowers to seek overseas finance, thereby exacerbating foreign debt and the current account deficit.[132] Keating also argued that public sector borrowing had made it necessary for the private sector to 'raise funds overseas', and emphasised the Hawke Government's fiscal efforts aimed at ameliorating this situation and its deleterious effect upon the current account deficit.[133] In pursuing this line, Keating also endorsed the underlying principle of Say's Law - that savings are necessarily invested, and invested within the traded goods sectors of the economy:

> By reducing the Government's call on Australian savings we free up those savings to go where Australia now really needs them, into plant and equipment for export expansion and import replacement. ... In this way each dollar released from the Government sector can ultimately be put to work in combating our trade problem.[134]

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[128] Battin, *Abandoning Keynes*, p. 171.
For a technical explanation of the twin deficits theory and its inherent assumptions, see: INDECS 1995, *State of Play 8: The Australian Economic Policy Debate*, Allen & Unwin, St Leonards, pp. 176-8.

[129] See: Matthew Smith & Greg Mahony 1993, 'Macroeconomic stabilisation policy', in Greg Mahony (ed.), *The Australian economy under Labor*, Allen & Unwin, St Leonards, p. 48.

[130] See: Edwards, *Keating*, p. 292; Freebairn *et. al.* (eds)., *Spending and Taxing*, pp. 20-1, 32-4; Nurick (ed.), *Mandate to Govern*, p. 31.

[131] Treasury, Statement No. 2, *1986-87 Budget Paper No. 1*, p. 44.
See also: Treasury 1990, Statement No. 2 – The Budget and the Economy, *1990-91 Budget Paper No. 1*, AGPS, Canberra, pp. 2.42, 2.58.

[132] See: Treasury 1985, 'The Current Account and Net Invisibles Deficits', Memorandum No. 3234, 5 September, A14039, 3234, pp. 3, 8-9.

[133] Paul Keating, speech at ALP business briefing, 16 June 1986, pp. 1015-6.
See also: P.J. Keating 1985, 'Medium-Term Budget Outlook', Cabinet Submission No. 3370, 11 November, NAA, Canberra, A14039, 3370, pp. 6-7; P.J. Keating 1986, '1986-87 Budget Strategy', Cabinet Submission No. 3647, 2 March, NAA, Canberra, A14039, 3647, pp. 7-8; Keating, 'The Economic Situation and Policy', Cabinet Submission No. 4041, pp. 7-11; Edwards, *Keating*, pp. 310-1; Paul Keating 1988, Ministerial Statement: Economic Measures, 25 May, House, *CPD*, p. 3014.

[134] Paul Keating 1987, Ministerial Statement: 1987-88 Budget – Initial Measures, 13 May, House, *CPD*, p. 3133.

This was the context of the John Laws 'banana republic' interview conducted with Keating on 14 May 1986, in which Keating emphasised that without greater fiscal rectitude, lower wages, and as a result a more competitive manufacturing sector, the economy would simply keep importing more goods and services than Australians could afford to buy through their exports.[135] As Keating concluded: 'The public sector must give way to the externally traded goods sector in order that we overcome our trade problem'.[136] This would allow the private sector to restructure and ultimately trade their way out of the nation's current account difficulties.

The significant reduction in the currency's exchange rate valuation, which occurred in the early months of 1985 (detailed above), was also interpreted by the Hawke Government to require wage discounting against the full wage indexation guidelines advocated within the Statement of Accord, and implemented by the Conciliation and Arbitration Commission in September 1983.[137] The reduction in real wages that this would entail was believed necessary in order to avoid the inflationary impact of the exchange rate devaluation - estimated to impart an increase in the CPI of 2 percent in a full year – from becoming embedded in wage rates.[138] Accordingly, a 2 percentage point reduction in the April 1986 wage indexation decision was successfully negotiated with the ACTU in exchange for the September 1986 delivery of income tax cuts of comparable value, and Commonwealth Government support for a modified ACTU productivity claim of 3 percent to be delivered in the form of superannuation payments.[139] The Conciliation and Arbitration Commission upheld these requests.[140]

Subsequently, in a nationally televised June 1986 address, Hawke reused the policy of wage discounting. He reasoned that because the nation's declining terms-of-trade had effectively 'slashed 3 per cent off our capacity to maintain existing living standards', the nation had 'for the time being to accept reduced standards of living'.[141] As a consequence, Hawke announced that the government would advocate to postpone the next national wage case (due in September 1986), require further wage discounting in 1987, and delay the delivery of both the compensatory income tax cuts previously agreed with the ACTU, and the productivity-superannuation case before the Conciliation and

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See also: Paul Keating 1986, speech to the Metal Industries Association of South Australia, 26 June 1986, *Commonwealth Record*, Vol. 11, No. 24, 23-29 June, p. 1058.

[135] See: Edwards, *Keating*, p. 296; Kelly, *The End of Certainty*, pp. 211-2.

[136] P.J. Keating 1987, speech to the National Press Club, Canberra, 14 May 1987, *Commonwealth Record*, Vol. 12, No. 18, 11-17 May, p. 726.

See also: P.J. Keating 1988, address to EPAC, 18 November 1988, *Ministerial Document Service*, No. 98/88-89, 21 November, p. 3620.

[137] See: Ralph Willis & Kenneth Wilson 2000, 'Introduction', in Wilson, Bradford & Fitzpatrick (eds), *Australia in Accord*, p. 2.

[138] See: Stilwell, *The Accord ... and Beyond*, pp. 16-7.

[139] Paul Keating & Ralph Willis 1985, The Accord Mark II, 4 September, in 'Appendix C.', Stilwell, *The Accord ... and Beyond*, pp. 184-5.

[140] Willis & Wilson, 'Introduction', p. 3.

[141] Hawke, address to the nation on economic situation, 11 June 1986, p. 949.

Hawke later claimed that the annual reduction in the nation's income of $6 billion, equated to a loss of some $1500 per family. See: R.J.L. Hawke 1987, speech at fund raising dinner for the Macquarie electorate campaign, Springwood, 2 April 1987, *Commonwealth Record*, Vol. 12, No. 12, 30 March – 5 April, p. 465.

Arbitration Commission.[142] As part of the 1986-87 Budget, Keating announced that a further 2 percentage point wage reduction would be advocated through the Arbitration Commission, applicable to the CPI increases for the March and June quarters 1986.[143]

With regard to the equity considerations applicable to the Hawke Government's use of wage discounting, it has been argued that the method of achieving trade union acquiescence for real wage reductions through compensatory income tax cuts, either reduced the tax revenue from which the social wage was financed, or merely returned to workers the increment in increased income tax payments they were scheduled to pay because of the inflationary effect of bracket creep.[144] In either case the post-Keynesian intent of the original Statement of Accord was discarded through this practice. Moreover, real wages and workers' living standards were reduced,[145] and as a consequence the ALP's social democratic objective was at least temporarily discarded.[146]

According to Hawke, fiscal and wages restraints offered 'the only way to achieve lower interest rates and a lower current account deficit simultaneously', two ingredients thought necessary for increased investment, employment and prosperity.[147] In enunciating this perspective, Hawke was implicitly upholding both the crowding out and twin deficits theories. Keating repeated this appraisal within his 1986-87 Budget Speech.[148] Importantly, these assessments were made amidst a contraction in economic growth in the March quarter of 1986 of 0.3 percent, a reduction of 2 percent in private new capital expenditure over the same period, and a 15 percent reduction in private expenditure on plant and equipment in the six month period ending in March 1986.[149] Despite this evident contraction in economic activity, however, and in accordance with the fiscal trilogy commitments, the Hawke Government was no longer prepared to manipulate aggregate demand. As Stilwell described: 'In conditions where an economic recession was looming this was the clearest possible negation of the expansionary fiscal policy objectives associated with the original Accord', and Keynesian counter-

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[142] Hawke, address to the nation on economic situation, 11 June 1986, pp. 949, 951.

[143] Keating, *Budget Speech 1986-87*, pp. 10-1.

[144] See: Stilwell, *The Accord ... and Beyond*, p. 65; Frank Stilwell 1993, 'Wages Policy and the Accord', in Mahony (ed.), *The Australian economy under Labor*, pp. 72-3; Edwards, *Keating*, pp. 246, 281-2, 418-9.

[145] Keating even boasted of the comparative severity of the real wage reduction the Hawke Government was able to achieve through the Accord process, relative to Australia's major developed trading partners. See: P.J. Keating 1986, speech to a meeting of the EPAC, Canberra, 5 September 1986, *Commonwealth Record*, Vol. 11, No. 35, 8-14 September, p. 1562.
For the financial year 1985-86 average earnings grew by 6.3%, against an increase in the CPI of 8.4%. Moreover, annual increases in the CPI continued to outpace the annual rate of average earnings growth until the financial year 1991-92. See: Mathews & Grewal, *The Public Sector in Jeopardy*, p. 376.

[146] Political scientists Elizabeth Humphrys and Damien Cahill have argued that the Accord relationship between the federal Labor government and the ACTU, and the ACTU's complicit support for wage discounting and other market liberal policies, provides evidence of the Australian trade union movement's active role in the restructuring of the Australian economy, and the construction of what they have defined as neoliberalism in Australia. See: Elizabeth Humphrys & Damien Cahill 2016, 'How Labour Made Neoliberalism', *Critical Sociology*, published online: 4 August, http://journals.sagepub.com/doi/abs/10.1177/0896920516655859, accessed: 17 April 2017, pp. 1, 6-10.

[147] R.J.L. Hawke 1986, speech to the ALP National Conference, 9 July 1986, *Commonwealth Record*, Vol. 11, No. 27, 14-20 July, p. 1155.

[148] Keating, *Budget Speech 1986-87*, pp. 1-2.

[149] See: Stilwell, *The Accord ... and Beyond*, pp. 18-9.

cyclical demand management more generally.[150] Consequent reductions in aggregate demand, economic and employment growth resulting from this strategy had become accepted.[151] As early as March 1986, Keating had made it plain that '[o]ur problem is not one of lack of demand', and he ridiculed 'those who wish to ignore the current account deficit and pump up the economy in some panic dash to spending stations'. 'A dash for growth at this stage would merely compound our balance of payments problems'.[152]

In this context, it is not unreasonable to conclude that from the mid-1980s the restraint which the Hawke Government inflicted was reminiscent of the anti-growth monetarism that key cabinet ministers had earlier ridiculed the Fraser Government for having implemented (see above). Of course the Hawke Government did not perceive their policies in this light. Fiscal and wages restraints were applied to lower the rate of inflation, interest rates and the current account deficit, while also improving private sector profitability, and business and financial market confidence. This combination was envisaged to establish the foundation for a sustainable macroeconomic growth trajectory, otherwise endangered by an inflationary fiscal policy, or a wage-price spiral.[153]

Fiscal policy was subsequently set for the medium-term task of restraining demand, 'for as long as necessary to bring the current account deficit down and to arrest the relative growth in indebtedness'.[154] On this front, the Hawke Government claimed great credit for having significantly reduced the Commonwealth Government's call on savings. Within his 1988-89 Budget Speech Keating was in the position to hail the Hawke Government as 'the first in the post war years with the courage to make real inroads into public spending', and boasted that the government had consequently and importantly overseen the removal of the entire Australian public sector from financial markets.[155] As Keating summarised, 'The public sector is therefore not adding to the ... current account deficit'.[156] For its part, Treasury was publicly congratulatory of the Hawke Government's fiscal 'discipline'.[157] Secretary to the Treasury Chris Higgins (1989-1990) was laudatory of the impressive reduction in Commonwealth debt relative to GDP which this fiscal restraint achieved over the four year period

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[150] *Ibid.*, p. 67.
[151] See: P.J. Keating 1987, 'The Economic Situation and Outlook', Cabinet Submission No. 4603, February, NAA, Canberra, A14039, 4603, pp. 3-4, 16; P.J. Keating 1987, 'The Economic Situation and Outlook', Cabinet Submission No. 5005, 10 August, NAA, Canberra, A14039, 5005, pp. 3-4, 9, 13.
[152] P.J. Keating 1986, D.H. Merry lecture to the CEDA, 21 March 1986, *Commonwealth Record*, Vol. 11, No. 10, 17-23 March, p. 392.
See also: P.J. Keating 1986, '1986-87 Budget Strategy', Cabinet Submission No. 3628, 2 March, NAA, Canberra, A14039, 3628, pp. 9-10.
[153] See: Treasury 1985, 'The Economic Outlook', Memorandum No. 3062, 12 July, NAA, Canberra, A14039, 3062, pp. 4-8; Keating, '1986-87 Budget Strategy', Cabinet Submission No. 3628, p. 10; P.J. Keating 1986, 'The Economic Situation and Outlook', Cabinet Submission No. 3966, 27 May, NAA, Canberra, A14039, 3966, pp. 7-13; Keating, 'The Economic Situation and Policy', Cabinet Submission No. 4041, pp. 3-5, 7, 11-3; P.J. Keating 1988, 'Economic and Fiscal Policy Strategy', Cabinet Submission No. 5517, 19 February, NAA, Canberra, A14039, 5517, pp. 3-4, 6.
[154] Keating, speech to a meeting of the EPAC, 5 September 1986, p. 1562.
[155] Paul Keating 1988, *Budget Speech 1988-89*, 23 August, AGPS, Canberra, pp. 3-4.
[156] P.J. Keating 1990, address to the Irish-Australian Chamber of Commerce, Melbourne, 27 July 1990, *Ministerial Document Service*, No. 21/90-91, 30 July, p. 606.
[157] See: Treasury, Statement No. 2, *1986-87 Budget Paper No. 1*, pp. 48-51.

between June 1986 and June 1990 – a reduction from 26.8 percent to approximately 13 percent.[158] Treasury emphasised that this achievement had reversed the sustained high level of public sector borrowing which had begun in 1974-75, and assisted in the amelioration of the adverse effects upon the current account deficit which the late-1980s investment boom would have otherwise had.[159]

The wages restraint achieved through the Accord process had also achieved a significant increase in private sector profitability: the share of wages relative to GDP fell from 74 percent in 1983, to 63.3 percent in 1990.[160] Similar statistics pointing to the reduction in real unit labour costs and increased profit shares were cited throughout this period by the Hawke Government.[161] It was in this context that the Hawke Government believed that it had done all it could to restore private sector profitability, to remove the public sector from financial markets, and as a consequence it concluded that it was simply up to the private sector to take advantage of the opportunities for investment which the Hawke Government had facilitated.

Conclusion

This chapter has argued that the original Statement of Accord established an identifiable Keynesian platform, designed to stimulate the economy out of the stagflationary conditions experienced at the time the Hawke Government was elected to office in March 1983. Fiscal policy was envisaged to stimulate economic growth, and a centralised system of wages restraint was designed to alleviate the inflationary conflict for income shares between labour and capital. It has been argued that this Keynesian platform underpinned much of the macroeconomic policy of the Hawke Government's first term in office.

It has also been argued, however, that the incipient influence of market liberalism was also evident within the Hawke Government's first term. Partly influenced by both Treasury's market liberal policy advocacy and Treasurer Paul Keating's critique of the existing structure of national financial market regulation, the Hawke Government implemented several reforms broadly associated with financial deregulation: the floating of the nation's currency exchange rate; the abolition of exchange controls; the abolition of several banking regulations; and the introduction of foreign banking competition. These policies removed regulations which had previously been designed in accordance with a Keynesian suspicion of the instability and inefficiency of unfettered financial markets, and were themselves underpinned by a belief in the efficient resource distribution of less fettered financial market exchange.

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[158] Christopher Higgins 1990, 'The Australian Economy Entering the 1990s', *Economic Papers*, Vol. 9, Issue 1, p. 17.
[159] Treasury, Statement No. 2, *1990-91 Budget Paper No. 1*, pp. 2.52-3.
[160] Stilwell, 'Wages Policy and the Accord', p. 80.
[161] See: R.J.L. Hawke 1984, speech to a business luncheon, Perth, 19 April, *Commonwealth Record*, Vol. 9, No. 16, 16-22 April, p. 708; P.J. Keating 1984, speech to a meeting of the Adelaide business community, 2 August 1984, *Commonwealth Record*, Vol. 9, No. 31, 30 July-5 August, p. 1432; R.J.L. Hawke 1986, speech to a Labor business forum, Adelaide, 27 August, *Commonwealth Record*, Vol. 11, No. 33, 25-31 August, p. 1440.

This chapter also established that from the beginning of the Hawke Government's second term in office (1984-1987) market liberal policies of fiscal and wages restraints were also implemented. It has been established that the confluence of widespread criticisms of the Hawke Government's apparent fiscal profligacy, the significant reductions in the valuation of the nation's currency exchange rate and terms-of-trade, and the significant increase in the nation's current account deficit, were interpreted by the Hawke Government as permanent market judgements on the inadequacies of the Australian economy's international competitiveness. The Hawke Government concluded that these adverse macroeconomic variables required Australians to endure short-term downward adjustments in their living standards – a temporary breach of the ALP's social democratic objective – and required a substantial shift in resource distribution away from the public sector and wage earners, and towards the supposedly more efficient private sector. In accordance with market liberal theory, the redistribution of resources to the private sector was facilitated through budget expenditure cuts, in accordance with the crowding out and twin deficits theories, and wage discounting, designed to increase the profit share of national income. It was hoped that this strategy would allow the private sector to restructure and ultimately trade their way out of the nation's current account difficulties, and thereby facilitate a more sustainable, internationally competitive base for economic growth, from which all Australians, including the ALP's traditional working constituency, would benefit. It has been established that this strategy was pursued in spite of the significant decline in economic and employment growth which occurred in the mid-1980s, and therefore represented a clear breach of Keynesian policy.

Chapter eight continues the analysis of the macroeconomic policies implemented by the Hawke and Keating Governments, and provides an overall assessment of their effectiveness. It argues that the combination of the market liberal policies of financial deregulation, fiscal and monetary policy restraints, combined to facilitate a speculative asset boom in the late-1980s, and also contributed to the depth of the severe recession experienced during the early-1990s. Chapter eight argues that the Hawke and Keating Governments' responses to this severe recession offered insufficient attention to the adverse employment consequences which accompanied the severe application of high interest rates, or the extent of the unemployment experienced when Keynesian stimulatory policies are not promptly and effectively deployed. Chapter eight concludes that the Hawke and Keating Governments' broadly non-interventionist macroeconomic policies failed to achieve and maintain a high rate of employment, required to facilitate the ALP's social democratic objective of attempting to improve the living standards of the Party's traditional working constituents and their dependents. Chapter eight thereby also concludes that the macroeconomic experience of the Hawke and Keating Governments reveals the risks social democratic governments confront when they place too great a trust in the resource distribution of the private sector to determine the pace of economic activity, the level of investment and employment, and ultimately the living standards of workers and their dependents.

CHAPTER EIGHT

RECESSION AND RECOVERY: AN ASSESSMENT OF THE HAWKE AND KEATING GOVERNMENTS' MACROECONOMIC POLICIES

This chapter serves two purposes: Part 1 continues the previous chapter's analysis of the Hawke and Keating Governments' macroeconomic policies; and Part 2 provides an overall assessment of this policy record. In continuing the analysis of the previous chapter, this chapter argues that the Hawke Government's implementation of the market liberal policies of fiscal and monetary restraints, and financial market deregulation, facilitated and then significantly contributed to the depth of the severe recession experienced during the early-1990s. Part of this analysis argues that the Hawke and then Keating Governments' largely non-interventionist, market liberal policy responses to the onset of this recession exacerbated both its depth and duration. It is argued that this market liberal policy response reveals the problems which can be encountered when timely and effective Keynesian stimulatory policies are not taken to avoid or alleviate the growth in unemployment which accompany recessions. Without this type of Keynesian response, market forces proved slow to produce an employment recovery.

It is established that the Hawke Government, in conjunction with an increasingly independent central bank, and bureaucratic advice emanating from Treasury, the DPM&C and the Department of Finance, stubbornly maintained its commitment to the market liberal policies of fiscal and monetary restraints, in spite of the depth of the recession, the evident reduction in economic activity, and the significant increase in unemployment. It is also argued that the Keating Government's subsequent implementation of a modest stimulatory program *One Nation* (1992) proved ineffective. The *One Nation* program's expenditures were too modest, poorly targeted, and ill-timed to deliver an effective stimulus to the economy. Their composition did not adhere to either the fiscal stimulatory principles enunciated by Keynes (outlined in chapter three), or the criteria devised for the successful deployment of stimulatory public works established by E.R. Walker in the 1930s (see chapter four). Rather, it is argued that the *One Nation* program was primarily designed with the political ambition to replicate, and thereby undermine, the electoral attractiveness of the significant income tax cuts contained within the Liberal/National Coalition parties' election manifesto *Fightback!* (1991). This chapter thereby concludes that in spite of the recessionary economic circumstances encountered, the Keating Government, like the Hawke Government before it, did not seriously consider that the private sector required significant fiscal stimulatory intervention. On this point, it also argued that the Keating Government's subsequent preoccupation with increasing the level of national savings, through fiscal restraint, reinforced the Hawke Government's earlier market liberal preoccupation with increasing public sector savings in accordance with the twin deficits theory. In short, this chapter argues that in spite of the early-1990s recession presenting the Hawke and then Keating Governments with the shortcomings of market liberal macroeconomic policy restraints, neither government replaced them with Keynesian demand management policies designed to stimulate investment and employment.

The broad continuity of the Hawke and Keating Governments' macroeconomic policies – at least in the period since the subversion of the Hawke Government's initial Keynesian platform (documented in the previous chapter) – provides a valuable case study for an assessment of the implementation of market liberal policies under a federal Labor government. The assessment of this record is contained in Part 2 of this chapter, which analyses the success or otherwise of the Hawke and Keating Governments' major macroeconomic policies:

- the application of significant fiscal, monetary, and wages policy restraints;
- financial deregulation; and
- industrial relations policies which were successively designed to redistribute the national share of income away from wage earners to profits, and then shift industrial bargaining away from a centrally regulated system towards a system of dispersed enterprise bargaining.

Within Part 2 of this chapter acknowledgement is made of the Hawke and Keating Governments' efforts to shield society's most disadvantaged from the inequitable consequences of market distribution. It is argued that these efforts were made in accordance with the ALP's social democratic ideological objective of attempting to improve the living standards of the ALP's working constituency, their dependents and society's most disadvantaged. For instance, it is acknowledged:

- that the Hawke and Keating Governments retained a centrally regulated system of minimum occupational awards as a social safety net, designed to protect vulnerable lower income workers with minimal industrial bargaining power, as part of their broader reforms of the nation's industrial relations system;
- that these governments targeted fiscal expenditures towards disadvantaged groups and thereby increased the social wage as envisaged within the original Statement of Accord (see previous chapter); and
- that these governments maintained a robust rhetorical critique against the perceived right-wing ideological excesses of the Liberal/National Coalition parties under the successive leaderships of John Hewson (1990-1994), and John Howard (1995-2007).

However, in spite of this resistance to more strident forms of market liberal ideology, the overall assessment of the Hawke and Keating Governments' broadly non-interventionist macroeconomic policies concludes that these governments failed to facilitate and maintain the prosperous conditions of low inflationary full employment, from which the ALP's traditional working constituents directly benefit. In this context, any discernible improvement in broad macroeconomic variables, which were evident by the late-1980s – and particularly the discernible improvement in the unemployment rate – were subverted by the deep and long-lasting recession of the early-1990s; the primary legacy of which was a stubbornly high level of unemployment, not significantly reduced for the remainder of the Keating Government's period in office. Only inflation was comprehensively defeated during this period. However, even this achievement relied on the deployment of severe levels of both fiscal and monetary policy restraints - a strategy the Hawke Government had earlier criticised the Fraser Government for having implemented (see previous chapter).

This chapter concludes that the macroeconomic experience of the Hawke and Keating Governments reveals the risks social democratic governments confront when they place too great a trust in the resource distribution of the private sector to determine the pace of economic activity, the level of investment and employment, and ultimately the living standards of workers, their dependents and society's most disadvantaged. It is argued, therefore, that in spite of the Hawke and Keating Governments' belief that they were implementing those macroeconomic policies which most feasibly upheld the long-term material interests of the ALP's traditional working constituents, a large amount of evidence exists to suggest that these governments' faith in market liberal policies to deliver full employment prosperity were misplaced.

Part 1 of this chapter begins its analysis by establishing the development of the Hawke and then Keating Governments' monetary policies. This section establishes two allied points. The first point emphasises the market liberal rationale which underpinned the severe level of monetary policy restraint, implemented throughout most of the period of the 1980s, and maintained amidst the recessionary conditions of the early-1990s. The argument emphasised here is that despite the severe level of interest rates having been targeted at different economic variables – successively the level of the exchange rate, the nation's current account deficit, and finally the rate of inflation – these policy objectives all demonstrated an opposition to the Keynesian advocacy for a permanently low level of short-term interest rates (see chapter three). It is also argued here that the inflation-targeting monetary policy developed by the RBA in the early-1990s was also based partly upon a rejection of the viability of Keynesian counter-cyclical policy interventions, and an adherence to the market liberal theoretical belief that low inflation predicates employment growth, and should therefore be prioritised above demand management concerns.

The second allied point, emphasised throughout this section, is that the Hawke Government's monetary policy response to the unsustainable asset price boom of the late-1980s, prioritised the lowering of the nation's current account deficit and rate of inflation above any countervailing concern for the effects that these severe levels of short-term interest rates were having on productive business investment and employment. Further, it is established that even after the economy entered into the severe early-1990s recession, the RBA – increasingly operating as the sole independent monetary authority - chose not to adjust interest rates to accommodate economic recovery, but instead chose to target monetary policy against what were perceived to be the economy's excessive inflationary expectations (albeit with some residual consideration given to economic activity and employment).

This section is followed by an analysis of the Hawke and then Keating Governments' fiscal policy responses to the early-1990s recession. As outlined above, it is established here that both the Hawke and Keating Governments refused to substantively stimulate the economy through a rigorous application of Keynesian fiscal intervention. This section argues that the Hawke Government maintained its long-standing adherence to the market liberal fiscal restraint, advocated through the twin deficits theory, while the Keating Government's modest stimulatory program *One Nation* (1992) proved ineffective for the reasons outlined above. This section argues that the Keating Government did not seriously consider that the private sector required significant fiscal stimulatory intervention, and that its subsequent preoccupation with increasing the level of national savings through fiscal restraint reinforced the continuity of market liberal fiscal policy. This section is followed by Part 2 of this chapter: the assessment of the Hawke and Keating Governments' overall macroeconomic policy record.

Part 1: From Restraint to Recession

As the previous chapter detailed, from the mid-1980s the Hawke Government's macroeconomic policy had been designed to reallocate resources from the public sector and wage earners towards what was believed to be the more efficient private sector. The allied policies of fiscal and wages restraints were implemented to achieve this objective, and the reforms made to financial regulation were also designed to increase the flow of finance capital to aspiring and viable businesses, and entrepreneurs. This policy platform was envisaged to facilitate increased investment and employment opportunities from which the ALP's traditional working constituents would benefit. It was also believed that the resultant increase in private sector investment would include investment in trade-exposed industries whose success would assist with the alleviation of the nation's burgeoning current account deficit.

The following section establishes the allied development of the monetary policy jointly implemented by the Hawke and Keating Governments and the RBA from the period of the Hawke Government's 1983 election. This section begins by establishing the impact that some of the financial deregulatory reforms, canvassed within the previous chapter, had upon monetary policy-making.

<u>The Development of Monetary Policy</u>

The previous chapter established that several of the financial deregulatory reforms implemented by the Hawke Government in the mid-1980s were directly opposed to Keynes' advocacy for the regulation of credit dispersal and other monetary variables, such as the exchange rate. However, one of the arguments made in favour of these reforms was that they were anticipated to allow domestic monetary policy to be made according to domestic economic considerations. As noted in the previous chapter, part of the RBA's rationale for the float of the exchange rate was that this reform would remove the management of the exchange rate from affecting the level of short-term interest rates – as previously occurred when the exchange rate was periodically defended against speculative attack under the managed exchange rate system. The RBA envisaged that under a floating exchange rate system this type of intervention would occur only rarely, and would therefore allow monetary policy to be made in accordance with domestic policy goals, such as demand management objectives, or inflation control.[1] Further, in the wake of both the abolition of the quantitative and qualitative regulatory instruments previously used to control the dispersal of credit, and the Hawke Government's 1985 abolition of the system of monetary targeting it had inherited,[2] the Hawke Government came to rely upon interest rate adjustments as their sole instrument of monetary policy.[3] In summary, while the Hawke Government's deregulatory financial reforms were at odds with Keynes' advocacy for rigorous financial market regulation; these reforms paradoxically offered the possibility of monetary policy being made in accordance with Keynesian priorities – i.e. a permanently low rate of interest. This possibility was not realised, however. Instead, interest rates were successively set from the mid-1980s in accordance with the objectives of influencing what were considered to be key macroeconomic variables: the level of the exchange rate; the level of the current account deficit; and the rate of inflation. The rationale behind these monetary policy decisions, and their consequences, are analysed in the following passages.

As established within the previous chapter, the adverse exchange rate depreciations which reduced the trade-weighted value of the Australian dollar by 42 percent between late-1984 and late-1986, had a significant influence on the macroeconomic policies of the Hawke Government. During this period, monetary policy was implemented with the objective to defend the Australian dollar's valuation against market activity which threatened to significantly reduce its value. This was the rationale behind the significant increases in short-term interest rates which occurred when cash rate was raised between September 1984 and December 1985 from 11 percent to a severe peak of 19.4 percent.[4] Not only was this policy clearly at odds with the Keynesian preference for low interest rates, but this type of monetary policy intervention constituted a clear breach of part of the rationale the RBA had used to

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[1] See also: Bell, *Australia's Money Mandarins*, pp. 24, 28.

[2] See: R.A. Johnston 1987, 'Monetary Policy – The Lessons of History', *Reserve Bank of Australia Bulletin*, September, pp. 5-6; Stephen Grenville 1997, 'The Evolution of Monetary Policy: From Money Targets to Inflation Targets', in Phillip Lowe (ed.), *Monetary Policy and Inflation Targeting*, RBA Economic Group, Sydney, p. 130; I.J. Macfarlane 1997, 'Monetary Policy Regimes: Past and Future', *Reserve Bank of Australia Bulletin*, October, pp. 25-6; I.J. Macfarlane 1998, 'Australian Monetary Policy in the Last Quarter of the Twentieth Century', Shann Memorial Lecture, University of Western Australia, Dep. of Economics, Discussion Paper 98.22, pp. 6-7; Bell, *Australia's Money Mandarins*, pp. 40-1.

[3] See: Bell, *Australia's Money Mandarins*, p. 43. Bell provides a concise explanation of how the RBA operates through 'open market operations' to ensure the overnight, short-term interest rate is maintained at their desired level, as well as an explanation for the connection between this rate and the 90-day bank bill rate with the mortgage rate.

[4] Johnston, 'Monetary Policy – The Lessons of History', p. 8; Grenville, 'The Evolution of Monetary Policy: From Money Targets to Inflation Targets', p. 134; RBA statistics for 'Interest Rates and Yields - Money Market', at http://www.rba.gov.au/statistics/tables/xls/f01hist.xls?, accessed: 19 January 2012.

advocate for the float of the exchange rate: that the setting of short-term interest rates would no longer be entangled with efforts designed to influence the value of the Australian dollar.[5]

From 1986 monetary policy was also used to restrain domestic demand as part of the Hawke Government's wider efforts to constrain the nation's burgeoning current account deficit.[6] Interestingly, this approach to monetary policy was pursued in spite of Keating's expressed faith that the j-curve effect (noted in the previous chapter) was itself working to equilibrate the nation's current account imbalance through financial market adjustments to the exchange rate.[7] Importantly, the application of monetary policy, targeted against the nation's current account deficit, problematically sought a fine and difficult balance between supporting productive business investment, while at the same time constraining the consumption of imports. Keating was hopeful that a beneficial amount of domestic demand could be maintained, buoyant enough to facilitate valuable investments in trade-exposed industries, but sufficiently restrictive enough to reduce the nation's excessive consumption of imports.[8] Critics have emphasised that monetary policy restraint constitutes too 'blunt' an instrument for such a finely tuned outcome.[9] Indeed, by the end of the decade, the RBA openly questioned the efficacy of targeting monetary policy at the current account deficit, given the adverse effects high interest rates had upon both productive trade-exposed investment, and an appreciating exchange rate.[10] It was the lack of appreciation for the adverse investment and unemployment consequences, which accompany the imposition of severe interest rates, that blindsided the Hawke Government to the destructive effects of its late-1980s monetary policy.

On this latter point, John Langmore and John Quiggin have pertinently identified that the severe level of monetary policy restraint implemented in the mid-1980s failed to forewarn the Hawke Government of the employment risks this strategy involved. They explained that the government alternatively concluded that the monetary policy of the mid-1980s successfully stifled consumption demand and the current account deficit, without incurring a large increase in unemployment.[11] Consequently, and against the earlier warnings made by both Keynes and the market liberal economist Milton Friedman

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5 See: Michael Stutchbury 1990, 'Macroeconomic Policy', in C. Jennett & R.G. Stewart (eds), *Hawke and Australian Public Policy: Consensus and Restructuring*, Macmillan, Melbourne, pp. 60-1.

6 See: Keating, address to EPAC, 18 November 1988, p. 3619; P.J. Keating 1989, 'Economic and Fiscal Policy Strategy', Cabinet Submission No. 6227, 1 March, NAA, Canberra, A14039, 6227, p. 3.

7 For examples of Keating's faith in the predictions of the j-curve effect, see: Keating, D.H. Merry lecture, 21 March 1986, pp. 392-3; Keating, speech to a meeting of the EPAC, Canberra, 5 September 1986, pp. 1561-2.
The failure of this process in the Australian context of the 1980s has been widely acknowledged. See for instance: Kelly, *The End of Certainty*, p. 91; Fred Gruen & Michelle Grattan 1993, *Managing Government: Labor's Achievements & Failures*, Longman Cheshire, Melbourne, pp. 173-4.

8 See: Keating, Appropriation Bill No. 1 1989-90: Second Reading (Budget Speech), House, *CPD*, 15 August 1989, p. 53.

9 See: John Wanna 1994, 'Can the state "manage" the macroeconomy?', in Stephen Bell & Brian Head (eds), *State, Economy and Public Policy in Australia*, Oxford University Press, Melbourne, p. 231.

10 See: Bell, *Australia's Money Mandarins*, p. 62; RBA 1988, *Report and Financial Statements*, 30 June, RBA, Sydney, p. 14; RBA 1989, *Report and Financial Statements*, 30 June, RBA, Sydney, p. 7; M.J. Phillips 1990, 'When the Music Stops', *Reserve Bank of Australia Bulletin*, July, p. 17.

11 Langmore & Quiggin, *Work for All*, p. 73. Langmore and Quiggin noted that while annual GDP growth declined from over 5 percent in the period between 1983 and 1985, to just 2 percent around 1986, the unemployment rate only increased by one percentage point as result of this reduced rate of growth.

(see chapters two and three), the Hawke Government concluded that the imposition of severe short-term interest rates could be applied as a counter-cyclical demand management policy instrument, capable of restraining macroeconomic variables such as the current account deficit and inflation, without significantly reducing demand, investment and employment growth. It was wage restraint which was considered more important in maintaining a healthy rate of employment.[12] This conclusion underpinned the Hawke Government's subsequent implementation of a further round of severe monetary policy restraint, implemented during 1988 and 1989, wherein short-term interest rates were again significantly increased from around 10.5 percent in January/February 1988, to 18 percent in the period September-December 1989.[13]

Keating himself later assessed that the gentle easing in economic growth, which had occurred in response to the severe interest rates imposed in 1986, had misled the Hawke Government into concluding that severe monetary policy restraint was capable of slowing demand and usefully constraining the current account deficit, without significantly affecting economic growth.[14] Hawke also confirmed, in response to a parliamentary question from the Leader of the Opposition Andrew Peacock (1983-1985, 1989-1990) that he expected the combination of fiscal, monetary and wages policy restraints, implemented in the late-1980s, to constrain economic activity, but avoid the recessionary conditions previously experienced under the Fraser Government. Hawke expected the economy to perform comparably with how it did in 1986, wherein 'growth continued, employment continued and the economy was able to resume its appropriate path'.[15]

Despite the deleterious effects these sustained high interest rates had upon economic growth and unemployment (detailed below), many of the senior RBA officials involved in these decisions have not recanted their previous policy advice. Instead some have argued that short-term interest rates were excessively reduced in 1987, and should also have been raised earlier they were in 1988 to prevent, or more quickly curb, the evident speculative excesses of the late-1980s investment boom. These officials have argued that this action could have avoided the later and more severe interest rate increases subsequently imposed during 1988 and 1989. These judgements have been made in spite of

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[12] *Ibid*.
See also: Bell, *Australia's Money Mandarins*, p. 46; Grenville, 'The Evolution of Monetary Policy: From Money Targets to Inflation Targets', p. 139.
[13] See: RBA statistics for 'Interest Rates and Yields - Money Market', at http://www.rba.gov.au/statistics/tables/xls/f01hist.xls?, accessed: 20 January 2012; Edwards, *Keating*, p. 329.
Ian Macfarlane has noted that interest rates on many business loans exceeded 20% during this period, while Stephen Bell has noted that the average mortgage repayment rate during this period was lower than the short-term (cash) interest rate because of a deal Keating negotiated with the major banks. See: Ian Macfarlane 2006, *The Search for Stability: Boyer Lectures 2006*, ABC Books, Sydney, p. 61; Bell, *Australia's Money Mandarins*, p. 51.
[14] See: Edwards, *Keating*, pp. 319-20.
See also: Treasury 1989, 'The Economic Situation and Outlook', Memorandum No. 6226, 23 February, NAA, Canberra, A14039, 6226, pp. 4, 6.
[15] Bob Hawke 1989, Questions without Notice: Economy, 30 May, House, *CPD*, pp. 3153-4.

the policy uncertainty which predominated in the wake of the 19 October 1987 stock market crash - the largest experienced since the Great Depression.[16]

Other senior RBA officials have argued, however, that not only did monetary policy remain tight throughout the mid-to-late 1980s, but also that the speculative excesses of the late-1980s asset price boom were caused by factors exogenous to monetary policy, but which required the correction of a severe monetary policy response to rid the Australian economy of its speculative, inflationary investor psychology. For instance, a confidential RBA briefing provided to the Keating Government's first Treasurer John Dawkins (1991-1993) reasoned that monetary policy had been both historically and internationally tight. The briefing concluded that it had not been a lenient monetary policy, but irresponsible speculative activity, which had contributed most to the unsustainable asset price boom of the late-1980s.[17] In support of this argument, Ian Macfarlane (Governor of the RBA, 1996-2006) has argued that several factors acted to misdirect much of the huge increase in credit growth, which had resulted from the banking and financial deregulatory reforms outlined in the previous chapter, into speculative rather than productive investments. These factors included: the excessive inflationary environment which had existed in Australia since the period of the Whitlam Government (see chapter six), and which served to incentivise speculative asset acquisition over productive investment – first in stocks and shares and subsequently in non-residential and residential property; and the tax system's privileging of debt finance over equity, and capital gains over income and profits. Within this context, real interest rates were considered by Macfarlane to have been severe enough to push against these speculative excesses, without also devastating the prospects of productive investments.[18] In short, a dominant opinion within the RBA argued that a combination of excessive inflationary expectations, and a tax system which favoured debt over equity and capital gains over income and profits, had distorted the increased dispersal of credit which had been facilitated by financial deregulation towards speculative investments, and this required the corrective policy of severe short-term interest rates.

While the RBA believed that the monetary policy of this period usefully rid the economy of its speculative inflationary psychology, many have argued, however, that the severity of the interest rates imposed in the late-1980s, and particularly within the context of a highly leveraged economy, operated to precipitate the early-1990s recession.[19] This recession was manifest in several statistical indicators,

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[16] See: RBA, *Report and Financial Statements*, 30 June 1988, p. 14; Kelly, *The End of Certainty*, pp. 372, 375; Love, *Straw Polls, Paper Money*, pp. 77-8.
For Keating's critique of the RBA's misjudgements regarding the severity of the 1987 stock market crash, and the appropriate monetary policy response, see: O'Brien, *Keating*, pp. 341-3, 346-7, 374-8.
[17] See: Laura Tingle 1994, *Chasing the Future: Recession, recovery, and the new politics in Australia*, William Heinemann Australia, Port Melbourne, pp. 324-5.
[18] See: I.J. Macfarlane 1990, 'Credit and Debt: Part II', *Reserve Bank of Australia Bulletin*, May, pp. 27-34. Macfarlane noted (p. 27) that credit growth averaged a significant 21% per annum over the five years from end-1983 to end-1988, and 25% for business credit over the same period.
See also: Ian Macfarlane 1991, 'The Lessons for Monetary Policy', in Macfarlane (ed.), *The Deregulation of Financial Intermediaries*, pp. 175-97; Macfarlane, *The Search for Stability*, pp. 51-4.
[19] See for instance: Edwards, *Keating*, pp. 302, 320, 329; Bell, *Ungoverning the Economy*, pp. 155-6.

which illustrate the adverse effects upon financial institutions, businesses and the ALP's traditional working constituents. Ian Macfarlane has highlighted the steep reductions experienced in the prices of some of the speculative asset classes, which featured prominently in the boom of the late-1980s. For instance, he has noted that the value of commercial office buildings were on average reduced by half from their peak to trough between 1989 and 1993, and that they had not recovered their peak value even by the time Macfarlane delivered his 2006 Boyer Lectures.[20] In her analysis of the deleterious effects the recession had upon the nation's banking and finance sectors, journalist Laura Tingle has documented that in the five year period between the peak of the asset price boom in 1988 and the trough of the recession in 1993, Australia's banking system wrote off more than $27 billion in bad debts.[21] Interestingly, Tingle has noted that an important consequence of these severe banking losses was that several of the assumptions which had underpinned the financial deregulatory reforms, detailed in the previous chapter, were undermined. For instance, in the wake of these severe losses, banking competition was constrained through merger activity, banking margins were increased in order to recoup previous losses, and banks employed more conservative lending practices.[22] More broadly, Macfarlane has documented that in the period between the September quarter 1990 and the September quarter 1991, GDP fell by a significant 1.7 percent, employment by 3.4 percent, and the unemployment rate rose to 10.8 percent.[23] Moreover, because of the drawn-out nature of this recession, the unemployment rate did not peak until it reached the severe level of 11.3 percent late in 1992,[24] and was still at the level of 8.4 percent when the Keating Government was defeated at the March 1996 federal election.[25]

It is important to also note that the destructive unemployment impact of the recession was exacerbated and extended by the RBA's adoption during this period of its inflation-targeting monetary policy regime. To understand part of the rationale for this policy decision, it needs to be appreciated that like Treasury (see previous chapter), the RBA objected to the Keynesian proposition that stimulatory demand management policies can effect a sustainable increase in employment. In accordance with market liberal theory, the RBA alternatively considered stimulatory policies to be both futile and dangerously inflationary. In its judgement, sustainable improvements in employment growth could only be achieved by reductions in Friedman's concept of the 'natural rate of unemployment' (see chapter two); realised through measures designed to reduce real unit labour costs, increase labour

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[20] Macfarlane, *The Search for Stability*, p. 63. Macfarlane noted that in 2006 the average price for commercial office buildings were still 15% below their 1989 peak values.
[21] Tingle, *Chasing the Future*, pp. 252-3.
[22] *Ibid.*, pp. 256-8. On the latter point, Tingle documented (p. 257) that as a consequence of the more conservative bank lending practices, credit growth fell from the approximate figure of $50 billion recorded in both 1988 and 1989, to $30 billion in 1989-90, $8 billion in 1990-91, and a decline of $4 billion in 1991-92.
[23] Macfarlane, *The Search for Stability*, pp. 64-5. Macfarlane also noted that the recession's impact was particularly severe in Victoria, 'where a disproportionate share of the financial failure occurred. Victorian employment fell by 8.5 per cent compared with a fall of 2.1 per cent for the rest of Australia'.
[24] See: Tingle, *Chasing the Future*, p. 365.
[25] ABS 1996, Labour Force (Australia Preliminary), March, Catalogue No. 6202.0, Australian Government Publishing Service, p. 1.

market incentives, and enhance productivity growth through structural and microeconomic reforms.[26] In this context, the RBA did not support what it considered to be the precipitous reduction of interest rates after it had become apparent that the nation had entered into a severe recession in 1990. Instead, the RBA used the deterioration of demand to decisively target monetary policy towards the reduction of inflationary expectations.[27] The following quotations from the Governor of RBA Bernie Fraser (1989-1996) and Ian Macfarlane explain the RBA's inflation-targeting policy rationale as it developed during this period:

> If we were concerned about demand alone, maybe we'd have interest rates lower than they are now. ... our judgement at the moment is that we need to ... keep demand running along at a *subdued pace* for some time to make progress on inflation [Bell's emphasis].[28]

> It may have been possible to have a somewhat smaller recession if all the policy guns had been quickly turned towards maximum expansionary impact. But if we had followed this course how could people credibly have believed we were serious about reducing inflation? ... The central point is that on this occasion we had to run monetary policy somewhat tighter than in earlier recessions and take the risk that the fall in output would be greater than forecast. To do less than this would be to throw away a once-in-a-decade opportunity for Australia to gain an internationally respectable inflation rate.[29]

This policy was in clear contravention of a Keynesian concern for demand management, its full employment priority, and its constraint of inflation through direct regulatory means (i.e. a co-operative policy of wages restraint). Indeed, it has been observed that the RBA's shift towards an inflation-targeting monetary policy removed the Accord's primary responsibility for inflation reduction. Instead, wages were envisaged to be restrained within the context of a decentralised industrial relations system (see below), operating in a low inflationary environment.[30]

Although the RBA used the early-1990s recession to extinguish the economy's excessive level of inflationary expectations, it is important to note that senior RBA officials were not completely unconcerned with the condition of demand or the significant increase in unemployment. Most notably, Bernie Fraser maintained an adherence to the RBA's statutory commitment to uphold the dual goals of ensuring both 'the stability of the currency' (interpreted as the stabilisation of inflation), and 'the

[26] See: RBA 1993, *Towards Full Employment*, Submission to the Committee on Employment Opportunities, Occasional Paper No. 12, November, pp. 5-6, 10-1, 14-7, 20-7; Macfarlane, 'Monetary Policy Regimes: Past and Future', pp. 23-4; Macfarlane, *The Search for Stability*, pp. 17-25, 33-4.
[27] See: Bell, *Australia's Money Mandarins*, pp. 67-72; Grenville, 'The Evolution of Monetary Policy: From Money Targets to Inflation Targets', pp. 141-3.
Within cabinet deliberations, Keating also advised that a cautious approach to interest rate reductions was appropriate. See: P.J. Keating 1990, 'Economic and Fiscal Policy Strategy', Cabinet Submission No. 7055, 14 May, NAA, Canberra, A14039, 7055, pp. 2-4; P.J. Keating 1991, 'Economic Outlook and Strategy', Cabinet Submission No. 7754, 25 February, NAA, Canberra, A14039, 7754, p. 6.
[28] Bernie Fraser, quoted in *Decisions* magazine, Vol. 2, No. 8, 1990, quoted in, Bell, *Australia's Money Mandarins*, p. 70.
See also: B.W. Fraser 1990, 'A Proper Role for Monetary Policy', *Reserve Bank of Australia Bulletin*, December, pp. 1-7.
[29] Ian Macfarlane, quoted in the *Australian*, 22 May 1992, quoted in, Bell, *Australia's Money Mandarins*, p. 71.
[30] Bell, *Australia's Money Mandarins*, pp. 84-5.

maintenance of full employment'.[31] Fraser has revealed that had this statutory dual goal framework not existed, interest rate reductions in the early-1990s would have likely been introduced at an even slower pace, with more severe consequences for unemployment.[32] Notwithstanding this countervailing influence, however, Bernie Fraser broadly adhered to the market liberal perspective, which argued that the significant increase in unemployment which accompanies the imposition of severe interest rates can be made up through the improved prospects for medium and longer-term growth, which was anticipated to accompany the lowered rate of inflationary expectations.[33]

The implementation of the RBA's informal inflation-targeting monetary policy, accompanied the development of the RBA as an independent central bank.[34] This informal arrangement charged the Bank with the objective of achieving a 2-3 percent inflation target over the course of the economic cycle.[35] Importantly, this inflation target was prioritised above the maintenance of economic or employment growth. It was therefore made in accordance with Hayek's advocacy (detailed in chapter two), and was inconsistent with the full employment priority, and low interest rate monetary policy, advocated by Keynes (see chapter three). Moreover, just as Hayek had advocated for an inflation-targeting monetary policy regime on the grounds that 'a high and stable level of employment' could only ever be achieved once inflation is restored to a negligible level,[36] Macfarlane also explained that: 'The reason monetary regimes have been set up to aim for low inflation is that this is the best contribution monetary policy can make in the longer run to growth in output, employment and living standards'.[37] According to this logic, the RBA's inflation-targeting monetary policy offered a method of facilitating macroeconomic prosperity, and thereby the achievement of the ALP's social democratic objective. The short-term pain of unemployment rates surpassing the level of 11 percent was considered, in this context, to have been a price worth paying for the delivery of a sustainably low long-term rate of inflation, from which a greater and more sustainable rate of employment growth was expected to result. In addition, Macfarlane also argued that once low inflationary expectations become entrenched, the need for high levels of interest rates to restrain inflationary pressures is also

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[31] Quoted in, *ibid*., p. 18.

[32] See: B.W. Fraser 1991, 'Some Observations on the Role of the Reserve Bank', *Reserve Bank of Australia Bulletin*, December, p. 12; B.W. Fraser 1994, 'The Art of Monetary Policy', *Reserve Bank of Australia Bulletin*, October, pp. 18-9; Bell, *Australia's Money Mandarins*, pp. 77-8.
See also: Stephen Grenville 1996, 'Recent Developments in Monetary Policy: Australia and Abroad', *The Australian Economic Review*, Issue 113, 1st Quarter, pp. 35-8.

[33] B.W. Fraser 1990, 'Inflation', *Reserve Bank of Australia Bulletin*, May, p. 24.

[34] For accounts of the development of the RBA's 'conditional independence' over monetary policy, which occurred during the period of the Hawke and Keating Governments, see: Macfarlane, *The Search for Stability*, pp. 85-6; Bell, *Australia's Money Mandarins*, pp. 104-28.

[35] See: B.W. Fraser 1993, 'Some Aspects of Monetary Policy', *Reserve Bank of Australia Bulletin*, April, pp. 2-3; Grenville, 'Recent Developments in Monetary Policy: Australia and Abroad', pp. 31-2; Macfarlane, 'Australian Monetary Policy in the Last Quarter of the Twentieth Century', pp. 12-5; Bell, *Australia's Money Mandarins*, pp. 82-3.
This 2-3% inflation target was formerly included in the Keating Government's renegotiated Accord Mark VIII agreement with the ACTU in June 1995. See: ACG & ACTU 1995, *Sustaining Growth, Low Inflation and Fairness*, Agreement Between the Federal Labor Government and the ACTU – Accord VIII 1995-1999, 22 June, p. 2.

[36] Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, pp. 192-3, 203; Hayek, *The Constitution of Liberty*, p. 337.

[37] Macfarlane, 'Monetary Policy Regimes: Past and Future', p. 28.

subsequently removed. As Macfarlane summarised: 'In the long run, low inflation means low interest rates'.[38]

Keating later concluded that: 'The correction was sharper than we had wanted it, but we came out of that recession with an inflation rate of 2.5 per cent. I regretted the recession, but had we not had it, we would never have broken the back of inflation in Australia'.[39] In support of this assertion, Ian Macfarlane has argued that in the period between the 1970s and 1990s, the vast majority of OECD nations which have also achieved significant policy-induced reductions in inflation, also had to endure a recession as part of this process.[40] In addition, in 2006 Macfarlane highlighted the impressive macroeconomic performance which had followed the inception of the RBA's inflation target in 1993: the maintenance of a low inflation rate - an average increase in the CPI of 2.6 percent; a buoyant average economic growth rate of 3.7 percent; and an average cash interest rate of just 5.7 percent.[41] Even disinterested academic analysts, such as Stephen Bell, have acknowledged that 'Australia recorded one of the largest comparative falls in inflation among the advanced economies in this [early-1990s] period, and emerged from the recession with one of the lowest rates of inflation in the world' – from an average rate of 7.9 percent in the 1980s, to just 2.2 percent in the period 1990-2003.[42]

Further analysis of the macroeconomic record of this period, will be assessed later in this chapter. The following section analyses the Hawke and Keating Governments' fiscal responses to the deterioration of demand which occurred as part of the early-1990s recession.

Fiscal Policy into Recession

The Hawke Government's Continued Fiscal Restraint

At the time of the economy's deterioration into recession, Keating refused to countenance Keynesian counter-cyclical fiscal intervention, and alternatively re-emphasised the principles of the twin deficits theory (canvassed within the previous chapter). For instance, at the Premiers' Conference of 28 June 1990, Keating emphasised the importance of ensuring that 'the public sector has not got its hands in the savings cookie jar of Australia'.[43] Keating argued that all efforts should be made to ensure that the PSBR remained at zero, and he implored the state premiers to cut back their services to achieve this target. Keating claimed that this action carried great weight within international financial markets: 'It

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[38] Macfarlane, *The Search for Stability*, p. 81.
[39] Quoted in, Love, *Straw Polls, Paper Money*, p. 122.
[40] I.J. Macfarlane 1993, 'Two Propositions Concerning Monetary Policy and the Business Cycle', *Reserve Bank of Australia Bulletin*, April, pp. 11-4; Macfarlane, *The Search for Stability*, pp. 37-9, 70.
[41] Macfarlane, *The Search for Stability*, pp. 86-7.
[42] Bell, *Australia's Money Mandarins*, pp. 74, 93.
[43] Paul Keating 1990, 'Fiscal policy remains crucial', *Australian*, 29 June, p. 5.

is a very important point to make to those people who fund our current account deficit that the whole of the public sector of Australia is a net saver'.[44]

Despite the Hawke Government's continued commitment to the twin deficits theory, however, frustration became apparent as reductions in the net PSBR were not mirrored by reductions in the nation's current account deficit. By the June quarter 1990, and despite the Hawke Government's demonstrated fiscal restraint, the current account deficit had almost returned to the levels of the mid-1980s banana republic crisis - it stood at 5.6 percent of GDP.[45] Keating was privately livid with Treasury and the RBA because of the twin deficits theory's evident redundant predictions. This was graphically articulated in the following passage contained within a July 1989 handwritten message to the bureaucracy's Joint Economic Forecasting Group (JEFG), which constituted part of a response to their predictions of another increase in the current account deficit:

> Noted with thanks. It makes the twin deficits theory look like bullshit. ... At least I can't be burdened with any more talk about re-weighting the instruments of policy. We now all know what utter crap that is.[46]

Elsewhere, Keating emphasised that: 'We accepted the view that if we produced a structural budget surplus – cut the public sector by seven percent of GDP – we would wipe out the current account deficit. We did and it didn't happen'.[47] Subsequently, political economists have also documented the absence of a correlation between the twin deficits theory's predictions and the empirical evidence.[48]

Notwithstanding his frustration with the twin deficits theory, Keating refused to use fiscal policy to stimulate the economy throughout the remainder of his tenure as Treasurer. Keating argued that just because the public sector's fiscal restraint did not produce a commensurate decline in the current account deficit, this did not mean that the public sector should not be reduced to 'the sort of levels it should have been maintained at in the first place'.[49] In other words, and in accordance with the market liberal crowding out theory, reducing the size of public sector outlays and making room for private sector investment, constituted an end in itself. Within his 1990-91 Budget Speech, Keating stoically informed the nation that the budget 'maintains fiscal policy as the Government's principal weapon in the fight against the current account deficit and our overseas debt'; most notably through its addition of a projected \$8 billion surplus to national savings.[50] In fact, within earlier cabinet deliberations, Keating had informed ministers that the government should actively 'lean against' cyclical budget

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[44] *Ibid*.
[45] ABS 1990, Balance of Payments Australia: June Quarter 1990, Catalogue No. 5302.0, Commonwealth Government Printer, Canberra, Table 1, p. 12.
[46] Paul Keating, handwritten note, 11 July 1989, quoted in, Edwards, *Keating*, p. 375.
[47] Paul Keating, 'Keating's Accounting', *Four Corners*, ABC TV, 19 August 1991, quoted in, Toohey, *Tumbling Dice*, p. xii. See also: O'Brien, *Keating*, pp. 383-5, 387-8.
[48] Stephen Bell has graphically illustrated this point in the Australian context over the two decades between the early-1970s and the early-1990s. See: Bell, *Ungoverning the Economy*, pp. 151-2.
[49] P.J. Keating 1990, address to the National Press Club, Canberra, 22 August 1990, *Ministerial Document Service*, No. 38/90-91, 23 August, p. 1224.
[50] Paul Keating 1990, *Budget Speech 1990-91*, 21 August, AGPS, Canberra, p. 2.

tendencies – reductions in tax revenues and increases in social security expenditures - which would otherwise reduce the Hawke Government's hard earned budget surplus.[51] At a time when the economy had contracted by nearly 1 percent in the June quarter 1990,[52] Keynesian stimulatory fiscal policies were evidently not countenanced. Keating even used the moniker of Keynesianism as a form of derogatory abuse against the Victorian Cain Labor Government's large, imprudent fiscal deficits of the 1980s.[53]

Subsequently, as the consequences of the recession adversely impacted upon the Commonwealth Government's revenue base,[54] the Hawke Government decided that the appropriate fiscal policy response was to simply rely upon the automatic stabilisers - increased social security expenditures and reduced taxation revenues - to stimulate economic growth.[55] The structural surplus was considered sacrosanct. This policy approach was advocated within Keating's last cabinet submission as Treasurer. Here Keating emphasised that the structural integrity of the budget needed to be maintained to avoid an excessive recovery – one in which domestic spending outpaced domestic production - which he suggested would endanger both the nation's current account position and the rate of inflation.[56]

This fiscal strategy informed the subsequent 1991-92 Budget, brought down by the newly appointed Treasurer John Kerin (1991).[57] The government's perception was that the March 1991 economic statement had already introduced sufficient changes to social security support, and labour market assistance programs, to adequately assist those affected by the rising level of unemployment.[58] The modesty of these measures, however, was underlined by the statement's espousal of the Hawke Government's confidence that employment recovery would be best assisted through market liberal, supply-side structural reforms, such as the statement's liberalised trade agenda.[59]

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[51] Keating, 'Economic and Fiscal Policy Strategy', Cabinet Submission No. 7055, pp. 4, 7.

[52] See: ABS 1990, Australian National Accounts: National Income and Expenditure June Quarter 1990, Catalogue No. 5206.0, Commonwealth Government Printer, Canberra, Table 2, p. 9; Tingle, *Chasing the Future*, pp. 99-100.

[53] See: Paul Keating, press conference, 28 August 1990, quoted in, Tingle, *Chasing the Future*, p. 103.
Within his memoirs, Hawke also complained of the Cain Government's 'big-spending, heavy-borrowing Keynesianism that was inappropriate and unsustainable in the circumstances of the time'. See: Hawke, *The Hawke Memoirs*, p. 478.

[54] See: Dep. of Finance & Treasury 1991, 'Mid-Year Review of 1990-91 Budget', Memorandum No. 7734, 22 February, NAA, Canberra, A14039, 7734.

[55] See: Tingle, *Chasing the Future*, pp. 115-6.

[56] P.J. Keating 1991, 'Economic and Fiscal Policy Strategy' Cabinet Submission No. 7966, 21 May, NAA, Canberra, A14039, 7966, pp. 3-7.
See also: Keating, 'Economic Outlook and Strategy', Cabinet Submission No. 7754, p. 2.

[57] See: Hawke, *The Hawke Memoirs*, p. 542; John Kerin 1991, 'The Shape of Economic Recovery: 1991-92 and Beyond', address to the EPAC, 12 July 1991, *Ministerial Document Service*, No. 10/91-92, 16 July, p. 21.

[58] See: Tingle, *Chasing the Future*, p. 127; Bob Hawke 1991, *Building a Competitive Australia*, Parliamentary Statement, 12 March, Commonwealth Government Printer, Canberra, pp. 1.19-20.

[59] The March 1991 economic statement announced further reductions in the rates of protective tariffs applied to industry. See: Hawke, *Building a Competitive Australia*, p. 1.6. The March 1991 economic statement also emphasised (p. 1.8) the Hawke Government's ongoing commitment to its international efforts to attempt to achieve equal market access rights for agricultural products under the General Agreement on Tariffs and Trade (GATT) umbrella, as had been achieved for other industries. The Hawke Government had pursued this multilateral objective through its establishment of the Cairns Group of free trading nations in agriculture in 1986, and its establishment of the Asia-Pacific Economic Co-operation (APEC) group in 1989. See: Hawke, *The Hawke Memoirs*, pp. 232-3, 421-4, 429-34.

During this period even previously interventionist Keynesians, such as Finance Minister Ralph Willis (1990-1991, 1991-1993) argued against stimulatory interventionist responses to the recession. Willis confided that despite the real prospect of an 'unemployment [rate] in double digits for the next 12 months or so ... the Government is not likely to change its budgetary policies in the face of that'. The structural budget surplus would remain, no 'desperate attempt to try and (restart the economy)' would be countenanced.[60] Calls from Labor state governments, such as those emanating from the South Australian Premier John Bannon (1982-1992), for the deployment of stimulatory public works were ignored.[61]

Kerin's rhetoric at the 1991 ALP National Conference reflected Keating's earlier aversion to the deployment of stimulatory public works. Kerin reasoned that their financing would exacerbate the nation's foreign debt position and current account deficit, and thereby also 'compromise our long-term objectives on inflation and on employment'.[62] The importance placed upon fiscal restraint was reflected in the 1991-92 Budget's announcement of a deficit of just $4.7 billion, wherein all new budget expenditures were offset through compensatory savings.[63] An important point of context is useful here. The national accounts figures for the June quarter 1991 recorded an annual contraction in gross non-farm product of 2.8 percent,[64] a larger figure than the 2.4 percent contraction recorded in the year to the June quarter 1983,[65] amidst which the Hawke Government had delivered an expansionary budget (see previous chapter). Kerin's Budget Speech alternatively justified expenditure restraint upon the market liberal belief that the economy would naturally recover without stimulatory intervention:

> In recent years, both in Australia and overseas, one common mistake in economic policy has been to fail to see that a recession has passed. Too often, governments have delivered a stimulus to the economy at just the wrong time – just as the economy was on the mend.[66]

Prior to Hawke's removal from the prime ministership in December 1991, his government did belatedly embrace a small measure of fiscal stimulus: $313 million of additional expenditures offered as part of its November 1991 jobs statement. A more substantial package of stimulatory measures was not countenanced at this time because the government maintained its anticipation of an imminent private sector-led recovery. Indeed, it was this belief in the private sector's natural equilibration which underpinned the statement's emphasis on increasing the national pool of savings through continued

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The May 1988 economic statement had earlier announced tariff reductions to be phased in over the period 1 July 1988 – 1 July 1992. See: Keating, Ministerial Statement: Economic Measures, 25 May 1988, House, *CPD*, p. 3018.

[60] Ralph Willis, quoted in, Laura Tingle 1991, 'Budget "tied to Keating strategy"', *Weekend Australian*, 8-9 June, pp. 1, 4. See also: Tingle, *Chasing the Future*, pp. 128-9, 132; Ralph Willis 1991, 'Update of Forward Estimates and a Framework for the 1991-92 Budget', Cabinet Submission No. 7736, 24 February, NAA, Canberra, A14039, 7736, pp. 3-5.

[61] See: Tingle, *Chasing the Future*, p. 129.

[62] John Kerin, quoted in, Tingle, *Chasing the Future*, p. 135.

[63] John Kerin 1991, *Budget Speech 1991-92*, 20 August, AGPS, Canberra, p. 3.

[64] ABS 1991, Australian National Accounts: National Income and Expenditure June Quarter 1991, Catalogue No. 5206.0, Commonwealth Government Printer, Canberra, p. 1.

[65] ABS 1983, Quarterly Estimates of National Income and Expenditure: Australia June Quarter 1983, Catalogue No. 5206.0, Commonwealth Government Printer, Canberra, p. 1.

[66] Kerin, *Budget Speech 1991-92*, p. 14.

fiscal restraint.[67] The language was emphatic: 'We must keep our nerve and resist demands for artificial solutions to the recession'.[68] In other words, even amidst a serious recession - the unemployment trough of which had not yet been reached - the crowding out and twin deficits theories of public expenditure, and the market liberal perception of the futility and wastefulness of public sector stimulation, held sway over the Hawke Government's fiscal deliberations. In accordance with these priorities, the statement's small volume of additional expenditures was targeted towards economic and educational infrastructure projects, 'which would have occurred anyway because of [their] ... high economic returns for the nation'.[69] Revealingly, the stimulatory affect these expenditures may have been anticipated to have were not canvassed within the statement.

In subsequently assessing this package, Hawke concluded that the jobs statement struck the right balance 'between giving a mild stimulus and not appearing to depart from the fundamental requirements of the Budget strategy to take account of inflation and balance of payment considerations'.[70] This appraisal of the appropriate role for fiscal policy would change, however, and it was Keating, rather Hawke, who embraced what appeared to be a reversion back to a measure of Keynesian intervention, after he was elected FPLP leader and Australian Prime Minister on 20 December 1991.

The Keating Government's *One Nation* Program

During his stint on the backbench, Keating amended his approach to fiscal policy. As journalist and author Paul Kelly has summarised, 'Keating quickly abandoned his own legacy. He became a critic of the Treasury and the policy framework which he had left'.[71] Keating 'thought the economy needed more of a kick – lower interest rates and a higher deficit'.[72] In short, it has been identified that he wanted an 'old-fashioned Keynesian expansion'.[73] Keating's own recollections of this period have also emphasised his government's 'classic Keynesian response'[74] – a counter-cyclical role for fiscal policy:

> ... the budget between 1991 and 1996 performed the primary task that was expected of it and should have been expected of it, and that was to support overall demand at a time when private demand had fallen sharply. And to support those people unemployed in the process by appropriate levels of income support.[75]

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[67] Bob Hawke 1991, Ministerial Statement: Economy and Employment, 14 November, House, *CPD*, pp. 3117-8.
[68] *Ibid.*, p. 3122.
[69] *Ibid.*, pp. 3118-20.
[70] Hawke, *The Hawke Memoirs*, p. 544.
[71] Kelly, *The End of Certainty*, p. 641.
[72] Edwards, *Keating*, p. 440.
[73] Paul Kelly 2009, *The March of Patriots: The Struggle for Modern Australia*, Melbourne University Press, Carlton, p. 55.
[74] Quoted in, O'Brien, *Keating*, pp. 467-8.
[75] Paul Keating, 'The Launch of The Longest Decade', Sydney, 2 June 2006, in Keating, *After Words*, p. 49.

Importantly, by 1992 Treasury were themselves no longer averse to increasing the budget deficit to stimulate an economy more subdued than they had previously anticipated.[76] Treasury had amended their fiscal position in line with the broader intellectual climate which Secretary to the Treasury Ted Evans (1993-2001) subsequently described as having ‘put aside the notion that fiscal policy is impotent’.[77] Treasury even advocated for a $3 billion stimulatory package (approximately 1 percent of GDP) to form part of Keating’s planned February 1992 economic statement; an amount in excess of that advocated by either of the DPM&C, the Department of Finance, or Keating’s own Prime Minister’s Office - the latter of which favoured a fiscal injection of just $2 billion.[78]

In February 1992, the Keating Government announced its *One Nation* Statement, designed to stimulate economic growth through fiscal stimulus. From the outset, however, it was apparent that the *One Nation* package did not provide expenditure measures sufficiently large or well-targeted enough to provide an effective stimulus to aggregate demand and employment growth. There can be no doubt that the package maintained an unambiguous rhetorical commitment to the Keynesian theory that fiscal stimulatory expenditures and taxation reductions should be deployed in order to reinvigorate aggregate demand, and thereby provide a stimulus to private sector investment and consumption. For instance, expenditures within the package were not simply assessed upon conventional cost-benefit analyses, as was the case with the Hawke Government’s November 1991 jobs statement, but were also assessed upon their potential contribution to economic recovery.[79] In total, the package involved $3.8 billion in extra expenditures, and $2.4 billion in taxation reductions (discounting the statement’s significant income tax cuts), and most importantly from a Keynesian perspective, these expenditures envisaged the creation of some 800,000 jobs over four years. They were announced as: ‘Measures big enough to kickstart the economy and get things going. Big enough to get people back to work’.[80] To do this the package included temporary spending measures, such as: $1.25 billion in infrastructure investment over two years in railways, roads, ports, electricity grids, air terminals, waste management plants, colleges and schools; $720 million over three years in extra support for technical or vocational education and training; $317 million in one-off payments to those families which qualified for the Family Allowance Supplement (ranging between $125 and $250); $130 million to assist the long-term unemployed through work placements and other assistance measures allocated through the JOBSTART and JOBSKILLS programs; and $100 million to provide incentives to retain and increase the number of apprentices and trainees.[81] The stimulus, like that delivered in 1983, was envisaged to ‘have an impact now, boosting demand and, in turn, boosting jobs’, but be temporary and counter-

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[76] See: Edwards, *Keating*, p. 457.
[77] Ted Evans 1993, ‘Australia: A Perspective from Abroad’, Higgins Memorial Lecture, Canberra, 26 May, p. 5, quoted in, Toohey, *Tumbling Dice*, p. 163.
[78] See: Tingle, *Chasing the Future*, pp. 160-1.
[79] Paul Keating 1992, *One Nation*, speech by the Prime Minister, 26 February, AGPS, Canberra, pp. 3-4.
[80] Keating, *One Nation*, speech, p. 4; Paul Keating 1992, *One Nation*, Statement by the Prime Minister, 26 February, AGPS, Canberra, pp. 151, 183.
[81] Keating, *One Nation*, speech, pp. 5, 12-5, 19, 23; Keating, *One Nation*, Statement, pp. 40, 56, 60, 110.

cyclical, with a plan to return the budget to surplus by 1995-96, once ‘the private sector regains its spark’.[82]

A Keynesian analysis of these measures, however, reveals the limitation of the Keating Government’s stimulatory ambition. The *One Nation* package simply did not provide sufficient expenditure to reinvigorate private sector investment and confidence, while many of the measures implemented were also poorly designed and did not provide the stimulatory multipliers the package had promised. The infrastructure projects were a good example of the latter. Unlike the announced rationale, which reasoned that these expenditures would be assessed according to their contribution to demand stimulation, the selection of infrastructure projects were more influenced by their expected contribution to economic efficiency. This approach was underpinned by the Keating Government’s ongoing concern for the state of the nation’s current account deficit and paucity of national savings:

> In view of Australia’s continuing shortage of savings ... it is critical that we achieve the best use of our existing infrastructure and allocate additional funds to projects that provide lasting benefits and high returns. In this respect, the Government will not repeat the mistakes made in the past, where investment in projects ... took scarce funds away from productive alternatives. ... The decisions made by the Government recognise that additional investment of itself will not guarantee efficiency gains. To this end, funds have been made conditional, in key areas such as rail investment, on successful labour and management reform outcomes. Unless the Government is satisfied with the progress of reforms, funds will be reallocated and deployed in other areas that will provide an effective return.[83]

Cabinet deliberations have revealed that the latter condition regarding successful labour and management reform outcomes, had been inserted because of departmental concerns that ‘better use of Australia’s existing infrastructure through structural change (increased competition, greater commercialisation, management and labour reforms) [could] provide greater efficiency benefits than additional infrastructure spending’.[84]

Absent from this appraisal, however, was Keynes’ advocacy for the prioritisation of public works which could provide a timely demand stimulus (see chapter three). A Keynesian concern for the waste of idle resources, including labour, was not evident in the longer-term concerns regarding the efficient use of rail infrastructure. Rather than demonstrating a Keynesian understanding that idle resources represent permanently lost output and therefore waste, the Keating Government evidently assessed the legitimacy of projects according to more conventional cost-benefit analyses, under the assumption that if scarce national savings were not allocated to public infrastructure projects, they could alternatively be productively invested in the private sector. This appraisal ignored the Keynesian perspective,

[82] Keating, *One Nation*, speech, p. 5. According to the *One Nation* forecasts (p. 41), the budget would have returned to a healthy surplus of $4.5 billion in 1994-95 had no package been implemented, instead of the $2 billion surplus forecast for 1995-96, based upon the package’s implementation.
[83] Keating, *One Nation*, Statement, pp. 95-6. More detail of the efficiency requirements for the package’s rail industry expenditures were provided on pp. 98-9.
[84] DPM&C, Treasury, Dep. of Finance, Transport & Communications, ‘1992 Economic Statement: Infrastructure Projects’, Memorandum No. 62, 9 February, NAA, Canberra, A14217, 62, p. 2.

clearly applied in the writings of E.R. Walker (see chapter four), that in times of recession resources, if not deployed by the public sector, would likely remain unused by the private sector, with all the attendant flow-on effects this has for aggregate demand and other foregone private sector investments, and employment growth.

The latter condition listed in the *One Nation* passage quoted above, that: 'Unless the Government is satisfied with the progress of reforms, funds will be reallocated and deployed in other areas that will provide an effective return', meant that one year on proposed rail projects were delayed due to insufficient productivity improvements in the industry. At this time, a further warning was issued that: 'If improvements in rail efficiency are not forthcoming, the investments could be wasted'.[85] From a Keynesian perspective, these delays detrimentally affected the stimulatory effectiveness of the *One Nation* infrastructure programs. In addition, even when policy-induced delays were not apparent, the natural lead times of large infrastructure projects involved detrimental lags, which initially projected at more than 20 months, proved too long to stimulate the recessed national economy.[86] Problems associated with preparing detailed plans for stimulatory public works projects had been amongst those previously anticipated by the Chifley Government and its advisors (see chapter five). In the Keating Government's case, however, it was the absence of plans prepared for stimulatory public works which contributed to the stimulatory ineffectiveness of the *One Nation* program's infrastructure projects. Remarkably, on this point Keating has since revealed that even he did not believe the short-term employment claims made in the *One Nation* Statement, with regard to its infrastructure projects:

> The public works components of it I took on not believing myself that they would have immediate employment consequences. But they were worth doing anyway, like the standardisation of the rail gauge from Melbourne to Adelaide, like building the Anzac Bridge in Sydney. But the notion that they were going to turn the economy around was wishful thinking.[87]

The *One Nation* program's stimulatory ineffectiveness was also manifest in its flawed fiscal priorities. According to a Keynesian appraisal of the program, both the quantum of its two tranches of income tax cuts - estimated at a combined total of $8.64 billion[88] - and the primary motivation which underpinned their inclusion, were flawed. On the first point, the size of these income tax cuts relative to the package's infrastructure investments ignored Keynes' concerns about tax cuts constituting a less effective method of fiscal stimulation than the deployment of public works (see chapter three). Moreover, these income tax cuts were not scheduled to take effect until 1 July 1994, and 1 January 1996. From a Keynesian perspective, therefore, an obvious criticism was that their delivery over a medium-term timeframe was not amenable to the task of immediately stimulating economic activity. This leads to the second related criticism, that their inclusion was most likely motivated by the

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[85] Paul Keating 1993, *Investing in the Nation*, Statement by the Prime Minister, 9 February 1993, AGPS, Canberra, p. 90.
[86] See: Battin, *Abandoning Keynes*, p. 115; Tingle, *Chasing the Future*, p. 341.
[87] Paul Keating, quoted in, Megalogenis, *The Australian Moment*, p. 235.
[88] See: Keating, *One Nation*, Statement, p. 183.

political imperative to offer similar income tax cuts to those proposed within the Hewson-led Coalition parties' *Fightback!* manifesto, but without that package's politically unpalatable Goods and Services Tax (GST).[89] It was these considerations which caused Paul Kelly to conclude that: '*One Nation* ... was designed, first and foremost, to destroy *Fightback!* with the promotion of recovery a distant second'.[90]

The fiscal strategy pursued through the *One Nation* program also revealed the ongoing faith that the private sector would soon recover, without the assistance of a significant fiscal stimulus. This line of thinking had been retained from the Hawke Government, and was reflected in the program's disproportionate emphasis upon labour market training programs. This policy emphasis was based upon the claim in the *One Nation* Statement, that the government had 'learnt from the lessons of the 1983 recession'. This passage presumably referred to the perceived undesirability of government-financed, temporary public works programs, like the Whitlam Government's REDS, or the Hawke Government's earlier CEP. These programs were considered to have been an inefficient use of public finances, which did not provide the long-term unemployed with the type of skills necessary to regain and maintain employment beyond the life of the government-financed program.[91] In arguing this point, the Keating Government had likely been influenced by Treasury advice, which had argued that it was the skills deficiencies of the long-term unemployed which constituted the major barrier to their re-employment, rather than the evident deficiency in aggregate demand, brought about by the recession. These skills deficiencies were identified by Treasury as having the potential to produce widespread skills shortages within industry sectors, which produce a floor under the prevailing rate of unemployment, and exacerbate inflationary wage pressures.[92] In accordance with this logic, the Keating Government stated within the *One Nation* Statement that it was 'not interested in make-work schemes which offer no hope of real employment. ... [but was instead] concerned to improve the employability of those out of work and to help them to retain their links with the workforce'.[93]

In the words of one left critic: 'Keating's *One Nation* statement did nothing to address the fundamental aspects of unemployment today' – namely a deficiency of demand. 'It provided no short-term mechanisms for alleviating the hardship and misery being experienced by those unable to find work'.[94]

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[89] See: Kelly, *The March of Patriots*, pp. 56-60; Tingle, *Chasing the Future*, p. 161; Langmore & Quiggin, *Work for All*, p. 76.
The second tranche of the income tax cuts, legislated prior to the 1993 federal election, were subsequently delayed and then abolished, before their conversion into a government-financed compulsory superannuation payment. See: Kelly, *The March of Patriots*, pp. 61-2; John Dawkins 1993, *Budget Speech 1993-94*, 17 August, AGPS, Canberra, p. 5; Edwards, *Keating*, pp. 522-3; O'Brien, *Keating*, pp. 607-8; Ralph Willis 1995, *Budget Speech 1995-96*, 9 May, AGPS, Canberra, p. 1.
[90] Kelly, *The March of Patriots*, p. 57.
[91] Keating, *One Nation*, Statement, p. 59.
[92] See: Treasury 1993, Statement No. 2 – Economic Conditions, Policy and Prospects, *1993-94 Budget Paper No. 1*, AGPS, Canberra, p. 2.51.
[93] Keating, *One Nation*, Statement, p. 59.
[94] Belinda Probert 1992, 'The Prospect for Australian Social Democracy', in Peter Vintila, John Phillimore & Peter Newman (eds), *Markets, Morals & Manifestos: Fightback! & the Politics of Economic Rationalism in the 1990s*, Institute for Science and Technology Policy, Murdoch University, Western Australia, p. 261.

The subsequent 1992-93 Budget was also subjected to the same criticism. Mathews and Grewal, for instance, have argued that while the Budget Speech acknowledged that 'full employment must and will be our continuing goal',[95] this was not accompanied by adequate stimulatory job creation programs of the REDS or CEP ilk. The budget instead extended programs of wage subsidies and job training, such as JOBSTART and JOBSKILLS, which Mathews and Grewal argued: 'could be seen as a cynical exercise in making the statistics look better by shifting the unemployed into educational and training programs, without taking decisive action to create the additional jobs the unemployed would need when they completed their education or training'.[96]

In summary, the quantum of the *One Nation* program has been widely acknowledged to have been inadequate. Michael Keating, Secretary of the DPM&C (1992-1996), has confided that he believed the stimulus was too modest, while Secretary to the Treasury Tony Cole (1991-1993) has emphasised that Treasury had wanted something larger.[97] Interestingly, the stimulatory ineffectiveness of the *One Nation* program shook Tony Cole's confidence in Keynesian stimulatory interventions: '[I]t took too long to work and then it took too long to unwind. ... Keating was left with budget deficits that were too high for too long'.[98] In short, the package failed to achieve either Keynesian or market liberal objectives. It neither successfully stimulated aggregate demand, investment and employment, nor retained the Commonwealth Government's structural budget surplus.

Fiscal Policy Targeted at National Savings

The fiscal consolidation task to which the Keating Government had committed itself, beyond the implementation of the modest stimulus measures it had developed in its first year, formed an important plank in the Labor Government's ongoing battle against the nation's current account deficit. The *One Nation* package planned to withdraw its public stimulus as the private sector recovered, at which time the Commonwealth Government planned to contribute to national savings by returning the budget to surplus. This strategy of fiscal consolidation was not fundamentally opposed to Keynesian fiscal objectives. A balanced budget over the course of an economic cycle has long constituted Keynesian practice. It was the pace of the planned return to surplus, however, published within the *One Nation* Statement, and the principles underpinning this policy action, which betrayed the Keating Government's ongoing adherence to a market liberal fiscal policy. As Figure 3 illustrates, the Keating Government's *One Nation* forecasts projected that by 1995-96 the level of Commonwealth Government budget outlays would total just 22.6 percent of GDP, while the corresponding level of revenue would total just 23 percent of GDP. These very low levels had not been realised by a

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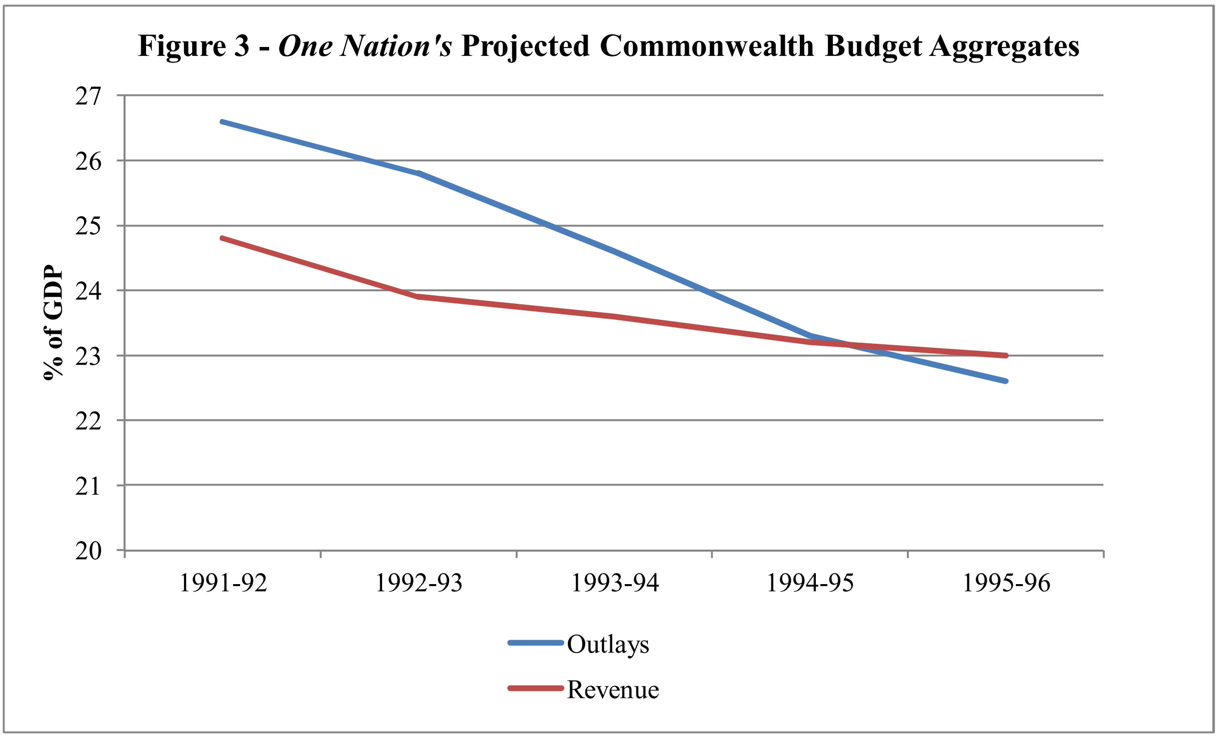
95 John Dawkins 1992, *Budget Speech 1992-93*, 18 August, AGPS, Canberra, p. 3.
96 Mathews & Grewal, *The Public Sector in Jeopardy*, p. 426.
Further modest stimulatory measures were introduced as part of the 1992-93 Budget. These were targeted at a further modest contribution to regional employment schemes - focussed upon road building and repair, and improving community amenities - at a total cost of $1.2 billion (over two years). See: Dawkins, *Budget Speech 1992-93*, pp. 3-5.
97 See: Kelly, *The March of Patriots*, p. 59.
98 Tony Cole, interview with the author, February 2005, quoted in, Kelly, *The March of Patriots*, p. 64.



Source: Keating, *One Nation*, Statement, 26 February 1992, p. 149.

Commonwealth Government since the Whitlam Government increased the size of budget expenditures in the mid-1970s (see chapter six).[99] The level of fiscal restraint which would have been required to achieve these targets would have been severe, and would likely have constrained economic and employment growth, against the principles of Keynesian economics.

The Keating Government's fiscal consolidation efforts were intellectually reinforced in 1993 through the release of its commissioned report on national savings, conducted by Vince FitzGerald. The report's findings described the rate of national savings as having reached its lowest point in a century (with the exceptions of periods of national emergency) at just 16 percent of GDP in 1991-92,[100] and it concluded that this parlous state had been largely caused by structural, rather than cyclical factors.[101] Moreover, the report argued that it had been the structural decline in public savings since the mid-1970s which had been most responsible for the structural savings decline,[102] and therefore recommended that significant reductions in fiscal expenditures were required. While the report also acknowledged the benefits which can accompany the deployment of stimulatory fiscal policies, it advocated for a reduction in 'government borrowing crowding out private sector investments'.[103]

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[99] See the table of Commonwealth budget outlays, revenue and balance, in: Treasury, Statement 1, *1995-96 Budget Paper No.1*, p. 1.11.
[100] V.W. FitzGerald 1993, *National Saving: A Report to the Treasurer*, Treasury, AGPS, Canberra, p. 1.
[101] *Ibid.*, p. xiii.
[102] *Ibid.*, pp. xiii, 27, 29-30.
[103] *Ibid.*, pp. 73-5.

Importantly, the notion repeated throughout the FitzGerald Report was that the cyclical recovery in economic activity would not produce, as Keynesian theory had argued, an increase in the volume of national savings sufficient 'to ensure that the [nation's prevailing economic] growth is sustainable'.[104] Rather, while the report acknowledged that '[s]aving more may have little *direct* impact on investment [original emphasis]', it also argued that increased national savings do 'permit investment to grow without foreign liabilities also rising'.[105] The report also emphasised that the nation's high level of indebtedness, imposed upon Australian governments, financial institutions, and companies a high risk premium charge for credit on international markets. This, the report argued, made the nation more susceptible to adverse international economic shocks, including currency depreciation and other associated problems, such as: increased inflation; lower real wages; reduced business confidence; and higher debt repayments (as measured in Australian dollars).[106] The report concluded that '[h]igher national saving raises our wealth and gives us choices – choice either to grow faster with higher investment or to reduce our external indebtedness'.[107]

Echoing the findings of the FitzGerald Report, Treasury reinforced the message that 'the key challenge in raising national saving over the medium term lies with the public sector'.[108] They argued that the vast majority of the nation's current account imbalance was attributable to net public 'dissaving'.[109] Indeed, while Treasury acknowledged that significant Commonwealth Government budget surpluses during the period of the late-1980s did not prevent the current account deficit from reaching 6 percent of GDP, they reasoned that this did not weaken the rationale for tighter fiscal policy. They continued the argument pursued during the period of the Hawke Government that no matter what the private sector savings/investment imbalance, 'the current account will be reduced relative to what it would otherwise have been by the extent of the increase in public sector saving'.[110]

Dawkins accepted the FitzGerald Report's major findings.[111] He emphasised that unless Australia's aggregate level of national savings increased, the foreign debt incurred to finance the nation's incipient investment recovery 'would put a mortgage on our future', and he implicitly refuted the Keynesian notion that increased aggregate demand increased profits and wages sufficiently to in turn increase national savings. Instead, he asserted that 'increased saving requires increased thrift – it

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[104] See: *ibid.*, p. 39.
[105] *Ibid.*, p. 16. See also: pp. 1, 14.
[106] *Ibid.*, pp. 1, 11, 13.
[107] *Ibid.*, pp. xiii-xiv.
[108] Treasury, Statement No. 2, *1993-94 Budget Paper No. 1*, p. 2.45.
See also: Treasury 1993, 'The Economic Outlook', Memorandum No. 990, 23 April, NAA, Canberra, A14217, 990, p. 2.
[109] Treasury, Statement No. 2, *1995-96 Budget Paper No. 1*, pp. 2.52-3. Treasury specifically argued that the public sector had been responsible for 3.5 percentage points of the 4.5 percent of GDP average current account deficit recorded between the early-1980s and the mid-1990s.
[110] *Ibid.*, pp. 2.50-1.
[111] See for instance: J.S. Dawkins & Ralph Willis 1993, 'Budget Strategy', Cabinet Submission No. 991, 25 April, NAA, Canberra, A14217, 991, pp. 3-4.

requires the forgoing of some consumption spending which might otherwise have been enjoyed'.[112] The paradox of thrift enunciated by Keynes (see chapter three) was not apparent in the Treasurer's rhetoric. As with the FitzGerald Report, Dawkins alternatively argued that: 'Growth can only be sustained if our national saving can accommodate the increase in productive investment'. Importantly also, Dawkins accepted the Commonwealth Government's responsibility to lead this shift towards greater thrift through a 'gradual and systematic' deficit reduction strategy. However, it is fair to acknowledge that in advocating this fiscal policy strategy, Dawkins also argued that '[t]he objective of improved public sector finances is not motivated by an ideological obsession with small government or a belief that the existing [stimulatory] stance of fiscal policy is invalid'.[113] Rather, he emphasised that '[t]o have aimed for a continuation of budget surpluses in the face of the recession would have required tax and spending measures which would have substantially deepened and lengthened the recession'.[114]

In summation, although the Keating Government did embrace a small measure of fiscal stimulation, its fiscal policy cannot accurately be described as Keynesian. The limited effectiveness of the modest fiscal stimulus measures offered as part of the *One Nation* program have been addressed above. In addition, the Commonwealth Government budget's subsequent slower than forecast return to surplus should not be mistaken as evidence of the Keating Government's efforts to stimulate investment and employment growth.[115]

During its final years, the Keating Government maintained a rhetorical commitment to fiscal restraint. Dawkins' 1993-94 Budget Speech was couched in the medium-term framework of returning the budget to surplus so that it could contribute to 'domestic saving' and 'additional investment'.[116] Keating also emphasised that: 'We cannot allow our private savings to be used solely to fund big budget deficits. We have to have more business investment and we have to free up our private savings to pay for it'. He indicated that the fiscal restraint of the 1980s would be emulated.[117] In accordance with this rhetoric, the 1995-96 Budget, the last of the Hawke-Keating era, announced a $718 million surplus, 'the largest ever turnaround in the budget outcome'. This estimated fiscal consolidation had

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[112] John Dawkins 1993, speech to the Australian Society of Certified Practising Accountants, Western Australian Division, 2 April 1993, *Ministerial Document Service*, No. 173/ 1992-93, 6 April, p. 7300.
[113] John Dawkins 1993, 'The Savings of Australia', speech to a National Policy Board Meeting of Deloitte Touche Tohmatsu, Brisbane, 24 June 1993, *Ministerial Document Service*, No. 173/ 1992-93, 6 April, p. 8658.
[114] *Ibid.*, p. 8663.
Keating has expressed similar sentiments in defence of what he considers to have been his government's modest cyclical, rather than structural, budget deficits in the 1990s. See: O'Brien, *Keating*, pp. 654-63, 748-9.
[115] See the table of Commonwealth budget outlays, revenue and balance, in: Treasury, Statement 1, *1995-96 Budget Paper No.1*, p. 1.11.
[116] Dawkins, *Budget Speech 1993-94*, pp. 4-5.
[117] P.J. Keating 1993, address to the National Press Club, 22 July 1993, *Ministerial Document Service*, No. 12/93-94, 23 July, pp. 493-4.
See also: Ralph Willis 1994, *Budget Speech 1994-95*, 10 May, AGPS, Canberra, pp. 6-7.

been substantially achieved through asset sales - although it was also predicted that an underlying budget surplus would be delivered by 1996-97.[118]

This section has established that in spite of the early-1990s recession having exposed the shortcomings of market liberal macroeconomic policy restraints, neither the Hawke nor Keating Governments replaced them with Keynesian demand management policies designed to stimulate investment and employment. Part 2 of this chapter assesses the Hawke and Keating Governments' macroeconomic policy record.

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[118] Willis, *Budget Speech 1995-96*, pp. 1, 10. The asset sales announced as part of the 1995-96 Budget included the sale of the Commonwealth Government's remaining 50.4% share in the Commonwealth Bank.
A note of caution should be raised about these estimated budget outlays and surplus figures. It has been noted that changes in Treasury's accounting of variables, such as asset sales, in addition to revised budget estimates, transformed the 1995-96 Budget's estimated $718 million surplus into a deficit of $10.3 billion. See: Mathews & Grewal, *The Public Sector in Jeopardy*, p. 431; Bell, *Ungoverning the Economy*, pp. 158-9.

Part 2: Assessment of Macroeconomic Policy

As outlined above, before this chapter can assess the success or otherwise of the Hawke and Keating Governments' macroeconomic policies, as measured by their effectiveness in achieving and maintaining the conditions of low inflationary full employment, a more complete assessment of the Hawke and Keating Governments' economic policy agenda needs to be established. Although this thesis is not concerned with those policies designed to redistribute wealth and income, given the Hawke and Keating Governments' adoption of much of the market liberal macroeconomic policy agenda, it is important to briefly acknowledge those policies which did not accept market determination of resource allocation, and particularly where these policies may have benefited the ALP's traditional working constituents. As previously outlined, this assessment will acknowledge:

- that the Hawke and Keating Governments retained a centrally regulated system of minimum occupational awards as a social safety net, designed to protect vulnerable lower income workers with minimal industrial bargaining power, as part of their broader reforms of the nation's industrial relations system;
- that these governments targeted fiscal expenditures towards disadvantaged groups and thereby increased the social wage as envisaged within the original Statement of Accord (see previous chapter); and
- that these governments maintained a robust rhetorical critique against the perceived right-wing ideological excesses of the Liberal/National Coalition parties under the successive leaderships of John Hewson (1990-1994), and John Howard (1995-2007).

Industrial Relations Reform and the Minimum Occupational Award Safety Net

As has been emphasised throughout this and the previous chapter, from 1985 the Hawke Government renegotiated the Accord in order to reduce real unit labour costs and thereby increase profit margins and encourage increased levels of investment and employment. As noted in the previous chapter, real wage cuts were continued throughout the remainder of the 1980s. In addition to this centralised form of wage restraint, from 1987 the Accord also began a process of industrial relations restructuring, which sought to improve workplace productivity by restructuring awards and workplace practices, and ultimately establishing a decentralised system of enterprise bargaining.

Chapter two established the market liberal position on industrial relations, which argued that systems of decentralised wage bargaining facilitate greater market efficiency. In contrast to this position, however, the previous chapter established that the Hawke Government was cognisant of the problems identified with decentralised systems of wage bargaining. Its most senior ministers identified that these systems present a threat to both the containment of inflationary wage pressures, and a threat to wage equity, given the weak industrial bargaining power of many low income wage earners. However, amidst trade union frustration with the wage discounting which occurred during the mid-to-late 1980s (see previous chapter), and pressure from trade unions for employees to share in the increased profits which could be realised through demonstrable productivity improvements,[119] it became clear to the Hawke and subsequently Keating Governments that not only would an increasingly decentralised industrial relations system assist their broader efforts to restructure the economy, and thereby make it more internationally competitive, but it also became clear that this system should retain a robust safety net of minimum award wages and conditions to provide for the industrially weak. In this manner these governments would uphold their social democratic ideological commitment to the ALP's working constituents.

In accordance with this approach, the Accord Mark III - formerly accepted by the Conciliation and Arbitration Commission on 10 March 1987 - began a process in which wage rates were no longer set by the Commission in relation to the preceding change in the CPI. Instead, wage negotiation was separated into two streams, with minimum 'safety net' first tier increases – worth less than the preceding increase in the CPI,[120] working alongside a second tier bargaining stream for those unions able to successfully bargain with employers under the restructuring and efficiency principle. This principle required wage and salary increases to be based upon changes in work and management practices, as well as actions designed to 'reduce demarcation barriers, advance multi-skilling, training and retraining, ... broad-banding', and changes to work patterns. Second tier wage and salary increases negotiated under this principle were to be constrained within a 4 percent ceiling.[121]

Despite the balance sought between equity and flexibility in this system, many perceived the two-tiered structure as inequitable. Negotiations centred on the restructuring and efficiency principle, and from August 1988 on the structural efficiency principle - which formed the basis of the Accord Mark IV[122] - raised concerns that the system of decentralised wage bargaining was simply used as a negative cost-cutting exercise by business, rather than as a system to 'enhance productivity and efficiency in a positive manner'.[123] Some unions feared the stripping away of hard-won working conditions for wage increases as part of award restructuring negotiations, while unions in white collar and service industries found it more difficult to quantify efficiency and productivity improvements, and where awards were extensively restructured they offered limited prospects for future wage improvements

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[119] See: Bill Kelty, quoted in, Kelly, *The End of Certainty*, p. 281; Willis & Wilson, 'Introduction', pp. 3-4; Singleton, *The Accord and the Australian Labour Movement*, pp. 167-71.

[120] The provisions for the first tier wage increase of Accord Mark III, as set by the Conciliation and Arbitration Commission on 10 March 1987, were an initial increase of $10 per week and further consideration of another increase in October 1987. Subsequently, on 5 February 1988 a further $6 per week first tier wage increase was granted by the Conciliation and Arbitration Commission. See: Willis & Wilson, 'Introduction', pp. 4-5.

[121] ALP-ACTU 1987, Accord Mark III: 1987-1988, Appendix in Wilson, Bradford & Fitzpatrick (eds), *Australia in Accord*, pp. 319-21.

[122] See: Willis & Wilson, 'Introduction', p. 6.

In accordance with the August 1988 National Wage Case, all workers were granted a first-tier 3% pay increase in September 1988, on the condition that they agree to an award review process. The second-tier increase of $10 per week was available from March 1989, but required productivity improvements in accordance with the structural efficiency principle. See: ALP 1988, Accord Mark IV: 1988-1989, Appendix in Wilson, Bradford & Fitzpatrick (eds), *Australia in Accord*, p. 331.

[123] Braham Dabscheck 1995, *The Struggle for Australian Industrial Relations*, Oxford University Press, Melbourne, p. 52.

under the structural efficiency principle.[124] In addition, the processing of second-tier claims was disappointingly slow, and the Industrial Relations Commission (the replacement for the Conciliation and Arbitration Commission) was slow to arbitrate, causing wage increases in many industries to fall behind increases in the CPI.[125]

From the Accord Mark V - agreed between the Hawke Government and the ACTU on 12 April 1989 - the two-tier system was replaced with a system of minimum centrally determined wage increases, and industry-wide bargaining, negotiated according to the structural efficiency principle, and limited to certain ceilings according to the classification of an occupation, and an overall wage increase ceiling of 6.5 percent.[126] This system then developed into the less prescriptive principles for an enterprise bargaining system, announced within the 1991-92 Budget. These principles included:

- that bargaining be conducted through a single bargaining unit in an enterprise or section of an enterprise;
- that an agreement provide no further wage or salary increase for its life; and
- that an agreement not involve 'a reduction in national standards in ordinary time earnings, annual leave, or long service leave'.

The ACTU and the Hawke Government also agreed that wage outcomes should be constrained to an inflation rate comparable with Australia's major trading partners.[127] With regard to this latter provision, Prime Minister Keating later publicly warned that his government's commitment to minimum wage and superannuation increases would be contingent upon wage outcomes being constrained within this envelope.[128] In accordance with these principles, therefore, the decentralised system of enterprise bargaining was designed to fuse the market efficiencies of a deregulated bargaining structure with centralised control over wages inflation.

The enterprise bargaining system also developed alongside a robust safety net. As outlined above, from the first enterprise bargaining principles laid out in preparation for the 1991-92 Budget, safeguards were put in place to ensure that these agreements would not 'involve a reduction in national standards in ordinary time earnings, annual leave, or long service leave'.[129] In keeping with this

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[124] *Ibid.*, pp. 51-2; Stilwell, 'Wages Policy and the Accord', pp. 73-4, 81; Margaret Gardner 1990, 'Wage Policy', in Jennett & Stewart (eds), *Hawke and Australian Public Policy*, pp. 90-1.

[125] Dabscheck, *The Struggle for Australian Industrial Relations*, pp. 51-2; Stilwell, 'Wages Policy and the Accord', p. 74; Gardner, 'Wage Policy', p. 89.

[126] ACTU 1989, Accord Mark V: 1989-1990, Draft Agreement, 7 April, Appendix in Wilson, Bradford & Fitzpatrick (eds), *Australia in Accord*, pp. 335-6.

[127] See: Willis & Wilson, 'Introduction', p. 10.

The establishment of the system of enterprise bargaining announced as part of the 1991-92 Budget followed the Industrial Relations Commission's earlier rejection of a similar proposal at the April 1991 National Wage Case, in which it cited: the incompleteness of the award restructuring process; disagreements between trade unions and business over the system's form and practical application; and the potential for industrial disputation and excessive wage outcomes. The Industrial Relations Commission subsequently, but reluctantly, accepted the enterprise bargaining system announced as part of the 1991-92 Budget on 30 October 1991. See: Willis & Wilson, 'Introduction', pp. 9-10; Tingle, *Chasing the future*, pp. 293-6.

[128] Paul Keating 1992, address to the International Industrial Relations Association Ninth World Congress, Sydney, 31 August, *Ministerial Document Service*, No. 45/92-93, 1 September, p. 1672.

[129] See: Willis & Wilson, 'Introduction', p. 10.

principle, legislative amendments were introduced in July 1992 to the *Industrial Relations Act* 1988, and were retained under the *Industrial Relations Reform Act* 1993, through the establishment of a 'no disadvantage' test, which prevented certified enterprise agreements from lowering wages and conditions without reference to the public interest test.[130] Under this legislative amendment, well established conditions were protected, such as: maternity leave, standard hours of work, parental leave, minimum rates of pay, termination change and redundancy provisions, and superannuation. Moreover, the Accord partners were adamant that: 'Penalty rates should not be reduced or abolished, but may be incorporated into total rates of pay by agreement'.[131] This meant that the no disadvantage test protected the award safety net. As the Minister for Industrial Relations Laurie Brereton (1993-1996) later described:

> It means that all workers know that, whatever happens in their enterprise or workplace, they are guaranteed the continued protection of their award, with periodic adjustments overseen by an independent and authoritative body.[132]

The Industrial Relations Commission constituted this independent body, and was charged with setting the minimum award safety net.[133]

In maintaining the award safety net, throughout the development of the decentralised system of enterprise wage bargaining, the Hawke and Keating Governments deserve credit for upholding the material interests of its working constituency, and avoiding the more strident market liberal proposals for industrial relations reform, which had been proposed during the 1980s by various New Right proponents.[134] Even with these safety net provisions in place, however, some analysts were concerned about the welfare of low-paid and industrially weak workers. For example, minimum award wage increases were delayed under the system,[135] and Stephen Bell has cited the contemporary concerns of the Evatt Foundation who feared that wage inequality would grow as economic conditions improved over the 1990s. They envisaged that the 'wages and conditions of well organised workers ... [would] far outstrip those of vulnerable, marginalised or poorly organised workers'.[136] Bell also cited another related contemporary concern, that enterprise bargaining would further exacerbate pay inequity

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[130] See: *ibid*., pp. 10-1.
'The public interest test related to, inter alia:
- the likely effects of any proposed award, including a certified agreement, on the level of unemployment and inflation; and
- the potential to undermine the wage fixing principles'.

See also: Laurie Brereton 1993, Industrial Relations Reform Bill 1993: Second Reading, 28 October, House, *CPD*, pp. 2778-9, 2781.
[131] ACTU 1993, *'Putting Jobs First': Accord Agreement 1993-1996*, ACTU, Melbourne, March, p. 7.
[132] Laurie Brereton 1995, News Release, 'Wage Case Decision Reinforces Award Safety Net', 9 October, *Ministerial Document Service*, No. 63/95-96, 10 October, p. 2041.
[133] See: Laurie Brereton 1993, Speech to Trade Union Promotions and Publicity Campaign Seminar on Australia's Future, Melbourne, 20 August, *Ministerial Document Service*, No. 28/93-94, 23 August, pp. 1142-3.
[134] See for instance: H.R. Nicholls Society 1986, *Arbitration in Contempt*, The Proceedings of the Inaugural Seminar of the H.R. Nicholls Society, Melbourne, 28 February – 2 March 1986, H.R. Nicholls Society, Melbourne; John Hyde & John Nurick 1985, *Wages Wasteland: A radical examination of the Australian wage fixing system*, Hale & Iremonger, Sydney.
[135] Willis & Wilson, 'Introduction', p. 12.
[136] Evatt Foundation 1995, *Unions 2001: A Blueprint for Trade Union Activism*, Evatt Foundation, Sydney, p. 102, quoted in, Bell, *Ungoverning the Economy*, p. 202.

between those occupations dominated by women and men, given their disproportionate industrial bargaining leverage.[137]

The Hawke and Keating Governments also claimed to uphold the material interests of the ALP's traditional working constituents, their dependents, and society's most disadvantaged, through the targeted provision of social expenditures. The following section analyses these claims.

Targeted Welfare and the Social Wage

Towards the end of his prime ministership, Keating cited the consultancy report, *Trends in the Distribution of Cash Income and Non-Cash Benefits* (1995), to establish three major points about how the Hawke and Keating Governments had improved the material living standards of Australians in general, and poorer Australians in particular. Keating claimed that by taking into consideration the measure of 'total income', comprised of: private income, government cash benefits, and non-cash government benefits (such as education, health, housing and child care services); the report established that in the period 1981-82 – 1993-94:

- Australian households experienced on average a 9.1 percent improvement in their total household income;
- Australia had become a more equal society than it had been in the early-1980s; and
- the increase in non-cash social wage benefits contributed significantly to this reduction in inequality.

On this latter point, Keating claimed that: 'The value of non-cash benefits such as health, education, housing, child care, concessions and subsidies grew by 41 per cent in real terms over this time. All households benefited from this increase, but those on the lowest incomes generally gained the most'.[138] Keating noted that families with children and older people - many of whom make up society's most disadvantaged or vulnerable groups - benefited most from the Hawke and Keating Governments' increased provision of social wage expenditures. Keating concluded that: 'Over the study period, left to itself, the market would have produced incomes that led to declining living standards for many households'.[139]

Elsewhere, Keating listed many of the Hawke and Keating Governments' major social policy achievements: the introduction of Medicare; significantly increased payments to low income families;[140] the achievement of the benchmark for the single aged pension of 25 percent of average

[137] See: J. Lee 1994, 'Women and Enterprise Bargaining: The Corset of the 1990s?', *Australian Journal of Public Administration*, Vol. 53, p. 189, quoted in, Bell, *Ungoverning the Economy*, pp. 202-3.
[138] P.J. Keating 1995, Trends in the Distribution of Cash Income and Non-Cash Benefits, Statement, 13 December, *Ministerial Document Service*, No. 107/95-96, 14 December, pp. 3695-6.
[139] *Ibid.*, p. 3696.
[140] This was partly achieved through the 1987-88 Budget's creation of the Family Assistance Package, and the significant increases in family allowances and the family allowance supplement (FAS), which formed part of the April 1989 Economic

weekly earnings;[141] the significant expansion of industrial superannuation coverage;[142] the establishment of the Child Support Scheme; 'a more than five fold increase in child care places, with a commitment to meet demand for work-related child care by 2001'; 'the extension of Child Care Assistance and the introduction of the Child Care Cash Rebate'; and significantly improved high school retention rates – from three in ten completing Year 12 in 1983, to more than seven in ten at the end of the Keating Government's period in office.[143] Keating also cited several figures to establish the broad improvements made in material wellbeing under the Hawke and Keating Governments: a 20 percent real increase in per person household disposable incomes since 1983; the movement of many social security beneficiaries from below to above the poverty line; and evidence garnered from the National Centre for Social and Economic Modelling to claim that on average an Australian family with two children had benefitted by $195 per week from increases to the social wage.[144]

It is notable that many of the social policy initiatives cited by Keating received praise from many of the Hawke and Keating Governments' left and social democratic critics.[145] For instance, in their analysis of the Hawke and Keating Governments' fiscal expenditures, economists Russell Mathews and Bhajan Grewal have acknowledged that those sectors which experienced the most substantial cuts were predominantly those not associated with the transfer of income and services to lower income earners and welfare beneficiaries. Only housing, support for primary and secondary industries, and general purpose assistance to state and local governments, were categories which experienced significant cuts and have, or could have, a significant influence upon the living standards of lower income earners and welfare beneficiaries. Other categories of expenditures, which significantly affect these groups, such as health, social security and welfare, experienced significant increases in their expenditures as a share of GDP, while education expenditures also experienced modest increases relative to GDP – although Mathews and Grewal did note that real funding per student was cut for students in the Technical and Further Education (TAFE) and higher education sectors.[146]

Criticisms of the Hawke and Keating Governments' social policies are also noteworthy, however. Carol Johnson has for instance cited the work of many social scientists to question many of the specific claims made by Keating above. For example, Johnson explained that in praising the expansion

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Statement. See: Paul Keating 1987, *Budget Speech 1987-88*, 15 September, AGPS, Canberra, pp. 6-7; Paul Keating 1989, *Economic Statement April 1989*, Statement delivered on 12 April, AGPS, Canberra, pp. 25, 38.

141 See: Paul Keating & Peter Walsh 1990, *Economic Statement February 1990*, 21 February, AGPS, Canberra, p. 52.

142 The 1991-92 Budget introduced the compulsory Superannuation Guarantee Levy (later renamed the Superannuation Guarantee Charge (SGC)) for all wage earners. By 1995 the Keating Government boasted that some 87% of the workforce 'had an entitlement to superannuation benefits', up from 40% in 1983. The Keating Government had scheduled that under the SGC total compulsory contributions would reach 15% of employee earnings by 2002. See: Kerin, *Budget Speech 1991-92*, p. 11; John Dawkins 1992, *Security in Retirement: Planning for Tomorrow Today*, 30 June 1992, AGPS, Canberra, p. 39; INDECS, *State of Play 8*, pp. 231-2; Ralph Willis 1995, *Saving For Our Future*, 9 May 1995, AGPS, Canberra, pp. 1, 3, 6.

143 Paul Keating 1996, 'The Labor Government and Social Policy: 1983-1995', *Just Policy*, No. 5, February, p. 3.

144 *Ibid.*, p. 5.

145 See: Johnson, 'Labor Governments Then and Now', p. 6; Maddox, *The Hawke Government and Labor Tradition*, pp. 34-5; Rob Watts 1989, '"In Fractured Times": The Accord and Social Policy under Hawke, 1983-1987', in Kennedy (ed.), *Australian Welfare: Historical Sociology*, pp. 118-20.

146 Mathews & Grewal, *The Public Sector in Jeopardy*, pp. 409-17.

of superannuation coverage, Keating neglected to mention that: 'superannuation increases were frequently granted in lieu of pay rises'; they were granted 'with the long-term aim of reducing the amount of pension support payable by the government'; and the problems with female superannuation coverage were not acknowledged by Keating. Johnson also cited the work of other analysts who were critical of the Hawke and Keating Governments' records on employment policy, child care policies, Native Title, and equal opportunity.[147] Another criticism has been that the tight means-testing of social security and welfare payments, often constrained their beneficiaries to very low income earners, the unemployed and other severely disadvantaged groups.[148] Importantly, Carol Johnson has identified that the redistribution of income and wealth, used to finance the increased benefits which accrued to these groups, was not garnered from business – which experienced reduced real unit labour costs, increased profits and company tax cuts - but from other higher income wage earners.[149] In this manner, it has been identified that tight means-tests led to a 'burdened middle' in the income distribution scales, many of whom experienced real and proportional reductions in their equivalent household disposable incomes between 1982 and 1993-94.[150]

Nonetheless many of these critics acknowledged that the Hawke and Keating Governments deserve credit for those measures which supported society's most disadvantaged through targeted fiscal expenditures, and for resisting the more strident versions of fiscal restraint pursued in other nations.[151] Indeed, the Hawke and Keating Governments' notable critiques of what they considered to be the far right ideological excesses of the Hewson and Howard-led Coalition parties in the 1990s, requires acknowledgment in this context.

Rhetorical Critique against Extreme Market Liberalism

In the final days of Hawke's prime ministership, Labor launched its rhetorical critique against John Hewson's *Fightback!* manifesto. Within a parliamentary censure motion raised by the Opposition, Hawke criticised their proposal, under *Fightback!*, to cut $10 billion from Commonwealth budget outlays. Hawke argued that cuts of this magnitude 'would [necessarily] fall on essential government services and ... [present] a terrible blow to the least well off in the Australian community'. Hawke argued that no account of the distributional impact of these proposed cuts had been conducted, and he particularly lamented that the $2.4 billion in proposed cuts to social welfare spending, 'would hurt hardest those in the Australian community least able to bear the pain – the sole parents, the unemployed, the disabled, the aged'. Moreover, Hawke criticised the inequity of the manifesto's

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[147] See: Carol Johnson 1996, 'Shaping the Social: Keating's Integration of Social and Economic Policy', *Just Policy*, No. 5, February, pp. 11-2.

[148] Prominent examples of the Hawke Government's tight means-testing and deferral of expenditures were those applied in the 1986-87 Budget, in the areas of social security benefits (including pensions), and family allowances. Increased user-pays charges for medical services, prescription drugs, and higher education student fees, were also applied in this budget. See: Keating, *Budget Speech 1986-87*, pp. 4-7.

[149] Johnson, 'Shaping the Social', p. 11; Johnson, 'Labor Governments Then and Now', p. 6.

[150] See: Anne Harding 1999, 'The Burdened Middle: Income inequality and welfare reform', in Michael Carman & Ian Rogers (eds), *Out of the Rut: Making Labor a Genuine Alternative*, Allen & Unwin, St Leonards, pp. 77-86.

[151] See: Johnson, 'Shaping the Social', p. 11.

income tax cuts, which offered the largest percentage cuts (14.7 percent) to those on $75,000 annually - less than two percent of income earners in 1991.[152] Elsewhere, Hawke also emphasised the inequity involved in introducing a GST, in which 'low income earners will pay the same tax on the basic necessities of life as the richest people in the community'.[153] In one parliamentary assault, he castigated the Opposition for its doctrinaire market liberalism and defended the appropriate ameliorative role of government services and welfare provision:

> In implementing our vision, this side of politics believes in the active and the constructive involvement of government; not the cop-out of government. ... Government is not about an exercise in Darwinian theory where only the fittest survive.[154]

Once elected leader of the FPLP and Prime Minister, Keating continued the condemnation of the fiscal policies proposed by the Hewson-led Opposition. For instance, on one occasion in which Hewson censured Keating in Parliament 'for his economic policy negligence which has given Australia record unemployment and left our country to drift towards depression', the Keating Government used its majority in the House of Representatives to amend the censure motion to read against Hewson:

> for advocating policies which would contract fiscal policy, remove unemployment benefits after nine months, impose a 15 per cent goods and services tax and introduce a confrontationist industrial relations policy, all of which would retard economic growth and result in a more severe level of unemployment.[155]

Like Hawke, Keating condemned Hewson for attempting to impose 'economic Darwinism' upon the Australian people, through his policy proposals to: abolish Medicare; significantly reduce welfare benefits, including through his proposals to remove unemployment benefits and the sole parent pension under certain conditions; implement regressive tax changes; and remove industrial relations regulations which ensure fair and balanced wage remuneration, including through the award safety net.[156] Keating described these proposals as: 'Thatcherite in principle and substance'.[157] This critique, levelled against the perceived market liberal ideological excesses of the Coalition Opposition, continued when John Howard assumed the leadership of the Coalition in January 1995. Keating was particularly critical of Howard's regressive proposals to provide tax subsidies for private health insurance coverage,[158] and he continued to be concerned that employee wages and conditions, and the

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[152] Bob Hawke 1991, Motion of Censure: Prime Minister, 28 November, House, *CPD*, pp. 3577-8.
[153] Bob Hawke 1991, Notice of Censure: Prime Minister, 19 December, House, *CPD*, p. 3778.
[154] Bob Hawke, Motion of Censure: Prime Minister, House, *CPD*, 28 November 1991, p. 3579.
[155] Quoted in, Tingle, *Chasing the future*, pp. 194-5.
[156] P.J. Keating 1992, speech to the National Press Club, Canberra, 15 September 1992, *Ministerial Document Service*, No. 56/92-93, 16 September, pp. 2140-5, 2148-51.
[157] Keating, 'The Labor Government and Social Policy: 1983-1995', p. 6.
See also: Paul Keating, speech to the ALP New South Wales Conference, Sydney, 6 June 1992, in Paul Keating 1993, *Major Speeches of the First Year*, ALP, Barton, pp. 75-84.
[158] Keating, 'The Labor Government and Social Policy: 1983-1995', p. 6.
For more criticism of the Howard-led Coalition Opposition's proposals to subsidise private health insurance premiums, and speculation that they might reduce expenditure on the public health system, see: P.J. Keating 1995, speech to the Australian Nursing Federation Federal Delegates Conference, Canberra, 26 October 1995, *Ministerial Document Service*, No. 74/95-96, 27 October, pp. 2515-20.

award safety net, would be stripped away without fair and adequate compensation under a Coalition government.[159]

Notwithstanding the Hawke and Keating Governments' commitment to ameliorating some of the worst inequities which materially impacted upon the lives of many of the ALP's lowest income constituents, the following section argues that despite some promising statistical macroeconomic indicators in the late-1980s, the Hawke and Keating Governments ultimately failed to deliver macroeconomic stability, and presided over a substantial level of unemployment.

Statistical Appraisal

As the previous chapter established, the Hawke Government was elected amidst a severe recession which delivered a peak unemployment rate of 10.4 percent in the September quarter 1983. On the back of the strong economic growth performance of the 1980s, this rate was subsequently reduced to below 6 percent in 1989. During this period, at the end of the 1987-88 financial year, the current account deficit had also declined to a level commensurate with that experienced prior to the 'banana republic' crisis – down from the level of 6.1 percent recorded in 1985-86 to just 3.7 percent. Inflation had also declined below the level of 8 percent for the period 1987-88 – 1989-90;[160] although this level was still considered too high and out of step with the low inflation predominant within most of Australia's major OECD trading partners.[161] These figures could have been interpreted as evidence that the Hawke Government's strategy of redistributing resources away from the public sector and wage earners and towards the private sector had worked in increasing productive investment and ameliorating the nation's current account deficit.

The policies commonly cited by the Hawke Government as having delivered this improving macroeconomic performance were those policies canvassed within the previous two chapters: fiscal, monetary, and wages policy restraints, and financial deregulatory reforms. These were considered to have worked in combination with a host of microeconomic reform measures the Hawke and then Keating Governments also implemented in such areas as: industrial relations reform (see above): taxation reform;[162] tariff reductions (see above); the privatisation or commercialisation of Government

[159] See: P. J. Keating 1995, speech to the ACTU Congress, Melbourne, 27 September, *Ministerial Document Service*, No. 56/95-96, 28 September, p. 1810; P.J. Keating 1995, speech to the CFMEU Biennial National Conference, Coogee, 9 October, *Ministerial Document Service*, No. 63/95-96, 10 October, p. 2055.

[160] See: Mathews & Grewal, *The Public Sector in Jeopardy*, p. 376.

[161] See: Treasury, Statement No. 2, *1989-90 Budget Paper No. 1*, pp. 2.33-4.

[162] Key measures of the Hawke Government's tax reform agenda included those contained in the September 1985 package: the introduction of dividend imputation; the introduction of the capital gains tax; the introduction of the fringe benefits tax; and significant income tax reductions. See: Paul Keating 1985, *Reform of the Australian Taxation System*, Statement by the Treasurer, September, AGPS, Canberra.
The company tax rate was also successively and significantly cut: from 49% to 39% in the May 1988 Economic Statement; and from 39% to 33%, announced in the *Investing in the Nation* document, released prior to the 1993 federal election. The rate was subsequently slightly increased as part of the 1995-96 Budget from 33% to 36%. See: Paul Keating 1988, *The 1988 Business Tax Reform*, forming part of the Economic Statement, 25 May 1988, AGPS, Canberra, p. 6; Keating, *Investing in the Nation*, p.48; Willis, *Budget Speech 1995-96*, p. 11.

Business Enterprises (GBEs) and other Commonwealth Government owned assets;[163] and competition reforms.[164] These market-oriented structural reforms were considered 'central to improving productivity and overall economic performance', and for improving the economy's international competitiveness and long-term growth potential.[165]

The promising improvement in the nation's macroeconomic performance by the end of the 1980s was overturned by the experience of the early-1990s recession. As has already been established, the severe impact of this recession lifted the unemployment rate to a higher peak than was reached in the early-1980s recession the Hawke Government inherited: an unemployment rate of 11.3 percent in late-1992. Furthermore, because of the drawn-out nature of the recession, even by the time the Keating Government lost office at the March 1996 federal election, the unemployment rate remained at the significantly high level of 8.4 percent.[166] Figure 4 charts the unfavourable course of the unemployment rate over the course of the entire period of the Hawke and Keating Governments. The current account deficit, which had expanded to 5.8 percent of GDP in 1989-90 did decline in line with economic activity during this period, but quickly regained its pre-recession level as the economy recovered in mid-1990s.[167] Only inflation was comprehensively defeated during this period. As outlined above, the recession was used by the nation's monetary authorities to significantly reduce inflationary expectations, from which it has been argued an impressive record of low inflationary growth was facilitated (see above). Indeed, during the period 1990-2003, the rate of CPI inflation was successfully contained to an average rate of 2.2 percent. However, even this achievement relied on the deployment of severe levels of both fiscal and monetary policy restraints - a strategy the Hawke Government had earlier criticised the Fraser Government for having implemented.

Further significant income tax cuts were made in the April 1989 and February 1990 economic statements. See: Keating, *Economic Statement April 1989*; Paul Keating & Peter Walsh 1990, *Economic Statement February 1990*, 21 February 1990, AGPS, Canberra.

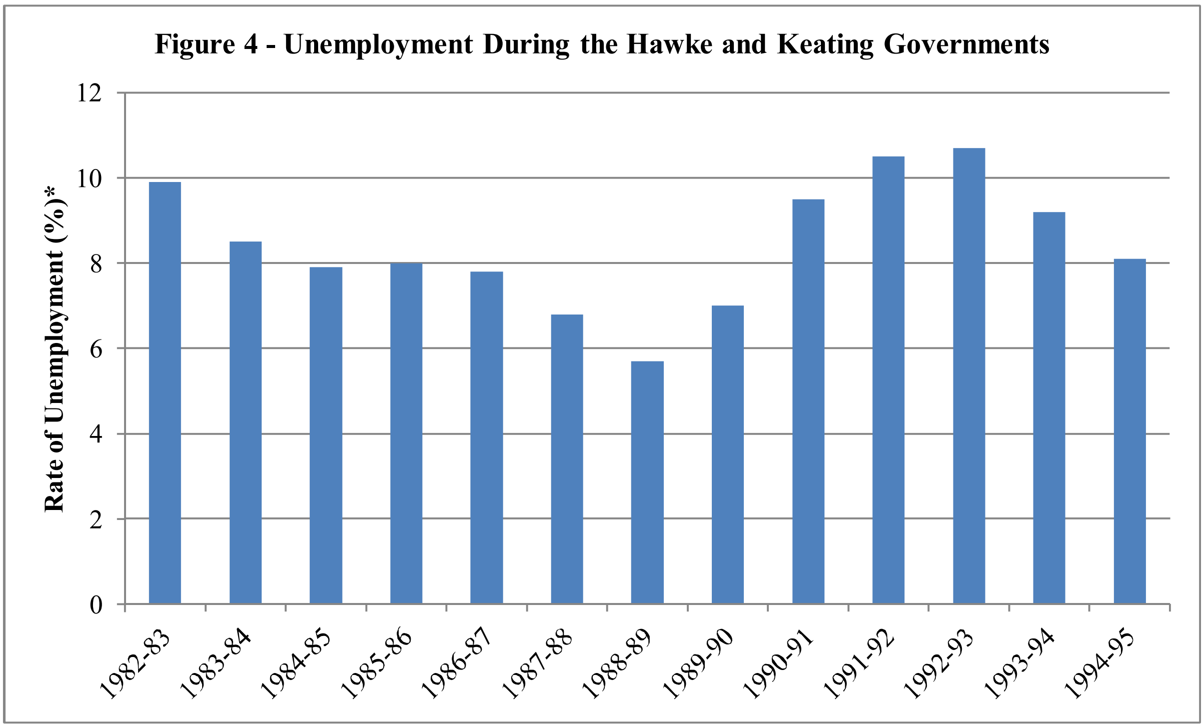
[163] The Hawke and Keating Governments privatised in part or in full many publicly owned assets and businesses, including: the Commonwealth Bank, Aussat, Qantas/Australian Airlines, the Commonwealth Serum Laboratories (CSL), and the Commonwealth Car Fleet. See: John Quiggin 1999, 'The privatisation puzzle', in Carman & Rogers (eds), *Out of the Rut*, p. 185; Bell, *Ungoverning the Economy*, pp. 216-7.

[164] The Keating Government's competition policy reforms were developed in accordance with the recommendations of the Independent Committee of Inquiry, chaired by F.G. Hilmer. These recommendations essentially proposed the extension of market competition to the delivery of services previously the preserve of governments and GBEs. See: Mathews & Grewal, *The Public Sector in Jeopardy*, pp. 401-2.

[165] Keating, 'Economic and Fiscal Policy Strategy', Cabinet Submission No. 7055, p. 3.

[166] See: ABS, Labour Force (Australia Preliminary), March 1996, Catalogue No. 6202.0, p. 1.

[167] See: Mathews & Grewal, *The Public Sector in Jeopardy*, p. 376.



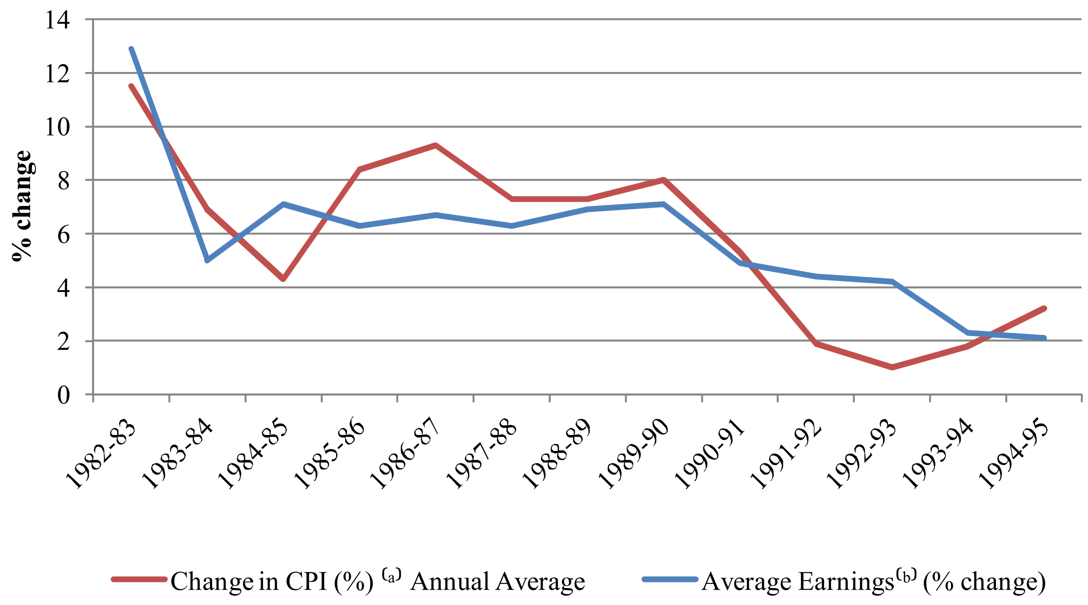
*Figures are from the Labour Force Survey and refer to the rate of unemployment at the end of August following the financial year shown. The unemployment rate is defined as the ratio of unemployment to the labour force, expressed as a percentage.

Source: Mathews & Grewal, *The Public Sector in Jeopardy*, p. 376.

For the purposes of this thesis, it is important to observe the impact of this macroeconomic performance upon the ALP's working constituents. From this perspective, not only did the unemployment rate remain stubbornly high throughout the period of the Keating Government, but following the wage discounting of the Accord Mark II in 1985-86 (see previous chapter), it was not until 1991-92 that average earnings growth outpaced the average annual change in the CPI (see Figure 5). In other words, for approximately six consecutive years inflation outpaced average wage increases under the Hawke Government. Moreover, for the entire period December 1982 – December 1993, average weekly real full-time earnings only registered the very modest increase of 3 percent.[168]

[168] See: Harding, 'The Burdened Middle: Income inequality and welfare reform', p. 78.

Figure 5 - Annual Changes in CPI and Average Earnings Compared



(a) A changed treatment of mortgage interest charges was introduced in the March quarter 1989, affecting the growth rates of these indices in 1988-89 and subsequent years.

(b) The figures show percentage change in the ratio of non-farm wages, salaries and supplements to the number of non-farm wage and salary earners, expressed as a weekly average.

Source: Mathews & Grewal, *The Public Sector in Jeopardy*, p. 376.

From this account of the broad macroeconomic statistics, it is evident that it was the occurrence of the early-1990s recession which thwarted the nation's improving macroeconomic performance. Its impact significantly and adversely affected demand, investment and employment. A central question then becomes whether the recession could have been avoided, or at the very least could its worst employment consequences have been ameliorated? The analysis above has established that the Hawke and Keating Governments, in concert with the RBA and its public service advisers, all but entirely avoided the deployment of Keynesian interventionist policies, designed to secure stable demand and employment growth. The adverse consequences of this decision were manifest in stubbornly high unemployment figures. However, many social democratic analysts of this period argued for the reinstatement of Keynesian demand management policies, and were confident that these policies would have at least avoided the recession's worst excesses. The following section briefly analyses their proposals for the restoration of full employment.

Social Democratic Keynesian Critique

Many contemporary social democratic analysts advocated for the reinstatement of Keynesian macroeconomic policies as a necessary pillar for a viable full employment policy. For example, Langmore and Quiggin argued that: 'If monetary policy had not been tightened so much, if it had been relaxed earlier, if some form of discretionary fiscal stimulus had been adopted early in the recession, our current situation would be much more manageable'.[169] Accordingly, many of the Hawke and Keating Governments' social democratic critics advocated for the policies of Keynesian demand management: a counter-cyclical fiscal policy, a low interest rate monetary policy, a centrally regulated wages policy, and rigorous financial regulation.[170]

Langmore and Quiggin also concluded, however, that 'getting macro-economic policy right will not be enough', to restore full employment.[171] Policies designed to significantly expand public sector employment, and an interventionist industry policy, were also thought necessary. While these latter policy suggestions move beyond the macroeconomic policy scope of this thesis, they are briefly outlined in the following passages in order to acknowledge how the social democratic policy debate concerned with the restoration of full employment had, by the mid-1990s, moved beyond the macroeconomic debate between Keynesianism and market liberalism.

As a strategy to increase the demand for labour, Langmore and Quiggin proposed a significant increase in public sector employment in labour-intensive community services sectors, such as: health, education, child care, public housing, community services, aged care, services to the disabled, and public safety. The proposal was based on the premises that increased expenditures on public services served worthwhile community needs and interests, were labour-intensive, and would not exacerbate the nation's current account deficit. In addition to a significant annual increase in infrastructure investment of approximately 1 percentage point of GDP, it was estimated that this program of public service employment would create 450,000 new jobs.[172]

Many of these analysts accepted that the financial regulatory structure which existed at the time the Hawke Government was elected in 1983 was flawed. They recognised, for instance, that it did not regulate the expanding non-bank financial sector, and they acknowledged that it would have been difficult for the Hawke Government to entirely resist the global pressures for deregulation.[173] However, because the Hawke Government implemented a significant program of market liberal

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[169] Langmore & Quiggin, *Work for All*, p. 75.
[170] See: *ibid.*, pp. 118-20, 139-40; Bell, *Ungoverning the Economy*, pp. 269-71; Stretton, *Political Essays*, pp. 37-8; John Quiggin 1997, 'The Welfare Effects of Alternative Choices of Instruments and Targets for Macroeconomic Stabilisation Policy', in Lowe (ed.), *Monetary Policy and Inflation Targeting*, pp. 184-5; Anis Chowdhury 2000, 'Dealing with the Inflation Constraint to Growth', in Stephen Bell (ed.), *The Unemployment Crisis in Australia: Which Way Out*, Cambridge University Press, Cambridge, pp. 196-210.
[171] Langmore & Quiggin, *Work for All*, p. 81; J. W. Nevile 2000, 'Can Keynesian Policies Stimulate Growth in Output and Employment?', in Bell (ed.), *The Unemployment Crisis in Australia*, pp. 170-3.
[172] Langmore & Quiggin, *Work for All*, pp. 121-38, 141-52. Langmore and Quiggin also envisaged (pp. 157-74) that this proposal should be supplemented by the further employment of 250,000 people through increased wage subsidy places and the implementation of direct job creation schemes, at a further annual cost of $2 billion.
See also: John Quiggin 2000, 'The Public Sector as a Job Engine', in Bell (ed.), *The Unemployment Crisis in Australia*, pp. 216-23, 225-32.
[173] See: Langmore & Quiggin, *Work for All*, p. 69.

financial market deregulation (detailed in the previous chapter), its policies drew the following criticisms:

- They argued that the float of the Australian currency did not balance the nation's current account deficit – as asserted within the j-curve effect theory – but alternatively, and in combination with the abolition of exchange controls, banking deregulation, and a high interest rate monetary policy, exacerbated the nation's balance of payments problem through the facilitation of speculative investment flows and an increased level of foreign debt.[174]
- They argued that the float and abolition of exchange controls, and other banking regulatory reforms, did not stabilise interest rate volatility, but alternatively placed more of the monetary policy burden upon the blunt instrument of interest rate adjustments. This had significant and adverse consequences for the Commonwealth Government's ability to manage demand and the nation's current account deficit without devastating valuable investment.[175]
- They also argued that the allowance of foreign banking competition, and the abolition of banking regulations, did not significantly expand consumer services, or reduce bank interest rate or profit margins.[176] Instead, one result of the introduction of foreign banking competition was the irresponsible scramble for market share which has been widely identified to have contributed to the speculative asset price boom of the late-1980s, and which in turn required the severe corrective monetary policy which precipitated the early-1990s recession (see above).[177] Moreover, rather than financial deregulation having worked to benefit enterprising borrowers, higher interest rates alternatively served the interests of already wealthy investors,[178] and encouraged speculative inflows of foreign capital.[179]

Although these analysts acknowledged that financial re-regulation would likely be accompanied by an increased risk of capital flight,[180] they nevertheless advocated key reforms in this area. In order to avert macroeconomic crises, Langmore and Quiggin advocated for the reinstatement of quantitative and qualitative controls over lending. They argued that had these restrictive regulations:

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174 See: *ibid.*, pp. 71-4, 189; Bell, *Ungoverning the Economy*, p. 155; Tom Fitzgerald 1990, *Between Life and Economics*, 1990 Boyer Lectures, ABC, Crows Nest, pp. 38, 46-9; Stretton, *Political Essays*, pp. 43-4; Kenneth Davidson 1992, 'The Failures of Financial Deregulation in Australia', in Stephen Bell & John Wanna (eds), *Business-Government Relations in Australia*, Harcourt Brace Jovanovich, Sydney, pp. 222-3, 225-6, 228-9.

175 See: Langmore & Quiggin, *Work for All*, pp. 72, 189; Bell, *Ungoverning the Economy*, pp. 155-6; Stilwell, *The Accord ... and Beyond*, p. 116; Davidson, 'The Failures of Financial Deregulation in Australia', pp. 225-6.

176 See: Langmore & Quiggin, *Work for All*, p. 68; Bell, *Ungoverning the Economy*, p. 175; John Quiggin 1996, *Great Expectations: Microeconomic reform in Australia*, Allen & Unwin, St Leonards, pp. 91-5.
RBA officials subsequently argued that by the late-1990s the sizeable margins the banking sector set for mortgage loans in the early-1990s had been significantly reduced, from approximately 4.25 percentage points in 1992-93 to 1.75 percentage points in 1999. The identified cause of this decline was the entry of low cost mortgage managers. See: Marianne Gizycki & Phillip Lowe 2000'The Australian Financial System in the 1990s', in David Gruen & Sona Shrestha (eds), *The Australian Economy in the 1990s*, RBA Economic Group, Sydney, pp. 194-5.

177 See: Langmore & Quiggin, *Work for All*, pp. 69-71; Bell, *Ungoverning the Economy*, pp. 154-5, 172; Davidson, 'The Failures of Financial Deregulation in Australia', pp. 223-4.

178 See: Langmore & Quiggin, *Work for All*, p. 72; Stretton, *Political Essays*, pp. 44-7.

179 See: Bell, *Ungoverning the Economy*, pp. 173-4.

180 See: Stretton, *Political Essays*, pp. 49-50.

> been in place in the late-eighties the main justification for the high interest rate policy and subsequent recession would have been removed. ... Under the pre-deregulation rules, the Reserve Bank could have directed the banks to shift lending away from those areas that were seen as overheated'.[181]

Many analysts also emphasised the need for international co-operation to reregulate international speculative financial trading, in light of its destructive influence during the 1980s and 1990s.[182]

Stephen Bell emphasised the beneficial effects upon the nation's international competitiveness and current account position of an interventionist industry policy. Fundamentally, Bell believed that this action was necessary because the Hawke and Keating Governments' approach of relying upon a reallocation of resources from the public sector and wage earners towards the private sector had not produced the increase in productive investment these governments had hoped for.[183] Bell argued that for Australia to increase its international competitiveness, investment and employment potential, it needed to focus upon the factors which increased resource creation: improved management techniques; the use of technology; quality; service back-up; brand identification; marketing strategies; control over distribution networks; and responsiveness to shifts in market demand. Bell's argument was that these factors could be acquired through intelligent policy intervention. Moreover, Bell pointed to evidence that successful economies in the late-twentieth century featured a thriving manufacturing base, which in turn fostered growth in a range of high value-added services sectors. Unfortunately, Bell identified that because of Australia's adherence to non-interventionist industry policies, the Australian manufacturing sector was in a significant decline by the late-1990s.[184]

Notwithstanding Bell's recognition of the significant political and institutional barriers to reform,[185] he suggested that it would be in the nation's best interests if the Commonwealth Government significantly replicated much of the best elements highlighted in the academic literature, as well as those strategies successfully employed in the industry restructuring of the internationally competitive German and Japanese manufacturing bases. These successful elements included: long-term, committed financial relationships between firms and creditors; inter-firm cooperation, clustering, and resource pooling; long-term strategic planning; innovative management and employee co-operation; and strategic, conditional protectionism. These policies were identified by Bell as those most likely to facilitate the development of high quality products, and high rates of technical and product innovation, capable of dealing with rapidly changing demand conditions and shorter product cycles.[186] Bell acknowledged that the 'tight institutional linkages between industry and finance found in the

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[181] Langmore & Quiggin, *Work for All*, pp. 72, 119-20.
See also: Stretton, *Political Essays*, pp. 39-40, 47-8, 50-1.
[182] Langmore & Quiggin, *Work for All*, pp. 185-6; Bell, *Ungoverning the Economy*, pp. 276-7; Stretton, *Political Essays*, pp. 38-9.
[183] Bell, *Ungoverning the Economy*, pp. 233, 235-9.
[184] *Ibid*., pp. 226-9, 241-7.
See also: Stephen Bell, Roy Green & John Burgess 2000, 'Speed Limits to Growth and the Quality of Jobs: Economic Structure and the Current Account', in Bell (ed.), *The Unemployment Crisis in Australia*, pp. 176-91.
[185] Bell, *Ungoverning the Economy*, p. 279.
[186] *Ibid*., pp. 252-60, 266-9.

coordinated economies would ... be very difficult to replicate in the context of Australia's corporate structures and traditions'. So he advocated a short list of possible piecemeal reforms: lower interest rates; mandating a proportion of superannuation funds for productive investment in small and medium-sized firms; and imposing a higher tax regime on the offshore placement of funds.[187]

Conclusion

This chapter has argued that the Hawke and Keating Governments' severe market liberal fiscal and monetary policy restraints combined to deepen the significant unemployment consequences of the early-1990s recession. It has been established that both the Hawke and Keating Governments did not pursue a Keynesian low interest rate monetary policy, targeted at demand management considerations, but alternatively used a high interest rate monetary policy to target successively: the exchange rate, the current account deficit, and the rate of inflation. In this manner, even amidst the severe early-1990s recession, the increasingly independent RBA chose not to adjust interest rates to accommodate economic recovery, but instead chose to target monetary policy against what were perceived to be the economy's excessive inflationary expectations. With regard to fiscal policy, this chapter established that both the Hawke and Keating Governments refused to substantively stimulate the economy through a rigorous application of Keynesian fiscal intervention. The Hawke Government maintained its long-standing adherence to the market liberal fiscal restraint advocated through the twin deficits theory, while the Keating Government's modest stimulatory program *One Nation* (1992) proved ineffective. This chapter has established that its expenditures were too modest, poorly targeted, and ill-timed to deliver an effective stimulus to the economy. Their composition did not adhere to either the fiscal stimulatory principles enunciated by Keynes (outlined in chapter three), or the criteria devised for the successful deployment of stimulatory public works established by E.R. Walker in the 1930s (see chapter four). Therefore, in spite of the recessionary economic circumstances encountered, the Keating Government, like the Hawke Government before it, did not seriously consider that the private sector required significant fiscal stimulatory intervention. The Keating Government's subsequent preoccupation with increasing the level of national savings through fiscal restraint also reinforced the Hawke Government's earlier market liberal preoccupation with increasing public sector savings in accordance with the twin deficits theory.

In assessing the overall macroeconomic policy record of the period of the Hawke and Keating Governments, acknowledgement was made within this chapter of the efforts made by these governments to shield society's most disadvantaged from the inequitable consequences of market

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[187] *Ibid.*, p. 268.

distribution. It was argued that these efforts were made in accordance with the ALP's social democratic ideological objective, and included:

- the retention of a centrally regulated system of minimum occupational awards as a social safety net, alongside their broader reforms of the nation's industrial relations system;
- targeted fiscal expenditures towards disadvantaged groups; and
- their robust rhetorical critiques of the perceived right-wing ideological excesses of the Liberal/National Coalition parties under the successive leaderships of John Hewson (1990-1994), and John Howard (1995-2007).

Notwithstanding the Hawke and Keating Governments' resistance to the more strident forms of market liberal ideology, the overall assessment of the Hawke and Keating Governments' broadly non-interventionist macroeconomic policies concludes that these governments failed to facilitate and maintain the prosperous conditions of low inflationary full employment, from which the ALP's traditional working constituents directly benefit. It has been established that any discernible improvement in broad macroeconomic variables which were evident by the late-1980s – and particularly the discernible improvement in the rate of unemployment – were subverted by the deep and long-lasting recession of the early-1990s; the primary legacy of which was a stubbornly high level of unemployment, not significantly reduced for the remainder of the Keating Government's period in office. Only inflation was comprehensively defeated during this period. However, even this achievement relied on the deployment of severe levels of both fiscal and monetary policy restraints - a strategy the Hawke Government had earlier criticised the Fraser Government for having implemented.

The macroeconomic experience of the Hawke and Keating Governments reveals the risks social democratic governments confront when they place too great a trust in the resource distribution of the private sector to determine the pace of economic activity, the level of investment and employment, and ultimately the living standards of workers, their dependents and society's most disadvantaged. Although the Hawke and Keating Governments believed that they were implementing those macroeconomic policies which most feasibly upheld the long-term material interests of the ALP's traditional working constituents, a large amount of evidence exists to suggest that these governments' faith in market liberal policies to deliver full employment prosperity was misplaced.

The social democratic critiques of the Hawke and Keating Governments' macroeconomic policy record were included at the end of this chapter in order to establish some of the contemporary critiques targeted against the market liberal policies of fiscal and monetary policy restraints and financial market deregulation. However, these critiques were also included to establish that by the mid-1990s debates about how to restore full employment had begun to move beyond the existing macroeconomic debate between Keynesianism and market liberalism. For while these social democratic critics continued to advocate for the policies of Keynesian demand management, they also believed that the sustainable restoration of full employment required a significant expansion to public sector employment, and an interventionist industry policy.

The remaining two chapters in this thesis assess the macroeconomic policy experience of the Rudd Government (2007-2010). Chapter nine begins this assessment by establishing the interventionist role for government envisaged by both Kevin Rudd and Treasurer Wayne Swan at the time the Rudd Government took office in November 2007. Chapter ten then argues that this ideological predisposition informed much of the Rudd Government's subsequent response to the Global Financial Crisis - which adversely affected the Australian economy the following year. It is established in chapter ten that with the support of Treasury, and key international inter-governmental institutions, the Rudd Government responded to this crisis with a concerted program of Keynesian fiscal stimulus, and a series of interventionist measures within financial markets, designed to stimulate economic activity in the private sector and ensure adequate liquidity in financial markets. Chapter ten also assesses:

- how closely the Rudd Government's response was to Keynes' own policy prescriptions, and the the criteria for the effective deployment of stimulatory public works programs established by E.R. Walker in the 1930s;
- how successfully the Rudd Government managed to maintain broad measures of macroeconomic stability and prosperity amidst the global economic crisis; and
- the legacy of this record for future federal Labor governments interested in maintaining macroeconomic stability and prosperity through Keynesian policies.

CHAPTER NINE
THE RUDD GOVERNMENT'S IDEOLOGICAL BELIEF IN GOVERNMENT INTERVENTION

Having suffered a significant defeat at the 1996 federal election under the leadership of Prime Minister Keating,[1] the federal ALP went on to suffer three further successive electoral defeats during the long period of the Howard Government (1996-2007).[2] During this period several prominent shadow ministers of the Labor Opposition published substantive works on public policy, many of which included their policy priorities for a future federal Labor government.[3] As established below, many of the ideas advocated within these publications were reflected in the policies taken to the 2007 federal election by the ALP, at which the Labor Party claimed a decisive victory under the leadership of Kevin Rudd (2006-2010, 2013).[4]

While the scale of this electoral victory was substantial, and was underpinned by many contributing factors, for the purposes of this thesis one core ideological aspect of the federal ALP's policies under Rudd's leadership is analysed: the interventionist role envisaged for government in economic policy. In establishing this case, this chapter argues that Rudd's 2007 election-time emphasis on his conservative fiscal credentials constituted more of a tactical election sales pitch, than a core philosophical principle. This chapter argues that alternatively both Rudd and Treasurer Wayne Swan (2007-2013) believed that the next major economic reform agenda for the Commonwealth Government did not reside in further pro-market reforms – like those previously introduced by the Hawke and Keating Governments, and outlined in the previous two chapters - but should instead centre around targeted public sector investments in those areas which they believed drove future productivity growth: economic infrastructure, and human capital. This chapter therefore establishes that under Rudd's leadership the federal ALP advocated and then implemented increased public sector investments in economic infrastructure, most notably through the establishment of the National Broadband Network (NBN), and in human capital through increased expenditures on education funding, and the alleviation of skills shortages through targeted investments in vocational training. In this manner, this chapter prosecutes the argument that under Rudd's leadership, the federal ALP

[1] The ALP received just 46.37% of the nation-wide two-party preferred vote at the 1996 federal election, and won just 49 of the 148 seats in the House of Representatives. See: AEC, 'House of Representatives – Two Party Preferred Results 1949 – Present'; AEC, *Electoral Pocketbook 2011*.

[2] Although the ALP were only narrowly defeated at both the 1998 and 2001 federal elections under the leadership of Kim Beazley (1996-2001, 2005-2006), they were soundly defeated at the 2004 federal election under the leadership of Mark Latham (2003-2005). See: AEC, 'House of Representatives – Two Party Preferred Results 1949 – Present'; AEC, *Electoral Pocketbook 2011*.

[3] Examples of the contributions made by senior shadow ministers, not featured within the analysis of this chapter, include: Mark Latham 1998, *Civilising Global Capital: New thinking for Australian Labor*, Allen & Unwin, St Leonards; Mark Latham 2003, *From the Suburbs: Building a Nation from our Neighbourhoods*, Pluto Press, Annandale; Lindsay Tanner 2003, *Crowded Lives*, Pluto Press, North Melbourne.

[4] The ALP received 52.7% of the two-party preferred vote at the 2007 federal election, and won 83 of the 150 seats in the House of Representatives. See: AEC, 'House of Representatives – Two Party Preferred Results 1949 – Present'; AEC, *Electoral Pocketbook 2011*.

pursued an economic reform agenda centred around the type of public sector investments market liberal economists viscerally oppose.

This ideological belief in an interventionist role for government under Rudd's leadership, through targeted investments in the drivers of productivity growth, is analysed for two interrelated reasons:

i. because it underpinned the federal ALP's understanding of how the power of the state should be used to directly affect an improvement in the living standards of the ALP's working constituents and their dependents; and
ii. because this ideological predisposition informed much of the Rudd Government's subsequent Keynesian response to the Global Financial Crisis (GFC), implemented from the latter-half of 2008 (and analysed in chapter ten).

Before this chapter enters into this analysis, a note of explanation is required. The change in the leadership of the FPLP to Julia Gillard, which occurred in June 2010 during the Rudd Government's first term, and the policies of the subsequent Gillard Government (2010-2013) are not analysed in great detail within this chapter or the next. Likewise the reversion back to Kevin Rudd as leader of the FPLP and Prime Minister, prior to the 2013 federal election, and the policies the newly-formed Rudd Government (2013) took to this election, are also not anlaysed within this thesis.[5] This decision has been made because in so far as macroeconomic policy-making is concerned, the key policy decisions and events of this period occurred during Rudd's first period of leadership (2006-2010). However, with regard to the key investments made in both economic infrastructure and human capital, which commenced during the period of the first Rudd Government, but continued under the Gillard Government, the subsequent progress and changes made to these investments are documented within this chapter. This includes, for instance, the changes made to the NBN telecommunications project, and the investments made in human capital expenditures, particularly with regard to the Gillard Government's extensive proposed reform of schools funding.

The opening sections of this chapter establish Kevin Rudd and Wayne Swan's critique of market liberalism, and the economic reform agenda they envisaged through targeted investments in the drivers of productivity growth: economic infrastructure and human capital. This section is then followed by an explanation of Kevin Rudd's seemingly contradictory rhetoric in the lead-up to the 2007 federal election, in which he emphasised his conservative fiscal credentials. It is argued in this section that while Rudd sought to obtain electoral advantage by presenting himself as an economic conservative,

[5] For an insightful account – documented in both a television documentary and published book - of the political and policy dynamics which formed the backdrop to these successful leadership challenges, as well as the internal machinations which occurred within the federal ALP at this time, see: Sarah Ferguson 2015, *The Killing Season: A Real Life Political Thriller*, ABC News Productions; Sarah Ferguson & Patricia Drum 2016, *The Killing Season: Uncut*, Melbourne University Press, Carlton.

his party's plan to rid the Australian economy of its inflationary capacity constraints actually relied on increased public sector expenditures, not a market liberal reduction in the size of government.

This chapter concludes with brief examples of the investments the Rudd and Gillard Governments subsequently made in the areas of economic infrastructure and human capital, and also briefly assesses the industrial relations reforms the Rudd Government introduced through the *Fair Work Act* 2009. These latter reforms are assessed for two purposes:

- to establish the continuity which existed with the efforts made by the Keating Government to improve the living standards of low income wage earners through the provision of a comprehensive award safety net, which in the case of the Rudd Government had been temporarily dismantled by their Howard Government predecessors; and
- to assess the Rudd Government's policy strategy designed to restrain the type of inflationary wage pressures which had previously presented significant challenges to the Chifley, Whitlam and Hawke Governments, and which again threatened the national economy because of the capacity constraints encountered at the time the Rudd Government was elected.

The next section begins with an analysis of Kevin Rudd and Wayne Swan's critique of market liberalism, and the economic reform agenda they envisaged.

An Interventionist Role for Government in Economic Policy

In analysing Kevin Rudd's long-standing ideological adherence to an interventionist role for government in economic policy, it is useful to first identify Rudd's acceptance of the role he believed ideology still had in modern Australian politics. For Rudd, claims that modern technocratic politics had surpassed ideological disputation signaled the implicit triumph of market liberalism, the excesses of which he objected to. For instance, within his maiden speech to Parliament, Rudd criticised the notion that ideology was dead, that the politics of the major parties had converged at 'some mythical place called the "Centre"', and made the point that this compromised position operated around the 'triumph of neoclassical economics'. Rudd alternatively believed that, 'there remains a fundamental divide between our two parties on the proper role of the state in a modern economy and society'. He argued that the Howard Government upheld a view that 'holds that markets rather than governments are better determinants of not only efficiency but also equity', and Rudd argued that this position was based upon the economics and philosophising of two of the market liberal economists analysed within chapter two: Milton Friedman and Friedrich von Hayek.[6]

Rudd objected to the assumptions which underpinned the work of these economists, as evidenced within a speech Rudd made just weeks before his election to the leadership of the FPLP in December

[6] Kevin Rudd 1998, Maiden Speech, 11 November, House, *CPD*, pp. 162-3.

2006. Here Rudd criticised Hayek's economic and social philosophy. He objected to Hayek's notion that the 'primitive' values of altruism and social obligation constituted a barrier to the efficient functioning of a market economy, as well as Hayek's suggestion that these values should be discarded by individuals under the competitive pressures of unfettered markets.[7] As an alternative, Rudd argued that the market functioned more efficiently when the 'Labor values of equity, sustainability and compassion' were applied.[8] 'Properly constructed, these latter values are also market-enhancing rather than market-detracting', and prevented 'market capitalism from tearing itself apart'. Rudd thereby argued that it had often fallen to social democratic governments to 'rescue capitalism from itself',[9] and that this involved 'unapologetically ... an active role for government'. Rudd accepted that, 'Competitive markets are ... generally efficient generators of economic wealth', and so he conceded that '[t]hey must therefore have a central place in the management of the economy'.[10] However, he concluded that the ALP has:

> ... come from a tradition that says the free market has its limitations. There are such things as market failure. There are such things as public goods, like education and like health. There are also fundamental protections for human beings and families, who should be protected from the market.[11]

In accordance with this ideological perspective, Rudd believed that the state should provide adequate education and health services, environmental regulation, and a social safety net for 'those who, through no fault of their own, cannot look after themselves'.[12]

> These state functions do not interfere with the market; they support the market. But they have their origins in the view that the market is designed for human beings, not vice versa, and this remains the fundamental premise that separates social democrats from neo-liberals [or market liberals].[13]

Rudd championed the state's role in providing public goods both 'as an investment in human capital capable of enhancing the market economy', and as a means for individual social improvement.[14] Adequate investment in public sector infrastructure was also considered important, as it was for Rudd's senior parliamentary colleagues, who dismissed the widespread aversion to increased public sector debt, often needed to finance infrastructure projects.[15] Many of these principles were combined at the ALP's 2007 National Conference to form the following phrase in the Party's reformed economic platform: that under a federal Labor government the benefits of economic growth would be shared 'through a fair tax system, quality public services, equal access to educational opportunities, and a

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[7] Kevin Rudd 2006, 'What's Wrong with the Right: A Social Democratic Response to the Neo-Liberals at Home and the Neo-Conservatives Abroad', an address to the Centre for Independent Studies, Sydney, 16 November, http://parlinfo.aph.gov.au/parlInfo/download/media/pressrel/BBHL6/upload_binary/bbhl64.pdf;fileType%3Dapplication%2Fpdf, accessed: 22 July 2010, pp. 5-7.

[8] Kevin Rudd 2006, Matters of Public Importance: Economy, 5 December, House, *CPD*, p. 43.
Wayne Swan echoed these sentiments, see: Wayne Swan 2007, 'Battle of ideas is clear', *Australian*, 5 January, p. 10.

[9] Rudd, 'What's Wrong with the Right', an address to the Centre for Independent Studies, Sydney, 16 November 2006, pp. 13, 16.

[10] Rudd, Maiden Speech, House, *CPD*, 11 November 1998, p. 163.

[11] Rudd, Matters of Public Importance: Economy, House, *CPD*, 5 December 2006, p. 43.

[12] Rudd, Maiden Speech, House, *CPD*, 11 November 1998, p. 163.

[13] Kevin Rudd 2006, 'Howard's Brutopia: The Battle of Ideas in Australian Politics', *The Monthly*, No. 18, November, p. 50.

[14] Rudd, 'What's Wrong with the Right', an address to the Centre for Independent Studies, Sydney, 16 November 2006, p. 16.

[15] See: Lindsay Tanner 1999, *Open Australia*, Pluto Press, Annandale, pp. 129-31.

decent social safety net'.[16] In summation, Rudd believed that it fell to the state to regulate capitalism in order to make it both more efficient and more equitable, a point he correctly acknowledged Keynes for having recognised, and as having attempted to rectify.[17]

These broad principles in support of government economic intervention were also emphasised by Wayne Swan, prior to the election of the Rudd Government. Swan's most notable contribution in this respect was made in his published work, *Postcode: the splintering of a nation* (2005). Within this book, Swan outlined his vision for how a future federal Labor government could assist in alleviating the spatial and class dimensions of economic inequality and poverty. It is notable that throughout *Postcode*, Swan constantly reinforced the ALP's social democratic objective. He variously described that: 'Fighting poverty and inequality … [constitutes] a particular passion for Labor members and supporters', and he explained that: 'For most Labor MPs [Members of Parliament] it's the very reason why we entered politics … it's the distant rumble over the horizon we're always marching towards'.[18] Elsewhere Swan described that: 'For Labor front benchers … [there is] one over-riding aim – to help people lift themselves up, give them the chance to make the most of their talents and add to the sum total of happiness in our community'.[19] In addition to this clear but broad adherence to the Party's long-held social democratic objective, Swan also expressed an acute understanding of how this objective had particular resonance for those efforts designed to maintain macroeconomic stability and avoid recessions, which he identified as having disproportionately harmed the ALP's working constituents:

> My experiences in life, watching my parents battle to buy a home and raise a family, and then watching many of my constituents do the same, have convinced me that creating economic security for working people and avoiding recessions is the number one priority for the ALP. When recessions come, ordinary Australian families are the first to suffer.[20]

Like Chifley, Swan recognised the centrality of employment to the Labor Party's mission: 'A decent job paying fair rates is the best defence against poverty and a springboard for a better life. No amount of compensation can match the dignity work brings'.[21]

In accordance with the views of Rudd and the bulk of his ALP predecessors (whose views have been canvassed throughout this thesis), Swan accepted the legitimate role the market capitalist economy has in efficiently distributing resources. However, like Rudd and many of his ALP predecessors, Swan also emphasised that there were significant limits to the public goods that markets can deliver. There existed market failures. Benefits which could otherwise flow from investments in economic infrastructure and human capital – through investments in education, health, child care services, and

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[16] Australian Labor Party 2007, *National Platform and Constitution*, ALP, Canberra, p. 11; Sid Marris 2007, 'Left seizes on Rudd's "activist" vow', *Weekend Australian*, 28-29 April, p. 7.
[17] See: Rudd, Matters of Public Importance: Economy, House, *CPD*, 5 December 2006, p. 43.
[18] Wayne Swan 2005, *Postcode: the splintering of a nation*, Pluto Press, North Melbourne, p. ix.
[19] *Ibid*., p. x.
[20] *Ibid*., p. xi.
[21] *Ibid*., p. 181.

labour market programs – were identified by Swan as falling outside of the narrow short-term profit concerns of the private sector. In circumstances where these investments were not made, moreover, Swan argued that huge costs were endured in productivity and economic growth forgone, and increased levels of material inequality and poverty. Swan identified that the absence of sufficient investments in key areas of social and economic infrastructure, and the absence of a robust social safety net, had had particularly adverse consequences in the US. However, Swan was also concerned that the Howard Government's skewed policy priorities, which he argued further entrenched the advantages of the already wealthy, were in danger of creating a two-tier nation of 'haves' and 'have nots' in Australia. Indeed, Swan identified that severe costs were already being experienced through economic inefficiencies, increased social inequalities and the dismantling of social cohesion.[22]

The policies Swan envisaged to uphold the ALP's social democratic objective were underpinned by what he described as the policy foundations of the 'Australian Way'. These included: '[t]he idea of reward for effort through the opportunity to secure a well-paying job'; 'a minimum wage and collective rights in the workplace; universal education; universal health services; and a modest safety net'.[23] Swan also championed the development of national productivity growth, through targeted increases in government investments in human capital and social services. Swan advocated for a major consolidation and co-operative administration of the social security system, and the services provided for: early learning and child care; health; education; employment and training; and housing. This consolidation of public services was sought in order to provide individuals, families, and communities with the resources they needed to rectify evident skills shortages, and provide a feasible path out of welfare dependence.[24] The amelioration of severe effective marginal tax rates was also advocated by Swan to increase the incentives for workforce participation.[25]

In summary, the above passages have established that both Kevin Rudd and Wayne Swan came into government in November 2007 with a shared vision that the next round of Commonwealth Government economic reform should not be constituted of a further round of pro-market, deregulatory reforms, designed to increase economic efficiency through the extension of market competition. Instead, both Rudd and Swan envisaged that the next round of economic reform should appropriately centre around increased public sector investments in what they perceived to be the drivers of productivity growth: economic infrastructure and human capital. This conclusion, however, sits uncomfortably with much of Rudd's rhetoric in the lead-up to the 2007 federal election, which emphasised his conservative fiscal credentials.

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[22] *Ibid*., pp. xi-xiv, 4-6, 13-22, 63, 69-71, 73-5, 78-9, 81-3, 86, 88-96, 103-4, 127, 141-55, 159-60, 168-71, 193-4, 201-6.
[23] *Ibid*., pp. 15-6, 180.
[24] *Ibid*., pp. 49-51, 87, 170-1, 178-83, 188-90, 190-221, 237-40.
[25] *Ibid*., pp. 78, 123-6, 184-90, 195. Severe effective marginal tax rates applied to many low-to-middle income earners and welfare beneficiaries in circumstances where increased earnings were effectively taxed at very high rates – in some cases at rates in excess of 80% – because of the combination of higher income tax thresholds coinciding with the means tests applied to various social security and family benefit payments.

The following section addresses this apparent anomaly, and concludes that when subjected to closer examination, Rudd's conservative economic rhetoric actually focused on a critique of the Howard Government's alleged fiscal profligacy, the advocated solution for which paradoxically centred on his long-standing advocacy for increased public sector expenditures on economic infrastructure and human capital. The important point made in this analysis is that the federal ALP's critique of the Howard Government's alleged fiscal profligacy linked the succession of interest rate increases, made by the RBA before the 2007 federal election, with the Howard Government's negligence in not having invested in the type of productivity-enhancing infrastructure and human capital investments, which they argued would have alleviated many of the national economy's inflationary capacity constraints. As the following passages establish, therefore, while Rudd sought to obtain electoral advantage by presenting himself as an economic conservative, his party's plan to rid the Australian economy of its inflationary capacity constraints relied on increased public sector expenditures, not a market liberal reduction in the size of government.

The 2007 Federal Election

The Rhetoric of Economic Conservatism

In the period leading up to the 2007 federal election, there existed a widely-held perception within the electorate and media commentariat that the ALP was electorally vulnerable on the issue of economic management. Rudd conveyed his understanding of this vulnerability in a metaphor he shared with journalist Peter Hartcher. Within his metaphor Rudd represented the electoral tests presented by the Australian people to an aspiring government as being like the layers of a babushka doll, in which each layer represented a separate test of diminishing importance. The outer layer represented a party's national security credentials. The second layer represented a party's economic management credentials – and more specifically perceptions of job security.[26] Within his 2007 *Quarterly Essay* on that year's federal election, Hartcher argued that it had been the Coalition which had claimed greater credit with the Australian electorate on these two issues, while the ALP maintained greater credibility on issues concerned with fairness, equity, and public service delivery, all of which were considered by both Hartcher and Rudd to have been of lesser electoral importance to the Australian public.[27]

Given Rudd's perception of the central importance he believed the electorate placed upon a political party's economic management credentials, there existed a strong incentive for Rudd to strongly market

[26] Peter Hartcher 2007, 'Bipolar Nation: How to win the 2007 election', *Quarterly Essay*, Issue 25, p. 11.

[27] *Ibid.*, pp. 10-3. Hartcher also argued (pp. 23-40) that although the Hawke and Keating Governments' economic reforms had been largely responsible for the Australian economy's subsequent economic expansion, the federal ALP had subsequently refused to embrace this economic reform legacy - because of the widespread perceptions of Paul Keating's electoral unpopularity - and as a consequence Hartcher argued that the political credit for this extended period of economic prosperity had instead been handed to the Howard Government.

This occurrence, and the electoral vulnerability it brought the federal ALP, was also identified by the former economic adviser to Prime Minister Rudd, Andrew Charlton. He described the federal ALP's reluctance to embrace the Hawke and Keating Governments' economic reforming mantle, particularly during the leadership of Mark Latham (2003-2005), as having been both politically short-sighted and cowardly. See: Andrew Charlton 2007, *Ozonomics: Inside the myth of Australia's economic superheroes*, Random House, North Sydney, pp. 167-70.

his desire to run a prudent fiscal policy. There also existed a strong incentive for the federal ALP to comply with other accepted principles of market liberal macroeconomic management, such as the structure for monetary policy established under the Hawke and Keating Governments. Under Rudd's leadership, the federal ALP accepted both the independent policy role established for the RBA, and the Bank's formal commitment to ensure an average inflation rate of 2-3 percent over the course of the economic cycle. This commitment was enshrined within the Rudd Government's 'Statement on the Conduct of Monetary Policy'.[28]

Most prominently, during the 2007 federal election year, Kevin Rudd also marketed himself as an 'economic [fiscal] conservative'.[29] Although the television advertisement featuring this line went on to explain that Rudd was committed: 'If elected Prime Minister, ... to balancing the budget over the economic cycle'[30] – a policy consistent with Keynesian fiscal principles - Rudd later clarified that his claim to economic conservatism was predicated upon his 'fundamental belief in budget surpluses', which he claimed had been manifest in his earlier work as a senior ALP advisor and senior bureaucrat during the period of the Queensland Goss Labor Government (1989-1996).[31] In addition, during the Howard Government's final term (2004-2007), Rudd's senior parliamentary colleagues were also vocal advocates for fiscal restraint. They stated that the battle between Labor and Liberal was no longer concerned with the size of government. Instead, 'The days of big government are over. We want to improve government, not expand it';[32] and most succinctly, 'We won't run deficit budgets'.[33]

Under his leadership, however, Rudd differentiated the federal ALP's approach to fiscal policy from that of the Howard Government, in accordance with his and Swan's ideological inclinations towards interventionist solutions to public policy problems.

Anti-Inflationary Public Sector Investment Policy

Part of the electoral motivation for describing himself as fiscally conservative involved the characterisation of the Howard Government as having been alternatively fiscally profligate. However, upon examination of the specific allegations made by Rudd and his senior colleagues, it becomes clear that these criticisms were not founded upon a market liberal concern for the size of budget expenditures, or the size of the Commonwealth Government's budget deficit, but were concerned with

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[28] Wayne Swan & Glen Stevens 2007, Statement on the Conduct of Monetary Policy, 6 December, http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2007/003.htm&pageID=003&min=wms&Year=2007&DocType=0#Attachment, accessed: 21 January 2011.

[29] LaborTV 2007, 'Kevin Rudd: Economic Conservative', transcript, http://pandora.nla.gov.au/pan/22093/20071124-0102/www.alp.org.au/labortv/TFmNiVCncL.html, accessed: 26 July 2010.

[30] *Ibid*.

[31] ABC Radio 2007, 'Rudd discusses Labor's election policies', interview with Chris Uhlmann, *AM*, 23 November, transcript, http://www.abc.net.au/am/content/2007/s2098784.htm, accessed: 16 February 2011.

[32] Lindsay Tanner 2007, address to the National Press Club, Canberra, 8 August, http://www.alp.org.au/media/0807/spefin080.php, accessed: 9 April 2008.

[33] Wayne Swan 2005, 'Labor's Economic Agenda: Creating Wealth For The Common Good', *Sydney Papers*, Vol. 17, No. 1, Summer 2005, p. 64.

the composition of government spending. Specifically, Rudd was concerned about the paucity of public investment. He argued that the Howard Government had wasted $314 billion of the $334 billion revenue windfall resulting from the commodities boom, on 'unsustainable short-term consumption, not productive long-term investment'.[34] More importantly, Rudd also argued that the strong economic growth which flowed from the resources sector was itself constrained by the capacity constraints caused by burgeoning skills shortages and infrastructure bottlenecks, which had resulted from the Howard Government's negligent underinvestment in crucial components of economic and social infrastructure.[35] Rudd emphasised that this dearth of public investment, and the capacity constraints which were thereby created, had been brought to the Howard Government's attention in 20 separate warnings received from the RBA. Rudd also argued that it had been these capacity constraints, combined with the Howard Government's profligate and wasteful consumption expenditures, which had placed upward pressures upon inflation, and which had caused the RBA to increase interest rates on 10 uninterrupted occasions prior to the 2007 federal election.[36]

The crucial point about this critique of the Howard Government's alleged fiscal profligacy, was that the federal ALP's proposed solutions involved increased public sector investments. This represented a clear and unambiguous rejection of the market liberal crowding out theory, and was reflected in many of the targets Rudd set for the improvement of productivity growth[37] once in office: increased education investments, including in the areas of innovation and skills; and increased infrastructure investments. Indeed, apart from his advocacy for the repeal of unnecessary business regulations, Rudd's agenda for achieving increased productivity growth involved increases in public expenditures, not a market liberal agenda for public sector withdrawal.[38]

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[34] Kevin Rudd 2009, launch of 'The Great Crash' by Ross Garnaut, Canberra, 22 October, http://www.pm.gov.au/node/6286, accessed: 24 June 2010.
See also: Lindsay Tanner 2007, 'Labor is the party of fiscal prudence', *Australian*, 2 February, p. 16.
[35] Kevin Rudd 2007, 'Building Long Term Prosperity', address to the Business Council of Australia, Melbourne, 1 February, http://pandora.nla.gov.au/pan/63745/20070326-0000/eherald.alp.org.au/download/now/070201_sp_bca_melb.pdf, accessed: 23 July 2010, pp. 6-8; Kevin Rudd 2008, 'Building Australia's Economic Future', address to Lord Mayor's Business Breakfast, Perth, 21 January, http://pandora.nla.gov.au/pan/79983/20080212-1502/www.pm.gov.au/media/Speech/2008/speech_0032.html, accessed: 23 July 2010.
[36] Kevin Rudd 2007, campaign launch speech, Brisbane, 14 November, http://www.alp.org.au/media/1107/speloo140.php, accessed: 17 November 2007; Kevin Rudd, 'Building Australia's Economic Future', address to Lord Mayor's Business Breakfast, Perth, 21 January 2008.
For a collation of the RBA's 20 separate warnings, see: Wayne Swan 2007, 'Howard And Costello Ignore 20 Warnings From Reserve Bank On Skills And Capacity Constraints', Media Statement, 24 October, http://web.archive.org/web/20071101092904/www.alp.org.au/media/1007/mstre242.php, accessed: 11 January 2011.
See also: Wayne Swan 2007, 'Costello's Stunning Message To Families: Be Grateful For 10 Straight Interest Rate Rises', Media Statement, 18 November, http://www.alp.org.au/media/1107/mstre180.php, accessed: 23 November 2007.
[37] The federal ALP had identified that the nation's productivity growth rate had declined from 3.2% in the five years to 1998-99, to just 1.5% for the period 2000-2007, and no growth under the Howard Government's final budgetary year, 2007-08. See: Rudd, 'Building Long Term Prosperity', address to the Business Council of Australia, 1 February 2007, p. 4; Wayne Swan 2007, 'Meeting the Challenge: Labor's economic vision for the future', speech to the Sydney Institute, 3 April, http://pandora.nla.gov.au/pan/63745/20070810-1219/eherald.alp.org.au/download/now/070403_swan_speech_to_sydney_institute___meeting_the_challenge.pdf, accessed: 8 July 2010, p. 6; Kevin Rudd 2007, Appropriation Bill (No. 1) 2007-2008 Second Reading (Budget Address in Reply), 10 May, House, *CPD*, p. 130.
[38] See: Kevin Rudd 2008, 'Towards a Productivity Revolution: A New Agenda of Micro-Economic Reform for Australia', address to the Australian/Melbourne Institute New Agenda for Prosperity Conference, University of Melbourne, 27 March,

It was in this context that the Rudd Government's cost cutting functions of its Expenditure Review Committee were justified. Expenditure savings were envisaged to remove inefficient and non-essential components of public expenditures. Savings of $33 billion over the four-year forward estimates period were earmarked for this purpose within the Rudd Government's first 2008-09 Budget.[39] Moreover, throughout the Rudd Government's period in office, savings measures were presented as contributing to a more efficient public sector, and as having created room for 'increase[d] investment in productivity drivers like education, skills and infrastructure'.[40] This was the Rudd Government's solution to the 'inflation genie' that it claimed to have inherited from the Howard Government - inflation having reached 4.2 percent in the March quarter 2008.[41] Investments in economic infrastructure and human capital formed the centre-piece of the Rudd Government's January 2008 five-point plan to fight inflation.[42] Rudd was not seeking to cut the size of Commonwealth Government budget expenditures. In fact his government's ambition was to increase the productive capacity of the national economy through increased public sector investments.

In pursuing this investment agenda, Rudd was sensitive towards the business community's concerns about the burgeoning public infrastructure shortfall which he claimed had developed under the Howard Government.[43] The Rudd Government variously argued that: infrastructure investment ranked a lowly 20th out of 25 OECD nations as a proportion of GDP; that this dearth of infrastructure investment had developed a $6.4 billion annual shortfall in production output;[44] and as a specific example Rudd emphasised that broadband speeds were 'lagging at 27th among all developed

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http://pandora.nla.gov.au/pan/79983/20080512-0000/www.pm.gov.au/media/Speech/2008/speech_0148.html, accessed: 1 February 2011.

[39] Lindsay Tanner 2008, 'Saving Now to Invest in the Future', Media Release, 13 May, http://pandora.nla.gov.au/pan/80095/20100726-0801/www.financeminister.gov.au/media/2008/mr_152008.html, accessed: 1 March 2011.

[40] Lindsay Tanner 2007, 'Labor's $3 Billion Savings Plan', Media Statement, 2 March, http://www.alp.org.au/media/0307/msfin020.php, accessed: 9 April 2008.
See also: Lindsay Tanner & Penny Wong 2007, 'Labor's $3 Billion Savings Plan', Media Statement, 8 August, http://www.alp.org.au/media/0807/msfinpaa080.php, accessed: 9 April 2008; Lindsay Tanner 2008, 'Government details initial round of savings measures to assist inflation', Media Release, 6 February, http://www.financeminister.gov.au/media/2008/mr_062008.html, accessed: 23 July 2010; Lindsay Tanner 2009, address to the National Press Club of Australia, Canberra, 11 March, http://www.financeminister.gov.au/speeches/2009/sp_20090311.html, accessed: 9 April 2009; Lindsay Tanner 2009, 'Budget Delivers Over $1 Billion in Efficiencies from Government Operations', Media Release, 12 May, http://www.financeminister.gov.au/media/2009/mr_282009.html, accessed: 24 July 2010; Lindsay Tanner 2010, 'Budget Delivers More than $1.2 Billion in Efficiencies from Government Operations', Media Release, 11 May, http://www.financeminister.gov.au/media/2010/mr_192010.html, accessed: 24 July 2010; Jim Chalmers 2013, *Glory Daze: How a World-Beating Nation Got So Down On Itself*, Melbourne University Press, Carlton, pp. 148-9.

[41] Lindsay Tanner 2008, address to the National Press Club, Canberra, 6 February, http://www.financeminister.gov.au/speeches/2008/sp_20080206.html, accessed: 23 July 2010; Wayne Swan 2008, Budget Speech 2008-09, 13 May, http://www.budget.gov.au/2008-09/content/speech/download/speech.pdf, accessed: 17 July 2010, p. 3.

[42] See: Kevin Rudd, 'Building Australia's Economic Future', address to Lord Mayor's Business Breakfast, Perth, 21 January 2008.

[43] Rudd, 'Building Long Term Prosperity', address to the Business Council of Australia, 1 February 2007, p. 9.
See also: Treasury 2008, Statement 4: Boosting Australia's Productive Capacity : The Role of Infrastructure and Skills, *2008-09 Budget Paper No. 1: Strategy and Outlook*, Commonwealth of Australia, Canberra, p. 4-9.

[44] Anthony Albanese 2008, Infrastructure Australia Bill 2008: Second Reading, 21 February, House, *CPD*, p. 1094.

economies'.[45] The following sections briefly document the key areas of investment in economic infrastructure and human capital that the Rudd and Gillard Governments pursued in office.

Public Investment in Economic Infrastructure and Human Capital

Infrastructure Australia

Part of the proposed solution to the nation's infrastructure shortfall included the creation of a 12-member Commonwealth Government statutory advisory council, Infrastructure Australia. This statutory organisation was designated responsibility to 'coordinate, plan and deliver national projects and also [to] undertake the first national audit of Australian infrastructure'. The latter task involved consultation with state and territory governments, the private sector, trade unions, and the wider community, to establish Infrastructure Priority Lists of feasible projects, based upon strict cost-benefit analyses and the most appropriate mix of public and private sector financing options. At a fundamental level, Infrastructure Australia was created to alleviate the infrastructure bottlenecks which had developed, through an increase in the provision of public infrastructure expenditures.[46] This ambition was significantly realised. Julia Gillard has claimed that by the time of her government's last budget in 2013-14, the combination of private and public sector investments in infrastructure had increased by 42 percent as compared with the last year of the Howard Government.[47]

National Broadband Network (NBN)

One primary example of the Rudd Government's expansion of public investment in economic infrastructure was the establishment of the NBN, created to both consolidate the nation's telecommunications infrastructure, and significantly upgrade its carrying capacity. On this latter point, the inadequate broadband internet speeds Rudd had identified under the Howard Government (see above), underpinned his ambition for public sector intervention to rectify what he, and his parliamentary colleagues, identified as a stark example of 'market failure'.[48] The NBN therefore constituted an important component of 'nation building infrastructure',[49] the twenty first century equivalent of the 'railway network', or the 'arteries of the new economy'.[50]

Under Rudd's leadership, the federal ALP initially proposed to establish, in partnership with a successful private sector tender, a 'Fibre To The Node' (FTTN) network, envisaged to deliver speeds

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[45] Kevin Rudd 2008, 'Preparing Australia for the Challenges of the Future', address to the Western Australian Chamber of Commerce and Industry Breakfast, Perth, 7 May, http://pandora.nla.gov.au/pan/79983/20081112-0133/www.pm.gov.au/media/Speech/2008/speech_0237.html, accessed 9 July 2010.

[46] Rudd, 'Building Long Term Prosperity', address to the Business Council of Australia, 1 February 2007, p. 10; *Infrastructure Australia Act* 2008, Section 5; Albanese, Infrastructure Australia Bill 2008: Second Reading, House, *CPD*, 21 February 2008, p. 1096.

[47] Julia Gillard 2014, *Julia Gillard: My Story*, Knopf, North Sydney, p. 325.

[48] See: Carol Johnson 2011, 'The Politics of Broadband: Labor and New Information Technology from Hawke to Gillard', *Australian Journal of Political Science*, Vol. 46, No. 1, March, p. 8.

[49] See: Kevin Rudd, Wayne Swan, Lindsay Tanner & Stephen Conroy 2009, joint press conference, Parliament House, Canberra, 7 April, transcript, http://www.pm.gov.au/media/Interview/2009/interview_0905.cfm, accessed: 9 April 2009.

[50] Rudd, Appropriation Bill (No. 1) 2007-2008 Second Reading (Budget Address in Reply), House, *CPD*, 10 May 2007, p. 132.

of up to 12 megabits per second to 98 percent of the Australian population, and feature a public equity investment of $4.7 billion.[51] The federal ALP argued that increased fixed line bandwidth would increase the economy's efficiency and international competitiveness, provide particular efficiency benefits and cost savings for small business, and facilitate innovations in e-health and e-education – with particular benefits for remote communities.[52] In conjunction with Infrastructure Australia, the Rudd Government also recognised the 'once-in-a-generation opportunity' the establishment of the NBN presented to address the structural issue of competitive retail access to Telstra's existing telecommunications infrastructure, caused by the inherent conflict of interest involved in Telstra's existing integration of its wholesale and retail arms.[53]

During April 2009, amidst the deleveraging of financial markets associated with the GFC – which adversely affected the viability of the previously suitable tenders put forward for the construction of the FTTN network - the Rudd Government revised its proposed broadband technology rollout. Based upon the advice of an expert panel, and the exorbitant costs involved with the compulsory acquisition of Telstra's existing copper telecommunications network, the Rudd Government opted for the rollout of a superior 'Fibre To The Premise' (FTTP) technology, estimated to deliver speeds of up to 100 megabits per second.[54] The McKinsey & Company and KPMG implementation report subsequently extended the expected coverage of the network to 93 percent of the Australian population,[55] and the

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[51] ALP 2007, *New Directions for Communications: A Broadband Future for Australia – Building a National Broadband Network*, March, Canberra, pp. 3-4.

[52] ALP, *New Directions for Communications*, pp. 8-10; Kevin Rudd 2009, 'Realising our broadband future', speech to the University of New South Wales, Sydney, 10 December, http://www.pm.gov.au/node/6389, accessed: 24 June 2010; Johnson, 'The Politics of Broadband', pp. 9-10.
Minister for Finance, Lindsay Tanner (2007-2010), also cited research undertaken by the Australian Local Government Association to claim that inadequate broadband infrastructure had cost an estimated $3.2 billion and 33,000 jobs from regional areas per year. Lindsay Tanner 2009, speech to the Economic Development Australia Conference, Melbourne, 29 September, http://www.financeminister.gov.au/speeches/2009/sp_20090929.html, accessed: 24 June 2010.

[53] Infrastructure Australia 2008, *A Report to the Council of Australian Governments*, December, Australian Government, http://www.infrastructureaustralia.gov.au/files/A_Report_to_the_Council_of_Australian_Governments.pdf, accessed: 25 January 2011, pp. 19-21; Rudd, Swan, Tanner & Conroy, joint press conference, Parliament House, Canberra, 7 April 2009 transcript,; ABC Television 2009, 'Stephen Conroy joins Lateline, *Lateline*, 7 April, transcript, http://www.abc.net.au/lateline/content/2008/s2537664.htm, accessed: 13 March 2011.

[54] Telstra's earlier tender for the construction of the FTTN network was considered to have not complied with the requirements of the tender process established by the Rudd Government. In addition, legal advice received by the Rudd Government suggested that the construction of a FTTN network would require the compulsory acquisition of Telstra's existing copper telecommunications network, at a cost of at least $15-20 billion. Given this prohibitive cost, and the real threat that a telecommunications company might in future build a superior 'Fibre To The Premise' (FTTP) network in competition with the NBN in profitable urban areas, the Rudd Government considered that the NBN should instead construct its own superior FTTP network. For this proposal to be successful, however, the Rudd Government secured the agreement of Telstra for access to its pits and ducts and backhaul fibre network, needed for the NBN's rollout, as well as an agreement from Telstra and Optus that they would refrain from using their existing network infrastructure in competition with the NBN's FTTP network. See: ABC Television 2011, 'The National Broadband Network', *4 Corners*, presented by Stephen Long, 11 April, transcript, http://www.abc.net.au/4corners/content/2011/s3188338.htm, accessed: 30 June 2011; Kevin Rudd, Lindsay Tanner & Stephen Conroy 2010, 'Agreement between NBN Co and Telstra on the rollout of the National Broadband Network', Joint Media Release, 20 June, http://www.minister.dbcde.gov.au/media/media_releases/2010/060, accessed: 13 March 2011; NBN Co. Ltd 2011, 'NBN Co. and Optus Sign Binding Agreement', Media Release, 23 June, http://www.nbnco.com.au/content/dam/nbnco/media-releases/2011/nbn-co-and-optus-sign-binding-agreement-23-jun-11.pdf, accessed: 21 April 2017; ABC Television 2009, 'Kevin Rudd joins The 7.30 Report', *7.30 Report*, 7 April, transcript, http://www.abc.net.au/7.30/content/2009/s2537640.htm, accessed: 13 March 2011.

[55] McKinsey & Co. And KPMG 2010, Implementation Study into the National Broadband Network, http://data.dbcde.gov.au/nbn/NBN-Implementation-Study-complete-report.pdf, accessed: 5 March 2011, p. 8. The remaining population were envisaged to be serviced by either fixed-wireless or satellite internet infrastructure.

NBN Co. announced in August 2010 that the network would likely be capable of delivering speeds of up to 1 gigabit per second.[56]

The NBN telecommunications infrastructure monopoly was designed so that a cross-subsidy could be delivered to rural and regional consumers, through a uniform national wholesale charge, sufficient to cover the increased construction costs of the network in less densely populated areas. This feature was designed to encourage greater nation-wide take-up of the technology, but also ensure equitable access to the market efficiencies and other benefits the network could offer.[57] Revised estimates of the cost of the FTTP NBN placed the Commonwealth Government's projected costs at $27.1 billion. It was anticipated, however, that the government's contribution would be completely repaid through dividend payments by 2034, with the option of the government floating its share of the company on the public market at any time.[58] Minister for Broadband, Communications and the Digital Economy Stephen Conroy (2007-2013) also reassured the public that the necessary debt would be raised by the NBN Co. as an independent GBE, and would therefore not affect the Commonwealth Government's budget bottom line.[59]

With regard to the estimated cost of the network, CEO of NBN Co. Mike Quigley (2009-2013) argued that the financial impositions made upon state and Commonwealth governments for the establishment of the Overland Telegraph (agreed in 1872), or the copper Customer Access Network phone lines (established in the immediate post-war period), were much more onerous than required under the Rudd Government's FTTP NBN proposal.[60] A spokesperson for Stephen Conroy also emphasised that Australia's sparse population density necessitated a higher per capita capital investment than required in most other advanced economies to ensure internationally competitive broadband services, for which the private sector would not provide.[61] In addition, Quigley argued that wireless broadband technology could not fulfil all network requirements, and that fibre was unlikely to be superseded in the next few decades;[62] a point Rudd and Conroy had long canvassed.[63] Quigley also emphasised the NBN's sound

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[56] See: Julia Gillard & Stephen Conroy 2010, 'First services for National Broadband Network', 12 August, http://www.alp.org.au/federal-government/news/first-services-for-national-broadband-network/, accessed: 20 August 2010.
[57] See: Penny Wong & Stephen Conroy 2010, 'Statement of Expectations', letter to Harrison Young, Chairman of NBN Co., 17 December, http://www.dbcde.gov.au/_data/assets/pdf_file/0003/132069/Statement_of_Expectations.pdf, accessed: 30 June 2011, pp. 4-5, 7; Stephen Conroy 2010, Ministerial Statement: National Broadband Network, Media Release, 18 November, http://www.minister.dbcde.gov.au/media/media_release/2010/096, accessed: 13 March 2011; McKinsey & Co. And KPMG, Implementation Study into the National Broadband Network, pp. 33-4.
[58] NBN Co. Ltd 2010, *NBN Co. Business Case Summary*, 24 November, http://www.nbnco.com.au/wps/wcm/connect/5b05280044cfe6e9803289c72ea64545/NBN+Co+Business+Case+Summary.PDF?MOD=AJPERES&CACHEID=5b05280044cfe6e9803289c72ea64545, accessed: 25 January 2011, pp. 30-1.
[59] ABC Television, 'Stephen Conroy joins Lateline, *Lateline*, 7 April 2009, transcript.
[60] Mike Quigley 2010, 2010 Charles Todd Memorial Oration, 18 August, http://www.nbnco.com.au/wps/wcm/connect/804cc30043c4d9058ea7bfe9aa898a42/NBNCo_CharlesToddOrationCEO.NBNCo_18August2010.pdf?MOD=AJPERES, accessed: 1 March 2011, pp. 2-3.
[61] Quoted in Annabel Hepworth & Lauren Wilson 2011, 'Taxpayers lead the world in paying Labor's broadband bill', *Australian*, 10 February, http://www.theaustralian.com.au/national-affairs/taxpayers-lead-the-world-in-funding-labor-broadband-bill/story-fn59niix-1226003302845, accessed: 15 March 2011.
[62] Quigley, 2010 Charles Todd Memorial Oration, 18 August 2010, pp. 9-11.

business model: over the longer-term, NBN Co. was anticipated to deliver a higher return than the current long-term bond rate; and the NBN's 'uniform national wholesale price for its basic service' would be attractive to the Australian market.[64]

In summation, the creation of the NBN is a primary example of how the Rudd Government attempted to rectify an identified market failure through a major public investment in economic infrastructure, designed to increase the nation's productive capacity and ultimately increase living standards.

Human Capital Investment

The Rudd Government's investments in the drivers of productivity growth were also upheld with investments in key areas of human capital. In education - including the entire spectrum from early childhood education and early learning, through to higher education and vocational training – the Rudd Government projected funding of $26 billion per year over the forward estimates of its final budget in 2010-11. Treasury noted that this represented a substantial real increase when compared with the latter years of the Howard Government (2002-03 - 2007-08).[65] While this increase was supported by the policy priorities of Rudd and Swan (noted above), the beliefs and policy commitment to improved educational outcomes of the Minister for Education, Employment and Workplace Relations Julia Gillard (2007-2010) were also of central importance. Gillard had long identified the inequality of educational opportunity in Australian schools, as well as the importance of a good, well-resourced education in providing Australians with the qualifications and skills they needed to survive and thrive in the twenty-first century labour market.[66] Consequently, as Minister, Gillard championed funding increases for disadvantaged schools in 2008: $1.5 billion to raise standards in disadvantaged schools; and $500 million for literacy and numeracy development.[67] As Prime Minister, Gillard also sought to overhaul the government funding model for school education, with the objective of directing resources to those schools in most need, regardless of the school authority under which they were managed (i.e. the state government system, Catholic system, or the independent system). Based upon the recommendations of a panel led by businessman David Gonski, the Gillard Government sought to implement a system of school funding based upon a school-resource standard, which included loadings for: smaller schools; schools from regional or remote areas; as well as those with a disproportionate number of students from poorer backgrounds, Indigenous students, students from non-English speaking backgrounds, and students with disabilities. Prior to the 2013 federal election, the funding model received the support of all of the state and territory governments, and the non-

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[63] See: Johnson, 'The Politics of Broadband', p. 10; Stephen Conroy 2010, Ministerial Statement: National Broadband Network, Media Release, 18 November, http://www.minister.dbcde.gov.au/media/media_release/2010/096, accessed: 13 March 2011.

[64] See: Michelle Grattan 2010, 'NBN Co letter on secrecy released', *Age*, 20 November, http://www.theage.com.au/national/nbn-co-letter-on-secrecy-released-20101119-1811r.html, accessed: 25 January 2011.

[65] Treasury 2010, Statement 4: Benefiting From Our Mineral Resources, *2010-11 Budget paper No. 1: Budget Strategy and Outlook*, Commonwealth of Australia, Canberra, pp. 4-28 – 4-29.

[66] See some of the sentiments expressed in Gillard's memoir: Gillard, *Julia Gillard*, pp. 239-40, 244.

[67] *Ibid*., pp. 244-54.

government school sectors, with the exception of the Queensland and Western Australian governments.[68] In her memoir, however, Gillard noted that: 'It will take the next Labor government to deliver the full model'.[69]

With regard to higher education, the Rudd Government committed $2.2 billion in increased funding, partly offset by the Gillard Government's later efficiency dividend placed upon of the sector of 2 percent in 2014, and 1.25 percent in 2015, which saved an average of $300 million per year. The Rudd Government's increased funding was designed to achieve two fundamental targets: that at least 40 percent of 25-34 year-olds will have attained a qualification at a bachelor level or higher by 2025; and that by 2020, 20 percent of university enrolments at the undergraduate level will derive from low-socioeconomic status backgrounds. According to Gillard's estimates, by 2013 both of these targets were well on track for achievement.[70]

With regard to investment in skills development and vocational education, the Rudd Government adopted a demand driven scheme through the establishment of *Skilling Australia for the Future*, designed to provide training places for those industries experiencing skills shortages.[71] Part of this policy agenda included the creation of Skills Australia, a Commonwealth Government authority established with similar policy objectives to those of Infrastructure Australia. It would 'assess evidence from commissioned research and industry stakeholders', and use this to inform their advice to government 'on current and future skills needs to help ... drive ongoing reforms to the education and training sector, including on priorities for the investment of public funds'. Skills Australia was also envisaged to distribute research findings widely to entrepreneurs, business and the workforce.[72] Strengthened industry skills councils were also envisaged to 'work with employment service providers to give people outside the workforce access to training which matches industry and employers' needs'.[73]

Deferred payment, income-contingent loans, similar to those applicable to students within the higher education system, were also created for vocational education courses in order to increase their take-up, and to spread the advantages of technical education qualifications. Gillard has argued that this reform, in conjunction with increased expenditures made in the vocational education sector – such as the $1.75 billion in increased funding announced in 2012 – contributed to the 6 percent increase in the number

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[68] *Ibid*., pp. 256-68.
[69] *Ibid*., p. 267.
[70] *Ibid*., pp. 329, 331-2.
[71] Julia Gillard 2008, Skills Australia Bill 2008: Second Reading, 13 February, House, *CPD*, p. 188.
[72] *Ibid*., p. 187.
[73] *Ibid*., pp. 188-9.

of Australians who were obtaining a Certificate III level qualification by the time the federal Labor government lost office.[74]

Industrial Relations Policy

Under Rudd's leadership, part of the federal ALP's plan to improve the living standards of the Party's working constituents included the restoration of fairness in the industrial relations system. In keeping with the analysis of previous chapters, this section does not provide an analysis of all the Rudd Government's industrial relations reforms, including criticisms these reforms received from key sections of the business community, and some sections of the trade union movement. Rather, this section briefly outlines the Rudd Government's restoration of the award wage safety net, and its approach to constraining inflationary wage pressures - which had presented previous federal Labor governments, including the Chifley, Whitlam, and Hawke Governments, with significant policy challenges (see chapters five-eight).

Rudd's desire to restore fairness to the industrial relations system had earlier been enunciated within his maiden speech to Parliament, in which he was critical of the market liberal notion that labour should be treated like any other commodity, whereby people could be unscrupulously subjected to the indiscriminate forces of market supply and demand.[75] For Rudd wage earners were people, and people had 'a value beyond that which a market may apportion to them'. They were entitled to 'fundamental protections inside the workplace and beyond the workplace'.[76] Later, Rudd argued that the licence the Howard Government's Work Choices legislation gave employers to unilaterally set the pay and conditions of their employees, without reference to minimum award standards or a no disadvantage test, had profound and adverse social consequences.[77] Consequently, and in keeping with the perspective of his ALP leadership predecessor Kim Beazley (1996-2001, 2005-2006),[78] Rudd considered that it was his responsibility to restore the Labor tradition of the 'fair go' into industrial relations policy,[79] and thereby also restore Labor's belief in 'a fair day's pay for a fair day's work'.[80]

[74] Gillard, *Julia Gillard*, pp. 333-5.
[75] Rudd, Maiden Speech, 11 November 1998, House, *CPD*, p. 163.
[76] Rudd, 'What's Wrong with the Right', an address to the Centre for Independent Studies, Sydney, 16 November 2006, p. 13; Rudd, Matters of Public Importance: Economy, House, *CPD*, 5 December 2006, p. 42.
[77] Rudd, 'Howard's Brutopia', pp. 49-50; Rudd, Matters of Public Importance: Economy, House, *CPD*, 5 December 2006, p. 42; Rudd, 'What's Wrong with the Right', an address to the Centre for Independent Studies, Sydney, 16 November 2006, pp. 20-3.
Gillard expressed similar sentiments. See: Julia Gillard 2008, 'Introducing Australia's New Workplace Relations System', speech to the National Press Club, Canberra, 17 September, http://pandora.nla.gov.au/pan/80087/20100628-1337/www.deewr.gov.au/Ministers/Gillard/Media/Speeches/Pages/Article_081009_090252.html, accessed: 11 January 2011.
[78] For a brief account of Kim Beazley's critique of Work Choices, based upon an appeal to working class solidarity, see: Carol Johnson 2007, *Governing Change: From Keating to Howard*, revised edn, API Network, Perth, p. 175.
[79] Kevin Rudd 2007, May Day rally address, 7 May, http://www.alp.org.au/media/0507/speloo070.php, accessed: 2 December 2007.
[80] Kevin Rudd & Julia Gillard 2007, *Forward with Fairness: Labor's plan for fairer and more productive Australian workplaces*, ALP, April, http://pandora.nla.gov.au/pan/22093/20071124-0102/www.alp.org.au/download/now/forwardwithfairness.pdf, accessed: 13 January 2011, p. 3.

The federal ALP's industrial relations policy *Forward with Fairness* pledged uncompromisingly to phase out the unfair practice of individual contracts – which had been implemented through the Howard Government's 1996 creation of Australian Workplace Agreements (AWAs), and made more draconian through the removal of the no disadvantage test under the Work Choices legislation.[81] Rudd asserted that it was unacceptable that individual contracts could be presented to employees under circumstances in which 'you either accept the AWA or you accept the sack'.[82] On this point Gillard also expressed her objections to the circumstances in which employers were permitted to enforce individual contracts without offering their employees any compensation for the repeal of 'protected award conditions', and without redundancy provisions.[83] The *Forward with Fairness* policy document also lamented that employees on AWAs generally worked longer hours for lower rates of pay than those employees on collective agreements.[84]

In keeping with Labor's traditional concern for low-paid workers, the federal ALP's policy response restored the industrial relations safety net. It included 10 legislated National Employment Standards applicable to all Australian employees, and proposed a further 10 minimum employment standard award conditions applied to the specific 'needs of the industries, occupations or enterprises they cover'.[85] As was the case under the Keating Government's system of enterprise bargaining, Labor's collective bargaining system was also founded upon the award system. Those agreements which sought to undercut the aggregate benefit of award conditions would be disallowed by the newly created industrial relations umpire Fair Work Australia.[86]

As Minister for Employment and Workplace Relations, Gillard also legislated the *Fair Work Act*, so that it could facilitate the removal of gender pay discrimination evident in traditionally female-dominated industries, through the inclusion of an equal pay provision. During the period of the Gillard Government, the Australian Services Union used this provision to successfully establish before the Fair Work Commission a case of pay discrimination against workers in the social and community services sectors – which included employees who work to assist families and children in crisis and the

[81] Kevin Rudd & Julia Gillard 2007, *Forward with Fairness: Policy Implementation Plan*, ALP, ALP, August, http://pandora.nla.gov.au/pan/22093/20071124-0102/www.alp.org.au/download/now/070828_dp_forward_with_fairness___policy_implementation_plan.pdf, accessed: 13 January 2011, pp. 1, 6, 8.

[82] Kevin Rudd 2007, 'It's Time For A New Direction', speech to the Victorian ALP State Conference, Melbourne Exhibition Convention Centre, 3 March, http://pandora.nla.gov.au/pan/63745/20070326-0000/eherald.alp.org.au/download/now/070303___speech_to_the_victorian_alp_state_conference_.pdf, accessed: 14 January 2011, p. 7.

[83] Julia Gillard 2007, speech to the Australian Workplace Relations Summit, 14 March, http://pandora.nla.gov.au/pan/22624/20071109-1024/www.juliagillard.alp.org.au/news/0307/spad14-01.html, accessed: 14 January 2011.

[84] Rudd & Gillard, *Forward with Fairness: Labor's plan for fairer and more productive Australian workplaces*, p. 4. The document particularly lamented the plight of female employees on AWAs. It claimed that these women earned between $87.40 and $94 less per week than women under collective agreements. The document (pp. 4-5) also cited the findings of an Office of the Employment Advocate (OEA) May 2006 analysis, which argued that 100% of AWAs cut at least one 'protected award condition' from their agreements, as well as leaked data from the OEA which 'revealed that 44 per cent of AWAs excluded all eleven protected award conditions'.

[85] *Ibid.*, pp. 7-9.

[86] *Ibid.*, pp. 10, 14.

homeless, and those who work in women's refuges. In addition, the Commonwealth Government also made the budget allocation necessary to facilitate increased wage payments for the employees of organisations which receive federal funds to deliver these services. As a result of this case, Gillard has claimed workers in these sectors received phased-in pay increases of between 23 and 45 percent.[87]

With regard to how the Rudd Government envisaged that its industrial relations system would constrain inflationary wage pressures, Rudd remained adamant that the inflationary pressures that had been building under the Howard Government were caused by capacity constraints, and were therefore not constrained by the Howard Government's draconian industrial relations legislation. Under the Rudd Government, it was envisaged that inflationary pressures would be ameliorated through investments in economic infrastructure and human capital. In addition, it was also envisaged that inflationary wage pressures would be unproblematically restrained through an enterprise bargaining system founded upon productivity improvement.[88] Once in government, Gillard reaffirmed Rudd's position:

> We've specifically designed our industrial relations policy so that it can fight wage inflation. It's a decentralised system and in a decentralised system you do fight wage inflation because wage outcomes are about productivity for the individual business.[89]

More pointedly Gillard also reminded workers that 'you don't make a real gain if we end up fuelling a wages inflation cycle'.[90] In the early months of government, Rudd similarly pleaded to both employers and employees that they 'need to be very, very mindful that public economic enemy number one right now is inflation', and that 'We've all got a combined responsibility to fight it'.[91]

It is notable that the Rudd Government chose not to implement any centralised policy structure to restrain inflationary wage pressures. As the previous chapter established, even the system of enterprise bargaining introduced by the Keating Government featured an indicative aggregate wage target, negotiated with key unions through the Accord process with the ACTU. On this point, it is interesting to note that when Rudd was explicitly challenged as to whether his government maintained an anti-inflationary wage target, he responded: 'No, none at all from my point of view, Neil, because we live in a market economy. And these things will be determined in individual negotiations. And that's as it

[87] See: Gillard, *Julia Gillard*, pp. 311-2.
[88] Kevin Rudd, Nicola Roxon & Amanda Rishworth 2007, doorstop interview, 9 November, http://www.alp.org.au/media/1107/dsihealoo090.php, accessed: 13 November 2007.
[89] Julia Gillard 2008, interview with Steve Cannane, Radio National, ABC, 25 January, http://pandora.nla.gov.au/pan/80087/20100628-1337/www.deewr.gov.au/Ministers/Gillard/Media/Transcripts/Pages/Article_081002_190224.html, accessed: 12 January 2011.
[90] Julia Gillard 2008, interview with Squark Australia (CNBC), 26 February, http://pandora.nla.gov.au/pan/80087/20100628-1337/www.deewr.gov.au/Ministers/Gillard/Media/Transcripts/Pages/Article_081017_153122.html, accessed: 12 January 2011.
[91] Kevin Rudd 2008, interview with Neil Mitchell, Radio 3AW, Melbourne, 1 February, transcript, http://pandora.nla.gov.au/pan/79983/20080212-1502/www.pm.gov.au/media/Interview/2008/interview_0053.html, accessed: 12 January 2011.

should be'.[92] Although it should be acknowledged that the significant reduction in trade union membership, which had occurred since the Keating Government lost office, would have limited the effectiveness of any centralised agreement negotiated through the ACTU,[93] Rudd's faith that enterprise negotiations would not present inflationary pressures under the conditions of significant capacity constraints is almost without precedent under a federal Labor government, and is certainly at odds with the inflationary concerns of Keynesian economics. Indeed, the cautionary tale of the Whitlam Government's experience of having presided over the substantial inflationary wage pressures of the mid-1970s (see chapter six), appears to have been forgotten by the Rudd Government.

Somewhat fortuitously, however, the onset of the GFC, during the latter-half of 2008, removed any incipient inflationary wage pressures from the economy. ABS statistics reveal that for the remainder of the period of the Rudd and Gillard Governments, measures of weekly earnings remained constrained.[94]

Conclusion

This chapter has documented both Kevin Rudd and Wayne Swan's long-standing objections to the philosophy and policy advocacy of market liberalism. While appreciating the value the market performs in efficiently distributing resources, they identified that, if left unregulated, markets fail. Unfettered markets were believed by Rudd and Swan to be neither equitable, nor efficient, and thereby required various government interventions to ensure macroeconomic prosperity, necessary to uphold the ALP's social democratic objective of attempting to improve the living standards of working people and their dependents.

In accordance with this ideological predisposition, this chapter has argued that prior to entering into government, both Rudd and Swan believed that the next major economic reform agenda for the Commonwealth Government did not reside in further pro-market reforms, but should instead centre around targeted public sector investments in those areas which they believed drove future productivity growth: economic infrastructure, and human capital. This chapter established that under Rudd's leadership the federal ALP advocated and then implemented increased public sector investments in economic infrastructure, most notably through the establishment of the NBN, and in human capital

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[92] Rudd, interview with Neil Mitchell, Radio 3AW, Melbourne, 1 February 2008.

[93] According to the ABS, in August 2007 - three months before the election of the Rudd Government - the trade union membership of the Australian workforce was just 18.9%, and 13.7% in the private sector workforce. Previously, towards the end of the Keating Government's period in office, in August 1995, the trade union membership of the Australian workforce had been 35.7%, and 28% in the private sector. See: ABS 2008, Employee Earnings, Benefits and Trade Union Membership August 2007, Catalogue No. 6310.0, Commonwealth of Australia, p. 31; ABS 1996, Weekly Earnings of Employees (Distribution) Australia August 1995, Catalogue No. 6310.0.40.001, Australian Government Publishing Service, p. 31.

[94] See the measures for: full-time adult ordinary time earnings; full-time adult total earnings; and all employees total earnings, under various past releases of the, 'Average Weekly Earnings, Australia', catalogue no. 6302.0, at: http://www.abs.gov.au/AUSSTATS/abs@.nsf/second+level+view?ReadForm&prodno=6302.0&viewtitle=Average%20Weekly%20Earnings,%20Australia~Nov%202016~Latest~23/02/2017&&tabname=Past%20Future%20Issues&prodno=6302.0&issue=Nov%202016&num=&view=&, accessed: 25 March 2017.

through increased expenditures on education funding, and the alleviation of skills shortages through targeted investments in vocational training.

This chapter also established the continuity between the Keating Government's maintenance of an award safety net - alongside its implementation of a system of enterprise bargaining - and the Rudd Government's restoration of an award safety net, after it had been dismantled by the Howard Government's Work Choices legislation. As argued above, this had been done in order to facilitate the achievement of the Party's social democratic objective of attempting to improve the living standards of the Party's low income working constituency, and their dependents. However, this chapter also established the diversion the Rudd Government made with previous federal Labor governments' industrial relations policies. Whereas the Chifley, Whitlam, Hawke and Keating Governments had all attempted to restrain wage inflation through regulatory means, or centralised negotiations with the ACTU (see chapters 5-8), it is notable that the Rudd Government did not establish any policy mechanism whereby inflationary wage pressures could be constrained, despite it having been elected at a time of buoyant demand and amidst inflationary capacity constraints. As the last section in this chapter concluded, it was somewhat fortuitous that the onset of the GFC, during the latter-half of 2008, removed any incipient inflationary wage pressures from the economy.

Chapter ten argues that the Rudd Government's ideological belief in an interventionist role for government predisposed it to the implementation of Keynesian interventions, which were implemented once the GFC adversely affected the Australian economy from the latter-half of 2008. In making this argument, it is acknowledged within the next chapter that the Rudd Government's Keynesian policy responses to the GFC were both informed and supported by the Commonwealth Treasury, and by key international intergovernmental institutions, including the OECD and IMF. However, it is argued that the Rudd Government's evident concern for the plight of workers and their dependent families, and the acceptance amongst its most senior cabinet ministers that Keynesian policy interventions can provide an effective stimulus to aggregate demand, meant that the Rudd Government was ideologically predisposed to protect jobs through Keynesian methods.

Chapter ten also assesses: how closely the Rudd Government's response was to Keynes' own policy prescriptions, and the the criteria for the effective deployment of stimulatory public works programs established by E.R. Walker in the 1930s; how successfully the Rudd Government managed to maintain broad measures of macroeconomic stability and prosperity amidst the global economic crisis; and the legacy of this record for future federal Labor governments interested in maintaining macroeconomic stability and prosperity through Keynesian policies.

CHAPTER TEN

THE RUDD GOVERNMENT'S KEYNESIAN RESPONSE TO THE GLOBAL FINANCIAL CRISIS

This chapter argues that the Rudd Government's ideological support for government economic interventions, designed to ameliorate market failures and increase productivity growth through targeted public sector investments in the drivers of productivity growth – economic infrastructure and human capital – predisposed the Rudd Government to the Keynesian interventionist policies it implemented when the GFC adversely affected the Australian economy from the latter-half of 2008. It is argued that this ideological predisposition, in combination with the government's quick appreciation of the severity of the global economic crisis, underpinned the Rudd Government's eager adoption of Keynesian policy palliatives, designed to maintain adequate financial market liquidity, and stimulate aggregate demand and maintain private sector confidence.

In making this case, this chapter acknowledges that the Rudd Government's Keynesian policy responses to the GFC were both informed and supported by the Commonwealth Treasury – which had reformed its institutional approach to macroeconomics in the time since the period of the Keating Government – as well as by key international intergovernmental institutions, including the OECD and IMF. In acknowledging these sources of institutional support, however, this chapter also argues that the Rudd Government, and in particular Prime Minister Rudd and Treasurer Swan, were already ideologically amenable to Keynesian policy solutions to the crisis, as evidenced by their long-standing advocacy for government intervention to solve economic problems. Confronted with the largest international economic downturn since the Great Depression, the Rudd Government's evident concern for the plight of workers and their dependent families, and the acceptance amongst its most senior cabinet ministers that Keynesian policy interventions can provide an effective stimulus to aggregate demand, meant that the Rudd Government was ideologically predisposed to protect jobs through Keynesian methods. In support of this argument it is emphasised that the Rudd Government's substantial fiscal stimulatory actions were taken in spite of their effect in exacerbating the Commonwealth Government's burgeoning budget deficit, the likely electoral unpopularity of this outcome for a federal Labor government, and the predictable opposition expected to emanate against their Keynesian interventions from the Coalition parliamentary Opposition. This chapter therefore argues that the Rudd Government's concern for the material wellbeing of the ALP's working constituents and their dependents took precedence over any countervailing desire to adhere to popularly accepted notions of fiscal prudence. In addition, the Rudd Government – in combination with Treasury advice – believed, like Keynes, that the most sensible policy for medium-term fiscal balance was to engage in stimulatory measures during a threatened macroeconomic crisis, and at the same time plan for the implementation of fiscal consolidation, once trend growth had returned.

This chapter also emphasises how closely many of the Rudd Government's stimulatory public works programs complied with the general principles outlined by Keynes (see chapter three), and the criteria devised by E.R. Walker in the 1930s (see chapter four). For instance, many of the local government infrastructure projects, in addition to the Building the Education Revolution (BER) program and the Home Insulation Program (HIP), included the type of timely, regionally-dispersed public works projects which Keynes had advocated because of their stimulatory usefulness. Moreover, these public works programs also included many of the criteria outlined by E.R. Walker:

- they used a large share of resources, which might have otherwise remained idle, in the regionally-dispersed and labour-intensive construction industry;
- they employed a high level of Australian materials (including labour);
- they were designed to taper off as the private sector recovered; and
- they usefully maintained demand in the wider economy.

Indeed, this chapter acknowledges that the design of the Rudd Government's fiscal stimulatory interventions were identified by the IMF, the OECD, and many prominent economists, including the 2001 Nobel Prize-winning economist Joseph Stiglitz, as having been largely responsible for Australia's success in avoiding both a technical recession and a significant increase in the nation's unemployment rate.

This appraisal forms the conclusion of this chapter's overall assessment of the Rudd Government's Keynesian response to the GFC. Observation of the key macroeconomic variables confirms that the Australian economy successfully negotiated its way through the crisis, and based upon Treasury's estimations of the contributions made by the Rudd Government's various fiscal stimulus interventions, it is argued that these measures can take much of the credit. This section documents Treasury's acknowledgement that other factors also contributed to Australia's favourable macroeconomic performance during this period, and included: the previously strong record of Australian macroeconomic management; microeconomic reforms implemented over the previous three decades; Australia's effective system of financial market regulation; and the timely and substantial fiscal stimulus concurrently implemented by the Chinese Government, which bolstered demand for Australia's commodity exports. However, this section also documents Treasury's conclusion: that the most important factor which buttressed the Australian economy during the depths of the crisis was the Rudd Government's stimulatory fiscal interventions. Based upon this analysis, this chapter concludes that the Rudd Government's Keynesian response to the GFC offers a valuable case study in how successful Keynesian policies can be, if implemented in a timely manner, in maintaining high levels of employment amidst serious macroeconomic crises.

This section also acknowledges that the BER program bolstered employment in the regionally-dispersed construction industry, and thereby significantly contributed to the retention of important workforce skills, as well as the maintenance of apprenticeship training. It is also acknowledged, however, that program reviews of both the HIP and BER program identified serious shortcomings with regard to the HIP's inadequate safety regulation design and compliance, and some instances within the BER program of excessive costs, and failure to meet value-for-money outcomes. Interestingly, however, an important finding established by separate investigations into both of these programs found that if those state and Commonwealth government agencies, given responsibility for the planning and implementation of these programs, had greater access to technical expertise relevant to the management of public works, then the HIP and BER program would likely have avoided some of the shortcomings mentioned above. This chapter therefore concludes that a key recommendation of the BER Implementation Taskforce's *Final Report* should be given serious consideration by Commonwealth, state, and territory governments: that the public sector should recruit a greater number of technically qualified graduate engineers, in order to restore the public works capacities of Australian governments, and thereby equip them to manage the deployment of stimulatory public works programs both more competently, and more cost effectively, in the future.

This recommendation notwithstanding, however, it is also likely that lower quality public works projects may still have to be tolerated when deployed for stimulatory purposes. On this point, it is notable that the assessments of senior public servants under the Rudd Government reflected the earlier concerns expressed by the Chifley Government and their advisers in the late-1940s, with the regard to the difficulties involved in effectively planning lists of public works projects for stimulatory use (see chapter five). Their conclusions were essentially the same: shovel-ready, high quality public works, cannot likely be planned in advance, or valuable public works delayed for stimulatory deployment.

Nevertheless, this chapter firmly concludes that the Rudd Government's successful handling of the GFC provides a valuable case study for the ongoing usefulness of Keynesian macroeconomics for federal Labor governments. Whereas the Hawke and Keating Governments' market liberal policies precipitated and then prolonged a damaging recession in the early-1990s, one of the chief legacies of which was a stubbornly high rate of unemployment which remained above 8 percent for the remainder of the Keating Government's period in office (see chapter eight), the Rudd Government's Keynesian response to the GFC avoided both a damaging recession and a high rate of unemployment. It is from this position that this chapter concludes that Keynesian policies provide federal Labor governments with the macroeconomic demand management policies needed to facilitate the conditions of low inflationary, full employment prosperity. The following section begins by establishing the severity of the GFC, as it confronted the Australian economy from the latter-half of 2008.[1]

[1] This chapter does not provide an account of the causes of the GFC. For two contemporary explanations, which establish the context of the failure of international financial markets which led to the crisis, see: Ross Garnaut & David Llewellyn-Smith 2009, *The Great Crash of 2008*, Melbourne University Press, Carlton; Joseph Stiglitz 2009, *Freefall: Free Markets and the Sinking of the Global Economy*, Penguin Books, London.

The Global Financial Crisis

By many measures the GFC threatened to precipitate a global economic recession comparable to the Great Depression. As Kevin Rudd recounted:

- In the first 12 months of this recession, global stock markets fell by more than 40 per cent off their peak - nearly twice their fall during the first 12 months of the Great Depression.
- Global industrial output fell by around 13 per cent from the peak in April 2008 - as bad as in the first 12 months of the Great Depression.
- And global trade fell by 17 per cent this time - almost double the 10 per cent fall in the first 12 months of the Great Depression.[2]

The reasons why Australia did not descend into the depths of a major depression, similar in severity to the Great Depression are multifaceted, and are acknowledged later in this chapter as part of the overall assessment of the Rudd Government's Keynesian response to the GFC. Prior to this, the following passages establish the context of the Rudd Government's Keynesian policy orientation. These passages emphasise how the ideological predispositions of Prime Minister Rudd and Treasurer Swan informed their advocacy for Keynesian interventionist policies, and how closely many of the Rudd Government's stimulatory public works programs complied with the general principles outlined by Keynes (see chapter three), and the criteria devised by E.R. Walker in the 1930s (see chapter four). To begin, however, the following passages account for the Rudd Government's policy reorientation, from its initial concern for the inflationary conditions it had inherited from the Howard Government (see previous chapter), to the threats the GFC presented to financial market stability and aggregate demand.

Maintaining Confidence: The 2008-09 Budget

As news filtered through of the substantial financial turmoil the US sub-prime mortgage crisis was having on world financial markets in the early-part of 2008, the Rudd Government was primarily concerned with constraining the inflationary pressures it claimed to have inherited from the Howard Government (see previous chapter).[3] The achievement of a budget surplus of at least 1.5 percent of GDP in 2008-09 was earmarked for this purpose.[4] At this time, the likely impact of the GFC was thought to be limited to the ramifications for wholesale funding costs for Australia's commercial banks, and the flow-on effects this was predicted to have on mortgage and business loan interest rates.[5]

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[2] Kevin Rudd 2010, launch of 'Shitstorm' by Lenore Taylor and David Uren, Canberra, 21 June, http://pandora.nla.gov.au/pan/79983/20100624-1429/www.pm.gov.au/node/6835.html, accessed: 30 June 2010.
[3] See also: Lenore Taylor & David Uren 2010, *Shitstorm: Inside Labor's Darkest Days*, Melbourne University Press, Carlton, pp. 22, 26.
[4] Rudd, 'Building Australia's Economic Future', address to Lord Mayor's Business Breakfast, Perth, 21 January 2008.
[5] *Ibid*.
Treasury officials Tony McDonald and Steve Morling have identified that global inter-bank interest rate margins, above the expected cash rate, had increased from 10 basis points, to nearly 100 points in Australia, and much higher still in the UK (300 basis points), and the US (400 basis points). See: Tony McDonald & Steve Morling n.d., 'The Australian economy and the global downturn, Part 1: Reasons for resilience', http://www.treasury.gov.au/documents/2130/PDF/01_Part1_Resilience.pdf, accessed: 8 March 2012, p. 4.

However, as both Rudd and Swan returned from visits to the US in April 2008, where they had both been presented with sobering revisions to global economic growth estimates from the IMF,[6] many of the savings measures they had previously considered for the 2008-09 Budget were shelved. As Jim Chalmers, a senior adviser to Swan during this period, has explained: 'The stark message coming from New York and Washington was that a major global downturn was becoming more likely, and harsh budget cuts to take effect over the next eighteen months would only make the Australian economy more vulnerable in the event these risks would materialise'.[7] The Rudd Government decided, however, that it could not at that time reveal that it was attempting to maintain aggregate demand, as it was concerned that this sort of public acknowledgement might have adversely affected domestic market confidence.[8] Nevertheless, Swan announced an estimated surplus of $21.7 billion for the 2008-09 Budget - 1.8 percent of GDP, the largest estimated surplus in nearly a decade.[9]

The 2008-09 Budget also upheld the Rudd Government's prioritisation of expenditures on economic infrastructure and human capital investments, through its establishment of several nation building infrastructure funds. These were envisaged to be financed through the proceeds of the Howard Government's Higher Education Endowment Fund, and the accumulated surpluses of 2007-08 and that estimated for 2008-09. The funds established were: the Building Australia Fund (BAF - $20 billion), 'to finance roads, rail, ports and broadband across the nation'; the Education Investment Fund (EIF - $11 billion), 'to finance skills, TAFE colleges and universities'; and the Health and Hospitals Fund (HHF - $10 billion), 'to finance improvements to hospitals and the health care system'. Consistent with his desire to alleviate the economy's capacity constraints and alleviate social inequalities, Swan announced that: 'We have no intention of *hoarding* the strong surplus for its own sake [emphasis added]'. 'Both the capital and earnings of these funds will be available for investment once projects have been identified and rigorously evaluated'.[10]

The Keynesianism Policy Reorientation

As the prospects for global economic growth worsened in the latter-half of 2008, and looked set to encompass a global recession,[11] Rudd seized the opportunity to restate his belief that social democrats

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[6] See: Taylor & Uren, *Shitstorm*, pp. 27-9.
[7] Chalmers, *Glory Daze*, p. 56.
See also: Wayne Swan, quoted in, Taylor & Uren, *Shitstorm*, p. 30; Wayne Swan 2014, *The Good Fight: Six years, two prime ministers and staring down the Great Depression*, Allen & Unwin, Sydney, pp. 26-30, 32.
[8] See: Taylor & Uren, *Shitstorm*, p. 32.
[9] Swan, Budget Speech 2008-09, 13 May 2008, pp. 2, 6; Wayne Swan 2008, '2008-09 Budget', address to the National Press Club, Canberra 14 May, http://www.treasurer.gov.au/DisplayDocs.aspx?doc=speeches/2008/011.htm&pageID=005&min=wms&Year=2008&DocType=1, accessed: 24 July 2010.
[10] Swan, Budget Speech 2008-09, 13 May 2008, pp. 10-1. The funds were placed under the management of the Future Fund Board of Guardians, and finances would be released after 'rigorous assessment of projects by independent bodies'. Infrastructure Australia was placed in charge of assessing claimant projects under the Building Australia Fund.
[11] Ken Henry has commented that the IMF's forecasts for global economic growth for 2009 rapidly declined within nine months of the 2008-09 Budget announcement: from an estimate of 4% to just 0.5% - an unprecedented downward revision. See: Commonwealth of Australia 2009, Senate Standing Committee on Finance and Public Administration, 5 February, Canberra, http://www.aph.gov.au/hansard/senate/commttee/S11712.pdf, accessed: 13 February 2011, p. F&PA 7.

were called upon to 'save capitalism from itself'. Moreover, according to Rudd it would be Keynesian economic theory which would be drawn upon 'to recast the role of the state and its associated political economy of social democracy as a comprehensive philosophical framework for the future - tempered both for times of crisis and for times of prosperity'.[12]

In making his case, Rudd conveyed several points which displayed his identification with Keynesian macroeconomics. Rudd restated his rejection of the market liberal assumption that unfettered markets self-equilibrate, and alternatively argued for state interventions where markets were observed to have failed, through investments in economic infrastructure and other public goods.[13] With regard to the specific threat presented by the GFC, Rudd claimed that the macroeconomic crisis was itself the 'culmination of a 30-year domination of economic policy by a free-market ideology', which 'brought capitalism to the precipice'.[14] This had been created, Rudd argued, by:

> the extreme free market ideologues who influence much of the neo-liberal [or market liberal] economic elite. Free market ideologues who have a naïve belief that unrestrained markets are always self-correcting and that markets left to themselves will always achieve optimum outcomes.[15]

In his critique of the causes of the GFC, Rudd concentrated on the inadequate regulation of financial markets, and differentiated the foolish market liberal faith in unfettered financial markets with the more prudent Keynesian understanding of inherent financial market instability and speculative tendencies:

> This crisis has exposed the efficient market hypothesis and contrasted it with the essential Keynesian insight that markets, especially financial markets, are inherently unstable and subject to the whims of sentiment. Keynes was prudently sceptical of unfettered financial markets and warned that "when the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done". ... Effective regulation makes markets stronger. Indeed, effective regulation is essential to ensure that our markets operate fairly and freely.[16]

Rudd argued that the inadequacy of financial market regulation had been evident within the US in the wake of the repeal of the *Glass-Steagal Act* in 1999.[17] He argued that this repeal had been 'grossly hypocritical', because under the guise of deregulation, the repeal of the *Glass-Steagal Act* had actually exposed the US state to significant systemic risk obligations, should any major US commercial bank with significant exposure to stock market volatility – through their investment banking arms – be

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[12] Kevin Rudd 2009, 'The Global Financial Crisis', *The Monthly*, No. 42, February, pp. 20-1, 25.
[13] *Ibid.*, pp. 22-3, 25, 28; Kevin Rudd 2009, press conference at New York Stock Exchange, New York City, 28 March, transcript, http://www.pm.gov.au.media/Interview/2009/interview_0887.cfm, accessed: 31 March 2009; Rudd, launch of 'The Great Crash' by Ross Garnaut, Canberra, 22 October 2009.
[14] Rudd, 'The Global Financial Crisis', p. 22.
[15] Kevin Rudd 2008, 'The Australian Response to the Global Financial Crisis', address to the Federal Labor Business Forum, Sofitel Wentworth Hotel, Sydney, 3 October, http://pandora.nla.gov.au/pan/79983/20081112-0133/www.pm.gov.au/media/Speech/2008/speech_0523.html, accessed: 21 January 2011.
[16] Rudd, launch of 'The Great Crash' by Ross Garnaut, Canberra, 22 October 2009.
[17] The *Glass-Steagal Act* was '[a] US law passed in 1933 prohibiting banks from acting both as lenders and as investors in companies. ... The Act was passed due to a belief that universal banking made banks excessively risky, and had contributed to the collapse of the US banking system during the Great Depression'. Black, *Oxford Dictionary of Economics*, 2nd edn, p. 197.

threatened with bankruptcy. This risk, Rudd argued, had also been dangerously transmitted throughout the global economy, as inappropriately assessed securitised mortgage bonds were sold to unsuspecting investors around the world. On this point, Rudd also argued that these financial assets had been inappropriately assessed by credit rating agencies who had been more concerned with pleasing their clients - the financial institutions packaging and selling these assets - than upholding the interests of investors through appropriate risk assessment.[18]

Financial Market Intervention

In response to the identified problems with financial market regulation, Rudd proposed broad principles for reform which accorded with the Keynesian ambition to constrain the influence of unproductive financial market speculation. In front of the United Nations General Assembly in September 2008, Rudd argued that: 'Financial markets are a public good'. This meant that 'governments rather than speculators ... have the central responsibility for determining the rules that govern the way markets work'. Specifically, Rudd's suggestions for financial regulatory reform included: that all systemically important financial institutions - not just commercial banks - be subject to 'full disclosure and analysis of balance sheet and off-balance sheet exposures'; that financial institutions should be compelled to build capital buffers in good times; and that regulators should set higher capital requirements for financial institutions who reward executives for taking excessive short-term risks.[19]

It is notable that the April 2009 London G-20 Leaders' Summit Declaration on Strengthening the Financial System, enforced or recommended all of these suggestions, and agreed that national authorities should better manage credit rating agencies' conflicts of interest.[20] On this point, UK Prime Minister Gordon Brown (2007-2010) credited Rudd's advocacy as having strongly contributed to international resolutions for strengthened financial regulatory reform.[21] Domestically, the Rudd Government tightened regulation by requiring credit rating agencies to both operate under an Australian Financial Services Licence, and to display compliance with the International Organisation of Securities Commission's Code of Conduct Fundamentals for credit rating agencies.[22] Through

[18] Rudd, 'The Global Financial Crisis', pp. 23-4.
During the GFC, Swan had also been publicly critical of the lack of adequate financial regulation which had precipitated the crisis. See: Swan, *The Good Fight*, p. 94.

[19] Kevin Rudd 2008, address to the United Nations General Assembly, New York, 25 September, http://pandora.nla.gov.au/pan/79983/20081112-0133/www.pm.gov.au/media/Speech/2008/speech_0502.html, accessed: 31 January 2011.

[20] G-20 Leaders' Summit 2009, Declaration on Strengthening the Financial System, London, 2 April, http://www.g20.org/Documents/Fin_Deps_Fin_Reg_Annex_020409_-_1615_final.pdf, accessed: 31 January 2011, pp. 2-4, 6.

[21] See Brown's comments in: Kevin Rudd 2009, joint press conference with Prime Minister Gordon Brown Number 10 Downing Street, London, 30 March, transcript, http://www.pm.gov.au/media/Interview/2009/interview_0890.cfm, accessed: 2 April 2009.

[22] Nick Sherry 2008, 'Improved Australian Controls for Credit Rating Agencies and Research Houses', Media Release No. 077, 13 November, http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/077.htm&pageID=003&min=njs&Year=2008&DocType=0, accessed: 14 February 2011.

domestic legislation, the Rudd Government also made provisions to curb speculative financial market activity, through the amendments made to the *Corporations Act* 2001.[23]

Amidst the solidification of international wholesale finance markets which accompanied the GFC,[24] the Rudd Government supported otherwise profitable and well regulated Australian non-authorised deposit-taking institutions (non-ADIs), through its intervention in the Retail Mortgage Backed Securities (RMBS) market. Through the Australian Office of Financial Management, the Commonwealth Government invested $2 billion, and then a further $4 billion, in AAA-rated Australian RMBS, with the intention to resell their investment onto secondary markets 'when market conditions normalise'.[25] In October 2009, the entire program was also designed to be increased to $16 billion, if needed, with a particular focus upon those RMBS which were used by small business owners to secure loans for their enterprise. This intervention was credited with having successfully supported 'five non-major Australian banks, four building societies and credit unions, and four non-ADI lenders to raise over $10.4 billion in funding'.[26]

The Rudd Government also purchased $2 billion worth of commercial real estate through the Australian Business Investment Partnership (ABIP), in conjunction with the big four banks (Commonwealth Bank of Australia, Westpac, ANZ, National Australia Bank) who contributed $500 million each to the scheme. The government's rationale was that the scheme would provide liquidity support for the refinancing of 'viable major commercial property projects in Australia', i.e. shopping centres, office towers and factories, 'which, without financing, would be forced to retrench thousands of employees'. The scheme also offered a further Commonwealth Government guarantee – underpinned by its AAA credit rating - to support $30 billion worth of debt in this industry, if required.[27] Treasury estimated that the intervention of ABIP would save up to 50,000 jobs in the commercial property sector. Treasury also reassured financial markets that ABIP's remit did not entail competition with the private banking industry, but would only operate in those situations where '[l]oans are subject to finance not being available from commercial providers'.[28] $2 billion was also

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[23] See: Chris Bowen 2008, Corporations Amendment Bill 2008: Second Reading, 13 November, House, *CPD*, pp. 10881-3.

[24] Treasury officials Tony McDonald and Steve Morling identified that global capital inflows had rapidly declined from 18% of GDP in 2007, to 2% of GDP in 2009. See: McDonald & Morling, 'The Australian economy and the global downturn, Part 1: Reasons for resilience', p. 5.

[25] Wayne Swan 2008, 'Government Initiative to Support Competition in Mortgage Market', Media Release No. 105, 26 September, http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/105.htm&pageID=003&min=wms&Year=2008&DocType=0, accessed: 30 January 2011; Kevin Rudd 2008, 'Global Financial Crisis', Media Release, 12 October, http://pandora.nla.gov.au/pan/79983/20081112-0133/www.pm.gov.au/media/Release/2008/media_release_0534.html, accessed: 1 February 2011.

[26] Wayne Swan 2009, 'Further Support for Competition in the Mortgage Market', Media Release No. 108, 11 October, http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2009/108.htm&pageID=003&min=wms&year=2009&DocType=0, accessed: 4 July 2010.

[27] Kevin Rudd 2009, 'Building Australia's Future: a $4 billion Australian Business Investment Partnership to support Australian jobs', Media Release, 24 January, http://www.pm.gov.au/media/Release/2009/media_release_0771.cfm, accessed: 31 March 2009.

[28] Treasury 2009, Statement 1: Budget Overview, *2009-10 Budget Paper No. 1: Budget Strategy and Outlook*, Commonwealth of Australia, Canberra, p. 1-12.

funnelled into a Commonwealth Government-owned motor vehicle retail financing company, Ozcar, established to maintain vehicle purchaser access to finance credit.[29]

The most substantial financial market intervention undertaken during this period, occurred in response to the concern expressed in October 2008 that the world's largest economies might coordinate the implementation of government guarantees for their major financial institutions, without Australia's involvement or knowledge. The Council of Financial Regulators - consisting of Treasury, the RBA, APRA (the Australian Prudential Regulatory Authority) and ASIC (the Australian Securities and Investment Commission) – was concerned that if such an internationally coordinated intervention were to occur, Australia could experience significant capital flight, or a run on one of the nation's banks. In response to this concern, on the weekend of 10-11 October 2008, and upon Treasury advice, the Rudd Government implemented a Financial Claims Scheme, which temporarily guaranteed the wholesale funding, and retail deposits, of all Australian-owned banks (or Australian branches of foreign-owned banks), building societies, and credit unions.[30] Although the RBA had initially expressed misgivings about the originally uncapped deposits guarantee,[31] RBA officials later considered that the guarantees had proved effective in ensuring liquidity, and in having avoided a collapse in depositor confidence.[32] Swan concluded that:

> without the guarantee, our banks would have lent less and interest rates for borrowers would have been higher. This would have led directly to lower growth and more households losing a breadwinner right across Australia.[33]

As the threat of the GFC broadened from its effects on financial markets, to concerns about the effect the crisis could have on Australia's level of aggregate demand, the Rudd Government moved quickly to implement Keynesian fiscal stimulatory interventions. The following passages establish how closely these interventions adhered to the principles established by Keynes and E.R. Walker.

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[29] See: Garnaut & Llewellyn-Smith, *The Great Crash of 2008*, p. 140.

[30] Rudd, 'Global Financial Crisis', Media Release, 12 October 2008; Taylor & Uren, *Shitstorm*, pp. 58-9; Swan, *The Good Fight*, p. 86.
General insurance policy holders were also covered by the scheme, but in the event that their insurer failed and they did not require a claim, they had 28 days to shift their policy. Wayne Swan 2008, Financial System Legislation Amendment: Second Reading, 15 October, House, *CPD*, p. 9119.

[31] See: Taylor & Uren, *Shitstorm*, pp. 58-62.
From 28 November 2008, bank deposits over the value of $1 million, Australian resident deposits in foreign bank branches, and those financial institutions eligible for the wholesale funding guarantee, were required to pay a fee in return for the Commonwealth Government's guarantees. See: Wayne Swan 2008, Guarantee Scheme For Large Deposits and Wholesale Funding Appropriation Bill 2008: Second Reading, 25 November, House, *CPD*, pp. 11235, 11237.
The states and territory governments were also subject to similar rules in return for their own temporary Commonwealth Government debt guarantees. See: Wayne Swan 2009, 'Temporary Guarantee of State Borrowings', Media Release No. 027, 25 March, http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2009/027.htm&pageID=003&min=wms&Year=2009&DocType=0, accessed: 27 April 2017; Treasury, Statement 1: Budget Overview, *2009-10 Budget Paper No. 1*, p. 1-12.

[32] Commonwealth of Australia 2009, House of Representatives Standing Committee on Economics, 20 February, Canberra, http://www.aph.gov.au/hansard/reps/commttee/R11474.pdf, accessed: 13 February 2011, pp. ECO 18, 33-4.

[33] Wayne Swan 2010, Ministerial Statements: Economy, 8 February, House, *CPD*, pp. 624-5.
Swan also later confirmed that had these actions not been taken, the credit ratings of some of Australia's banks would likely have been downgraded. See: Swan, *The Good Fight*, p. 78.

Keynesian Fiscal Stimulatory Response

In analysing the Rudd Government's policy response to the GFC, it is important to note that both Rudd and Swan were keen students of the Great Depression. Both, for instance, objected to the fiscal restraint delivered through the Premiers' Plan.[34] In addition, Swan – during his summer vacation in 2007-08 – poured through a biography of Ted Theodore, which analysed Theodore's unsuccessful attempts at implementing the proto-Keynesian policy he had advocated during his period as Treasurer under the Scullin Government (see chapter four).[35] Swan did not want to repeat the policy impotence of the Scullin Government, and consistent with his previous ideological inclinations (see previous chapter), his instincts were for Keynesian interventions designed to prevent the human suffering caused by mass unemployment.[36] Swan had also been heavily influenced by his own experience of the human suffering which had accompanied the early-1990s recession:

> I had seen the destruction that deep, intractable unemployment creates – the waste of human capital that reverberates through the economy, causing a loss of national productivity. More than that, I had seen the social impacts that unemployment brings in family breakdowns and shattered lives. I had looked into the eyes of people who had lost their jobs in the recession of the early 1990s and seen mostly despair, with only a flicker of hope. They wanted to contribute to their nation and their community, and to provide for their families. Some were able to find jobs, but others would never have gainful employment again.[37]

The direct influence of Keynes' policy advocacy upon the Rudd Government's interventionist response to the GFC was subsequently also explained by Swan:

> [W]hen the GFC hit, ... [w]e understood the implications of the crisis, our Labor values dictated that we must act, and Keynes provided the framework for that action. ... Underpinning our policy response were the principles of fiscal and monetary action to boost aggregate demand set out by Keynes in his *General Theory* and his activist publications of the Great Depression era: immediate stimulus measures to boost consumer spending and confidence; useful public works to create employment; lower interest rates to boost investment and spending; and concerted international action to strengthen the world financial system.[38]

Rudd's policy response to the crisis was also to reinvigorate the economy through Keynesian fiscal stimulus, because in keeping with Keynes' own sentiments, Rudd argued that in a serious economic downturn, monetary policy actions alone would prove ineffective – rather like 'pushing on a string':

> Social democrats ... stress the central role of the state in maintaining aggregate demand, both for consumption and investment spending, at a time of faltering growth. That is, the state must involve

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[34] Kevin Rudd 2009, 'The Road to Recovery', *Age*, 25 July, http://www.theage.com.au/national/the-road-to-recovery-20090724-dw98.html?page=-1, accessed: 22 July 2010; Taylor & Uren, *Shitstorm*, pp. 45-6.
[35] Swan, *The Good Fight*, pp. 5-6.
[36] See: *ibid.*, pp. 6, 39, 84-5; Wayne Swan 2011, 'Keynesians in the recovery', Fabian Essay, 11 April, https://d3n8a8pro7vhmx.cloudfront.net/australianfabians/pages/44/attachments/original/1417668622/AustralianFabianEssay_WayneSwan_(Final-VA4).pdf?1417668622, accessed: 19 April 2017, pp. 2, 4-5.
[37] Swan, *The Good Fight*, p. 160.
[38] Swan, 'Keynesians in the recovery', pp. 4-5.

> itself in direct demand-side stimulus to offset the large-scale contraction in private demand. ... This is classic Keynesianism, pure and simple.[39]

Elsewhere Rudd noted that intervening in such situations is 'why we're Labor. ... [A party] That has stood up for working families through the booms and busts of the economic cycle. And that believes in the power of governments to protect people when markets fail'.[40] The continuity was evident, therefore, with regard to Rudd and Swan's long-standing ideological belief in the legitimate role governments have in intervening to facilitate improved economic outcomes. This ideological predisposition had underpinned their earlier advocacy for greater public sector investments in the drivers of productivity growth amidst a buoyant economy. Under the threat to aggregate demand presented by the GFC, this ideological predisposition underpinned Rudd and Swan's advocacy for Keynesian interventionist policy solutions.

As outlined earlier, Treasury's reformed approach to macroeconomics - which had occurred in the period since the defeat of the Keating Government - also greatly assisted the Rudd Government's planning and implementation of its fiscal stimulatory responses to the GFC. By the time the Rudd Government was elected to office, Treasury's senior echelons were no longer averse to Keynesian fiscal stimulatory intervention, particularly when confronted with a potentially devastating reduction in aggregate demand and a collapse in the functioning of international credit markets. Senior Treasury officials also shared the Rudd Government's desire to avoid a repeat of the early-1980s and early-1990s recessions, which featured burgeoning numbers of long-term unemployed, permanent skill atrophy in the labour market, and business failures.[41] Secretary to the Treasury Ken Henry (2001-2011) explained the departmental position as it existed in 2008:

> When you study macro-economics, almost from day one you get into horrendous debates about the role of fiscal policy. There are the critiques of government fiscal activism, but there is one thing on which almost everybody agrees, which is that at the point at which private sector aggregate demand collapses – even if at no other time – right at that point there is at least arguably a case for government spending going in to replace retreating private sector demand. If you get in early enough, policy can have an effect. I thought that was the situation we were in. We were at precisely that point.[42]

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[39] Rudd, 'The Global Financial Crisis', p. 26.

[40] Rudd, launch of 'Shitstorm' by Lenore Taylor and David Uren, Canberra, 21 June 2010.

[41] See: Steven Kennedy 2009, 'Australia's response to the global financial crisis', speech to the Australia Israel Leadership Forum, 24 June, http://www.treasury.gov.au/documents/1576/HTML/docshell.asp?URL=Australia_Israel_Leadership_Forum_by_Steven_Kennedy.htm, accessed: 17 July 2010; David Gruen 2009, 'The Return of Fiscal Policy', Australian Business Economists Annual Forecasting Conference 2009, 8 December, http://www.treasury.gov.au/documents/1686/HTML/docshell.asp?URL=Australian_Business_Economists_Annual_Forecasting_Conf_2009.htm, accessed: 17 July 2010; Ken Henry's sentiments, expressed in: George Megalogenis 2015, 'Australia's Second Chance', Episode Three, *Making Australia Great: Inside Our Longest Boom*, ABC; Rudd, launch of 'Shitstorm' by Lenore Taylor and David Uren, Canberra, 21 June 2010; Wayne Swan 2009, 'One Year On: Fiscal Stimulus and the Path Ahead', Address to the Australian Business Economists, Sydney, 12 October, http://www.treasurer.gov.au/DisplayDocs.aspx?doc=speeches/2009/028.htm&pageID=005&min=wms&Year=2009&DocType=1, accessed: 1 March 2011.

[42] Ken Henry, quoted in, Taylor & Uren, *Shitstorm*, p. 77.
Before the Senate Economics Committee, however, Henry offered further clarification. He stated: 'I would not want to be interpreted as suggesting that, if it were ever the case that gross domestic product was growing below trend, there would therefore be a case for expansionary fiscal policy'. Commonwealth of Australia 2009, Senate Economics References

In keeping with Keynes' own analysis (see chapter three), Henry also reasoned that a global economic crisis may require a more substantial remedial policy response than monetary policy interest rate reductions could produce in isolation.[43] Under Henry's leadership, Treasury had also war-gamed potential fiscal stimulus measures, back in 2004.[44]

David Gruen, Executive Director of Treasury's Macroeconomic Group, also argued that Australia's relatively closed economy was well suited to Keynesian fiscal stimulation, particularly if supported by similar widespread international efforts.[45] Gruen has been described as perceiving the difficulties of Keynesian stimulatory policies as 'essentially practical', and specifically argued that Treasury had to be timely in its anticipation of economic contractions, and governments had to also be timely in their deployment of stimulatory fiscal expenditures.[46] This meant that although it was recognised by Treasury that Keynes' preference for infrastructure investment provided a greater long-term contribution to the productive capacity of the economy, as well as a greater multiplier over the medium-term,[47] Treasury concluded that public works infrastructure investments took too long to implement to provide a useful stimulus to aggregate demand. Instead, Treasury advocated for the distribution of cash payments, targeted at low income groups more likely to consume their increased income. This advice was summarised in Treasury's dictum: 'Go hard, go early, go households'.[48]

In addition to the support for Keynesian interventions the Rudd Government received from Treasury, the IMF, the OECD and the G-20 (Group of Twenty) – a forum for the governments of the world's twenty largest economies – all advised Keynesian fiscal stimulatory responses to the GFC.[49] In November 2008, Rudd pointed to the inaugural Washington G-20 Leaders' Summit Communiqué's advocacy for the rapid mobilisation of fiscal stimulus.[50] This advocacy was subsequently reinforced at the April 2009 G-20 Leaders' Summit, which celebrated the $5 trillion worth of fiscal stimulus which its governments had provided.[51] Rudd also highlighted the fact that the IMF - that 'pretty conservative

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Committee, 9 October, Canberra, http://www.aph.gov.au/hansard/senate/commttee/S12518.pdf, accessed: 16 July 2010, p. E 9.

[43] See: Taylor & Uren, *Shitstorm*, p. 69.

[44] See: *ibid.*, p. 72.

[45] Gruen, 'The Return of Fiscal Policy', Australian Business Economists Annual Forecasting Conference 2009, 8 December 2009. Gruen also clarified, however, that it was rare for macroeconomic data to be gathered in timely enough fashion to anticipate an economic downturn, and thereby provide the required information for fiscal stimulus to be usefully implemented. He argued that 'the events surrounding the collapse of Lehman Brothers, and the American Insurance Group, in mid September 2008, provided [such] an unequivocal signal'. He concluded that this experience 'does not mean that large discretionary fiscal actions will be appropriate in response to all economic downturns'.

[46] Taylor & Uren, *Shitstorm*, pp. 73-5.

[47] See: Treasury 2009, Statement 4: Assessing the Sustainability of the Budget, *2009-10 Budget Paper No. 1*, p. 4-6.

[48] See: Taylor & Uren, *Shitstorm*, pp. 75, 77-8, 146.

[49] See: *ibid.*, pp. 44-5, 132, 136, 213.

[50] Kevin Rudd 2008, press conference at the G20 Leaders' Summit, Washington, 15 November, transcript, http://www.pm.gov.au/media/Interview/2008/interview_0609.cfm, accessed: 31 March 2009.
See also: G-20 Leaders' Summit 2008, Declaration, Summit on Financial Markets and the World Economy, 15 November, http://www.g20.org/Documents/g20_summit_declaration.pdf, accessed: 22 February 2011, p. 2.

[51] G-20 Leaders' Summit 2009, Leaders' Statement, London, 2 April, http://www.g20.org/Documents/final-communique.pdf, accessed: 31 January 2011, pp. 2-3.

body' - advocated for G-20 economies to provide a 2 percent of GDP fiscal stimulus during 2009,[52] a target the Rudd Government comfortably fulfilled.[53] Interestingly, Governor of the RBA Glenn Stevens (2006-2016) noted in evidence before the House Standing Committee on Economics that 'It was striking to me that the IMF at the G20 finance ministers and governors meeting in November [2008] called for fiscal expansion. I do not think I can recall the IMF saying that before'.[54]

It is likely that the support for Keynesian policy interventions from previously conservative institutions, more inclined to have previously offered market liberal economic policy advice in the past, strengthened the Rudd Government's resolve to intervene through Keynesian methods. The following passages outline the fiscal stimulatory measures implemented.

Cash Transfer Payments

Treasury's advice underpinned the quantum and composition of the Rudd Government's first fiscal stimulus program.[55] This $10.4 billion Economic Security Strategy, announced on 14 October 2008, involved the dispersal of cash transfers, targeted at those groups considered both deserving of government assistance, and likely to spend a large amount of any payments received. These groups included: those entitled to age, veteran or disability pensions; seniors entitled to various welfare benefits; self-funded retirees holding a Commonwealth Health Care Card; carers; and low-income or welfare dependent families.[56] As part of this package, the first home buyers' grant was also temporarily doubled (between 14 October 2008 and 30 June 2009) from $7000 to $14000, with a further $7000 available for new housing construction.[57] This latter measure was designed to maintain market confidence in the important residential construction sector.[58] Estimates of the effectiveness of these measures are analysed below as part of the overall assessment of the Rudd Government's Keynesian response to the GFC.

Because it was understood within the Rudd Government, that even the simplest infrastructure projects could not be implemented before mid-2009,[59] it was decided that to bridge this gap the

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[52] Kevin Rudd 2009, interview with Jim Lehrer, *Newshour*, PBS Network, Washington DC, 25 March, transcript, http://www.pm.gov.au/media/Interview/2009/interview_0884.cfm, accessed: 31 March 2009.

[53] According to the IMF, the Rudd Government delivered a fiscal stimulus of 0.8% of GDP in 2008, 2.9% in 2009, and 2% in 2010. IMF 2009, 'Australia: 2009 Article IV Consultation – Staff Report; and Public Information Notice on the Executive Board Discussion', IMF Country Report No. 09/248, August, Washington D.C., http://www.imf.org/external/pubs/ft/scr/2009/cr09248.pdf, accessed: 24 February 2011, p. 19.

[54] Commonwealth of Australia 2009, House of Representatives Standing Committee on Economics, 20 February, Canberra, http://www.aph.gov.au/hansard/reps/commttee/R11474.pdf, accessed: 13 February 2011, pp. ECO 6, 14, 16.

[55] See: Swan, *The Good Fight*, pp. 51, 74.

[56] Kevin Rudd & Wayne Swan 2008, '$10.4 Billion Economic Security Strategy', Media Statement, 14 October, http://www.alp.org.au/media/1008/mspmtres141.php, accessed: 9 November 2008. Pension recipients and carers received $1400 as individuals, or $2100 for couples. Carers also received $1000 for each eligible individual in their care. Families received $1000 for each eligible child.

[57] Kevin Rudd, Wayne Swan & Jenny Macklin 2008, '$21,000 Boost for First Home Owners', Joint Media Release, 14 October, http://www.pm.gov.au/media/Release/2008/media_release_0546.cfm, accessed: 31 March 2009.

[58] See: Taylor & Uren 2010, *Shitstorm*, pp. 79, 83.

[59] See: *ibid.*, p. 144.

Commonwealth Government should implement another round of cash transfer payments in February 2009, announced as part of the government's $42 Nation Building and Jobs Plan. These payments constituted an expenditure of $12.7 billion, and were originally valued at $950 (later reduced to $900 after Green Senate amendments) to: all income taxpayers earning less than $100,000 per annum; single income families; low and middle income families with school-aged children; students; and drought affected farmers.[60]

The Rudd Government's Defence of Keynesian Stimulatory Expenditure

For their part, the Coalition Opposition objected to what they perceived to be the stimulatory ineffectiveness of this second tranche of cash transfer payments,[61] and were therefore scathing of what appeared to be another example of a federal Labor government's fiscal profligacy, and traditional Labor tendency towards uncontrolled debt and deficit. As Lenore Taylor and David Uren have summarised, the 'coalition leapt upon the [prospective] debt figure' – the result of the combination of the Rudd Government's fiscal stimulus measures, and the reduced revenues resulting from the impact of the GFC – 'declaring that it proved what everyone had always known: that Labor was spendthrift and could not be trusted with the budget'.[62] Referring to the nation's 2008-09 fiscal turnaround, from an estimated surplus of approximately $22 billion at the time of the budget's announcement, to an updated estimate of a deficit of $22 billion, Malcolm Turnbull characterised this situation as 'Whitlamesque in its dimensions'.[63]

Senior Rudd Government ministers have confirmed that they were acutely aware of the political damage that could be caused from a campaign which derided the Rudd Government's stimulus spending as another example of a federal Labor government's fiscal profligacy and economic mismanagement.[64] However, their determination in the face of this political pressure, to implement their Keynesian policy response, confirms their commitment to these principles as the best method of protecting the living standards of the ALP's working constituents and their dependents. It is evident, therefore, that the Rudd Government's commitment to these Keynesian principles and the ALP's social democratic objective, overrode their electoral concern to adhere to popularly accepted notions of fiscal prudence.

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[60] Kevin Rudd 2009, '$950 One-off Cash Bonus to Support Jobs', Media Release, 3 February, http://www.pm.gov.au/media/Release/2009/media_release_0778.cfm, accessed: 31 March 2009.
The combined total expenditure on the two installments of cash transfers was $19.7 billion. See: Treasury, Statement 1: Budget Overview, *2009-10 Budget Paper No. 1*, p. 1-13.

[61] See: Channel 10 Television 2009, interview with Opposition Leader Malcolm Turnbull, *Meet the Press*, 8 February, transcript, http://www.ten.com.au/media/MTP0802.doc, accessed: 7 February 2011, p. 4; Malcolm Turnbull 2009, Ministerial Statements: Nation Building and Jobs Plan, 3 February, House, *CPD*, pp. 16, 18-9. The Coalition alternatively championed income tax cuts and tax incentives for small and medium-sized businesses.

[62] Taylor & Uren, *Shitstorm*, p. 149.

[63] Malcolm Turnbull 2009, Ministerial Statements: Nation Building and Jobs Plan, 3 February, House, *CPD*, p. 15.

[64] See: Swan, *The Good Fight*, pp. 64, 123-4; Taylor & Uren, *Shitstorm*, pp. 81, 136-7.

In addition, it was evident that Rudd and Treasury, like Keynes, believed that the most sensible policy for medium-term fiscal balance was, in any case, to engage in stimulatory measures during a threatened macroeconomic crisis in order to avoid ‘the high costs of unemployment, lower tax receipts and a less productive economy’, which accompany recessionary downturns.[65] Treasury’s position was emphatic: ‘Reducing expenditure in an effort to hold the Budget in surplus would lead to a deeper and more protracted economic downturn’,[66] in which the ‘budget deficit in the medium term would be likely ... higher’.[67] Treasury also sought to place into perspective the Commonwealth’s prospective debt predicament. They presented the 2009-10 Budget’s projected Commonwealth debt and deficit figures as ‘an inevitable consequence of the global recession’, anticipated to reduce revenues by an estimated $210 billion from the previous year’s forward estimates (inclusive of the period 2008-09 – 2012-13).[68] Treasury estimated that over four years from 2008-09, ‘around two thirds of the total decrease in the underlying cash balance’ was attributable to reduced revenues.[69] In addition, Treasury argued that the Commonwealth Government’s structural fiscal deficit, which had been inherited from the Howard Government, had not appreciably worsened - if the temporary stimulus measures were eliminated from calculations - and Treasury expected the structural deficit to significantly improve over the medium-term because of the Rudd Government’s savings measures.[70] Treasury also noted that the Commonwealth Government’s budget deficit for 2009-10, estimated at $57.6 billion (4.9 percent of GDP), was ‘less than half that of the major advanced economies’ collective deficits of 10.4 per cent of GDP’;[71] and the Commonwealth Government’s estimated net debt peak of 13.8 percent of GDP in 2013-14, compared favourably with the significantly higher estimates for other advanced economies, expected to average 80.6 percent of GDP in 2014.[72]

In formulating its February 2009 Nation Building and Jobs Plan, the Rudd Government also conceived of its plan to return the Commonwealth budget to surplus, once trend growth had been restored. The explicit commitment was that:

> As the economy recovers, and grows above trend [approximately 3 per cent annually], the Government will take action to return the budget to surplus by:
>
> - banking any increase in tax receipts associated with the economic recovery, ... ; and

[65] Rudd, launch of 'Shitstorm' by Lenore Taylor and David Uren, Canberra, 21 June 2010.
See also: Treasury, Statement 4: Assessing the Sustainability of the Budget, *2009-10 Budget Paper No. 1*, pp. 4-3-4-4.
[66] Treasury, Statement 1: Budget Overview, *2009-10 Budget Paper No. 1*, p. 1-51.
[67] Treasury, Statement 4: Assessing the Sustainability of the Budget, *2009-10 Budget Paper No. 1*, pp. 4-3-4-4.
See also: Chalmers, *Glory Daze, pp. 83-5.*
[68] Treasury, Statement 1: Budget Overview, *2009-10 Budget Paper No. 1*, pp. 1-1, 1-5.
[69] Treasury 2009, Statement 3: Fiscal Strategy and Outlook, *2009-10 Budget Paper No. 1*, p. 3-5.
[70] Treasury, Statement 4: Assessing the Sustainability of the Budget, *2009-10 Budget Paper No. 1*, p. 4-17.
[71] Treasury, Statement 3: Fiscal Strategy and Outlook, *2009-10 Budget Paper No. 1*, p. 3-3.
[72] *Ibid*.
See also Glenn Stevens’ and the IMF’s supportive comments on Australia’s prospective net debt position in: Commonwealth of Australia 2009, Senate Economics References Committee, 28 September, Sydney, http://www.aph.gov.au/hansard/senate/commttee/S12463.pdf, accessed: 24 February 2011, pp. 9-10; IMF, ‘Australia: 2009 Article IV Consultation – Staff Report; and Public Information Notice on the Executive Board Discussion’, IMF Country Report No. 09/248, August 2009, p. 21.

- holding real spending growth to 2 per cent a year.[73]

This commitment was later strengthened to maintain the expenditure cap until a surplus of 1 percent of GDP was achieved.[74] Rudd emphasised that the fiscal stimulus should be temporary, 'so as not to push up inflation during the period of economic recovery', and he explained that this fiscal strategy was consistent with 'the central tenet of Keynesian economic management: the need to balance budgets over the course of the economic cycle'.[75] Swan neatly summarised this principle in an address to the 2009 ALP National Conference:

> I know it may have been welcome to many here today to be a Keynesian when the times demanded increased government spending. But we must also be Keynesians when it comes to the tough medicine of restoring the budget to surplus when the good times eventually return.[76]

Like Keynes, the Rudd Government identified the private sector as the 'wealth creators and job creators in our economy',[77] and as such Rudd argued that it should be reinvigorated, not replaced. '[A]s the private sector rebounds, the Government's support will contract'.[78] In this context, the Rudd Government's fiscal strategy can be identified to have been Keynesian in its conception: concerned with both short-term fiscal stimulation, and longer-term private sector buoyancy and fiscal sustainability.

Many prominent Australian public policy analysts have, however, been critical of the steep fiscal challenge the Rudd Government set itself through the introduction of these commitments.[79] Indeed, within the 2010-11 Budget Papers, Treasury acknowledged that the Rudd Government's deficit reduction strategy 'represents the most rapid fiscal consolidation in Australia since at least the 1960s'.[80] In addition, many were also critical of the Gillard Government's subsequent ill-advised surplus guarantee, set for the 2012-13 Budget, which had been based upon improved Treasury economic forecasts.[81] A Keynesian appraisal of this latter commitment broadly supports the

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[73] Wayne Swan 2009, Joint Media Release with the Prime Minister, Macroeconomic and Fiscal Outlook, 3 February, http://www.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2009/010.htm&pageID=003&min=wms&Year=2009&DocType=0, accessed: 5 August 2010.

[74] Wayne Swan 2010, Budget Speech 2010-11, 11 May, http://www.budget.gov.au/2010-11/content/speech/download/speech.pdf, accessed: 5 February 2011, p. 11.

[75] Rudd, 'The Global Financial Crisis', p. 26.

[76] Wayne Swan 2009, 'Chapter 2: Securing Our Future with Responsible Economic Management', address to the ALP National Conference, Sydney, 30 July, http://www.treasurer.gov.au/DisplayDocs.aspx?doc=speeches/2009/018.htm&pageID=005&min=wms&Year=2009&DocType=1, accessed: 27 October 2009.
See also: Swan, 'Keynesians in the recovery', pp. 1, 7-8.

[77] Wayne Swan 2008, opening remarks to the Australian Industry Group Forum, 17 October, Speech No. 040, http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=speeches/2008/040.htm&pageID=010&min=wms&Year=2008&DocType=1, accessed: 27 April 2017.

[78] Kevin Rudd 2010, 'The two arms of Australian economic policy: Maintaining economic stability while building long-term productivity growth', Melbourne, 29 March, http://www.pm.gov.au/node/6606, accessed: 1 March 2011.

[79] See for instance: Taylor & Uren, *Shitstorm*, pp. 150-2.

[80] Treasury 2010, Statement 1: Budget Overview, *2010-11 Budget paper No. 1: Budget Strategy and Outlook*, Commonwealth of Australia, Canberra, p. 1-5.

[81] See, for instance, the contemporary arguments made against cutting fiscal expenditures and aggregate demand to the extent required to produce a surplus in 2012-13, by prominent political scientists, economic commentators, economists and former senior public servants: Tim Battin, Saul Eslake, Tim Colebatch, Bob Gregory, and Bernie Fraser; in: Tim Battin 2011, 'Why Wayne and Julia are hooked on "deficit fetishism"', *The Conversation*, 5 May, https://theconversation.com/why-wayne-and-julia-are-hooked-on-deficit-fetishism-1053, accessed: 11 April 2017; ABC Television 2012, 'Job losses revive call for interest rate cut', *7.30*, report by Stephen Long, 19 April, transcript, http://www.abc.net.au/7.30/content/2012/s3481493.htm,

conclusions reached by the second Rudd Government's Treasurer Chris Bowen (2013): the Gillard Government acted appropriately when it eschewed the 2012-13 Budget surplus commitment, once the government realised that the estimates for Commonwealth budget revenues had fallen significantly short of their original forecast. From a Keynesian perspective the Gillard Government acted appropriately in not seeking to uphold its surplus commitment through excessive fiscal cuts at a time when further fiscal restraint would likely have reduced aggregate demand, investment and employment opportunities. In this context, it can be observed that both the Rudd and Gillard Governments operated broadly within a Keynesian fiscal paradigm; and that the Gillard Government's error in guaranteeing a surplus for the 2012-13 fiscal year - before the revenue figures were known - ultimately constituted a political, not a policy mistake.[82] Moreover, as Swan explained on many occasions, the Gillard Government's failure to deliver the promised surplus in 2012-13 did not result because of the Rudd and Gillard Governments' profligate spending – Commonwealth Government expenditures were returned to below the average levels which had predominated during the previous few decades (including during the period of the Howard Government) – but by the significant reductions which had occurred in Commonwealth revenues. Indeed, Swan argued that had the tax-to-GDP ratio been the same as it had been during the Howard Government's final fiscal year (2007-08), the Commonwealth budget would have been in surplus in 2012-13.[83]

Amidst the GFC, Rudd also argued that the Coalition parties would also have financed 93 percent of the projected debt.[84] Rudd argued that for the Coalition to have avoided this situation, they would have had to manufacture horrific cuts in public expenditures or significant tax increases to compensate for the expected reductions in Commonwealth Government revenues. Moreover, in Keynesian fashion, Rudd argued that cuts of this magnitude would have further depressed the economy, and further endangered the prospects of Australian industry, and their workers' livelihoods. Alternatively, Rudd reasoned that the Coalition would have had to finance a similar quantum of debt as his government.[85] Gillard was similarly emphatic:

> Our opponents have been asking us to run scared from this crisis. To cut spending. And to shy away from debt. Every one of us knows what the consequences of that would be: higher taxes; savage cuts to

accessed: 20 April 2017; ABC Television 2012, 'Former Reserve Bank Governor bemoans state of politics and inequity', *7.30*, report by Stephen Long, 30 April, transcript, http://www.abc.net.au/7.30/content/2012/s3492320.htm, accessed: 20 April 2017.

Based upon the Rudd Government's original strategy for fiscal consolidation, Treasury estimated a return to surplus by 2015-16. Treasury, Statement 1: Budget Overview, *2009-10 Budget Paper No. 1*, p. 1-11.

However, in preparation for the 2010-11 Budget, Treasury revised its revenue estimates, and the Rudd and then Gillard Governments determined that a surplus was achievable by the 2012-13 fiscal year. See: Swan, Budget Speech 2010-11, 11 May 2010, pp. 2, 10; Chalmers, *Glory Daze*, pp. 146-7.

82 See: Bowen, *The Money Men*, p. 429.

Swan has offered a similar analysis, having argued that while the 2012-13 surplus objective was correct, when the Gillard Government became aware of the extent of the Commonwealth budget's estimated revenue downgrade, it was also correct to maintain demand, investment and employment levels through a continued Commonwealth budget deficit in that fiscal year. See: Wayne Swan 2012, press conference, Canberra, 20 December, transcript, http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=transcripts/2012/120.htm&pageID=011&min=wms&Year=2012&DocType=2, accessed: 20 April 2017; Swan, *The Good Fight*, pp. 264, 278-80.

83 See: Swan, *The Good Fight*, pp. 268-80.

84 Rudd, 'The Road to Recovery', *Age*, 25 July 2009.

85 Kevin Rudd 2009, Questions Without Notice: Economy, 5 February, House, *CPD*, pp. 604-5.

> schools, hospitals and welfare; a deeper and longer recession; and higher unemployment. Working people were not the causes of this recession and working people should not have to bear its full brutal force. As Employment Minister, unemployment is my personal public enemy number one.[86]

In accordance with these principles, Rudd presented his government's substantial $42 billion Nation Building and Jobs Plan as 'the only responsible course of action to support jobs and economic growth'.[87] Moreover, Rudd also committed to 'move heaven and earth to reduce the impact of that global recession on Australia',[88] while also recognising – in accordance with Keynes' own view (see chapter three) - that a 'coordinate global response' was necessary to avoid a deep recession in Australia.[89]

Stimulatory Public Works Infrastructure

Continued news of the significant reductions occurring in international demand,[90] and Treasury's appreciation of the more substantial multipliers which accompany public works infrastructure projects,[91] convinced the Rudd Government to also implement this form of stimulus. As outlined above, many of the public works infrastructure programs deployed by the Rudd Government adhered to many of the general principles for their deployment outlined by Keynes (see chapter three), and the criteria devised by E.R. Walker in the 1930s (see chapter four). For instance, many of the local government public works programs implemented during this period were conceived because of the timely stimulus they could provide to regionally-dispersed communities through the employment of local construction workers, who might have otherwise become unemployed.[92] In November 2008, Rudd announced that $300 million would be granted to local governments to construct new, or maintain existing, community infrastructure projects, according to 'a formula that recognises [both] need and population growth'.[93] This commitment was subsequently expanded through the establishment of a $650 million Job Fund, also designed for local government infrastructure investment, as part of the government's Jobs and Training Compact. This program prioritised those regions that either anticipated large numbers of job losses, or those which had already suffered from

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86 Julia Gillard 2009, address to ACTU Congress, 3 June, http://pandora.nla.gov.au/pan/80087/20100628-1337/www.deewr.gov.au/Ministers/Gillard/Media/Speeches/Pages/Article_090603_131653.html, accessed: 17 January 2011.

87 Kevin Rudd 2009, '$42 billion nation building and jobs plan', Media Release, 3 February, http://www.pm.gov.au/media/Release/2009/media_release_0784.cfm, accessed: 31 March 2009.

88 Kevin Rudd, Wayne Swan & Lindsay Tanner 2009, joint press conference, Main Committee Room, Parliament House, Canberra, 3 February, transcript, http://www.pm.gov.au/media/Interview/2009/interview_0793.cfm, accessed: 31 March 2009.

89 Rudd, '$42 billion nation building and jobs plan', Media Release, 3 February 2009.

90 See for instance Swan's account of having spoken to officials from the New York Federal Reserve Bank in January 2009: Swan, *The Good Fight*, pp. 111-2.

91 Treasury cited 2009 analysis from the OECD which claimed that in Australia the expected multiplier for infrastructure investment would be between 0.9 and 1.3, compared with a range of 0.4 to 0.8 for cash transfer payments. See: Treasury n.d., Treasury Briefing Paper for the Senate Inquiry into the Economic Stimulus Package, https://senate.aph.gov.au/submissions/committees/viewdocument.aspx?id=b7b56b21-9714-4465-beda-8e97fe303b1a, accessed: 7 March 2012, p. 4.

92 See: Taylor & Uren 2010, *Shitstorm*, p. 148.

93 Kevin Rudd 2008, opening address to Australian Council of Local Government, 18 November, http://www.pm.gov.au/media/Speech/2008/speech_0618.cfm, addressed: 31 March 2009.

high rates of unemployment.[94] In June 2009, a further $220 million was committed to local government infrastructure investment.[95]

Similar stimulatory advantages, such as timely deployment, regionally-dispersed employment, and labour intensive work sites, also featured to varying extents within the Rudd Government's other public works programs. Infrastructure investment was accelerated through the 2008-09 Budget's infrastructure funds – the BAF, the EIF, and the HHF.[96] In December 2008, $4.7 billion was allocated within the 'nation-building' plan, for infrastructure investment which included: $1.2 billion apportioned to the Australian Rail Track Corporation; and $1.6 billion in tertiary education infrastructure.[97] As part of its February 2009 Nation Building and Jobs Plan, the Rudd Government also invested in 20,000 new social housing dwellings, the upgrade of 2,500 more, and 802 new houses for the Australian Defence Force.[98] The 2009-10 Budget also contained a $22 billion Nation Building and Infrastructure package, which included: the initial roll out of the NBN in Tasmania; works on the road network servicing the eastern seaboard; nine metropolitan rail projects across Australia's major cities; rail and port infrastructure for export industries; primary school infrastructure; and hospital infrastructure.[99]

The Rudd Government's February 2009 Nation Building and Jobs Plan also introduced two prominent infrastructure programs, both of which adhered to many of the of the general principles for the deployment of public works outlined by Keynes, and the criteria established by E.R. Walker. The BER program included an initially estimated $14.7 billion of investment (later raised to $16.2 billion) in school infrastructure, the largest component of which was the Primary Schools for the 21st Century (P21) component, which featured large scale infrastructure projects, such as libraries or multipurpose halls, for every primary school, special school, and K-12 school in Australia.[100] Timely implementation had been central to this program's design. A universal program had been planned because it was determined that it would have taken too long for a competitive applications process to take effect.[101] Timely deployment was also ensured because a schools-based program avoided land purchasing, and it was anticipated that state government school authorities could adopt standard design plans. The program was also designed to: bolster regionally-dispersed construction employment; use

[94] Kevin Rudd 2009, 'Fund to support jobs, build skills and community infrastructure', Media Release, 5 April, http://www.pm.gov.au/media/Release/2009/media_release_0898.cfm, accessed: 9 April 2009.
[95] Kevin Rudd 2009, 'Record Nation Building Investment in Local Communities', Media Release, 25 June, accessed: http://www.pm.gov.au/node/5087, accessed: 29 July 2009.
[96] Kevin Rudd & Anthony Albanese 2008, 'Fast Tracking the Nation-Building Agenda', Joint Media Release, 14 October, http://www.pm.gov.au/media/Release/2008/media_release_0548.cfm, accessed: 31 March 2009.
[97] Australian Government 2008, *Nation Building: Rail, Road, Education & Research and Business*, Commonwealth of Australia, Canberra, pp. 3-4.
[98] Kevin Rudd 2009, '20,000 Social and Defence Homes: Nation Building Investment', Media Release, 3 February, http://www.pm.gov.au/media/Release/2009/media_release_0779.cfm, accessed: 31 March 2009.
[99] Treasury, Statement 1: Budget Overview, *2009-10 Budget Paper No. 1*, pp. 1-18 - 1-19.
[100] Kevin Rudd 2009, 'Building the Education Revolution: New and Upgrade Buildings in every Australian School', Media Release, 3 February, http://www.pm.gov.au/media/Release/2009/media_release_0777.cfm, accessed: 31 March 2009.
[101] See: Taylor & Uren, Shitstorm, p. 142.

predominantly Australian materials; and taper off as the private sector was expected to recover.[102] The HIP was designed to provide home insulation to an originally estimated 2.7 million dwellings.[103] The program had also been designed to provide thousands of regionally-dispersed jobs to low-skilled workers, who had traditionally been the first retrenched in previous recessions.[104] The scheme also envisaged increased employment opportunities for the 'tradespeople and workers employed in the manufacturing, distribution and installation of ceiling insulation'.[105] An analysis of the effectiveness of these programs forms part of the overall assessment of the Rudd Government's Keynesian policy response to the GFC, to which this chapter now turns.

Assessment of the Rudd Government's Keynesian Response to the GFC

According to IMF measures, the Rudd Government's $74.4 billion fiscal stimulus intervention expended more as a proportion of GDP than any other developed economy, with the exception of South Korea.[106] More importantly, Australia could boast to have been the only developed economy to have avoided a recession in 2009.[107] When the National Accounts for the March quarter 2009 were released, revealing growth of 0.4 per cent, it confirmed Australia's avoidance of a technical recession. As Elizabeth Knight proclaimed in the *Sydney Morning Herald*, with this result Australia could 'claim some kind of Keynesian victory'.[108] In addition, the Australian unemployment rate peaked at only 5.8 percent during this period, a rate favourably compared with the OECD average of 8.8 percent.[109] In addition, during the final weeks of the federal Labor government's period in office, Prime Minister Rudd could boast that whereas the Australian economy was 14 percent larger than it had been when his government was elected in November 2007, the UK, French and Japanese economies were still smaller than they had been at this time, the German and US economies had grown by only one-fifth of the rate of the Australian economy, and the Canadian economy had grown only half as fast. Moreover,

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[102] BER Implementation Taskforce 2010, *First Report*, December, Commonwealth of Australia, p. 62; Kennedy, 'Australia's response to the global financial crisis', speech to the Australia Israel Leadership Forum, 24 June 2009; Swan, *The Good Fight*, p. 113.
On the latter point, the BER Implementation Taskforce explained in its *First Report* on the BER program, that BER projects were originally required to commence construction between May and October 2009, and be finished between December 2010 and 31 March 2011. However, '[i]n August 2009, the Guidelines were amended to allow flexibility to delay project commencements and extend project completion dates subject to DEEWR [Department of Education, Employment and Workplace Relations] approval'. Because of value-for-money concerns, in October 2010, the Guidelines on construction timeframes were further relaxed, so that '$500 million of Program funds would be rephased and made available in 2011-12'. See: BER Implementation Taskforce, *First Report*, December 2010, p. 54.

[103] Kevin Rudd 2009, 'Energy Efficient Homes: Ceiling Insulation in 2.7 Million Homes', Media Release, 3 February, http://www.pm.gov.au/media/Release/2009/media_release_0783.cfm, accessed: 31 March 2009.

[104] Kennedy, 'Australia's response to the global financial crisis', speech to the Australia Israel Leadership Forum, 24 June 2009; Allan Hawke 2010, *Review of the Administration of the Home Insulation Program*, 6 April, http://www.climatechange.gov.au/~/media/publications/energy-efficiency/Home-Insulation-Hawke-Report.ashx, accessed: 8 August 2010, p. vi.

[105] Rudd, 'Energy Efficient Homes: Ceiling Insulation in 2.7 Million Homes', Media Release, 3 February2009.

[106] See: Taylor & Uren, *Shitstorm*, pp. 3, 249-50; McDonald & Morling, 'The Australian economy and the global downturn, Part 1: Reasons for resilience', p. 21.

[107] Taylor & Uren, *Shitstorm*, p. 3.

[108] Elizabeth Knight 2009, 'Rudd's Keynesian Victory', *Sydney Morning Herald* – Business Day online, 3 June, http://www.smh.com.au/business/rudds-keynesian-victory-20090603-bv2e.html, accessed: 12 November 2010.

[109] McDonald & Morling, 'The Australian economy and the global downturn, Part 1: Reasons for resilience', p. 11.

Australia maintained one of the lowest government debt to GDP ratios in the OECD: scheduled at that time to peak at just 11.4 percent.[110]

As outlined above, many internationally prominent economists, including the 2001 Nobel Prize-winning economist Joseph Stiglitz, publicly praised the Rudd Government's fiscal stimulatory actions, and attributed Australia's economic resilience to these interventions. Stiglitz suggested that: 'Kevin Rudd ... put in place one of the best-designed Keynesian stimulus packages of any country in the world'. Stiglitz praised the Rudd Government's swift implementation of the fiscal measures taken, and their effective diversification into immediate cash stimulants and longer-term infrastructure investments. He also pointedly rebutted criticisms of their profligacy and waste, through his Keynesian argument that the absence of fiscal stimulus would have led to the greater waste of idle capital and labour.[111] Another large group of eminent Australian economists, many of whom have been extensively cited throughout this thesis (i.e. John Quiggin, and Frank Stilwell) also publicly supported the federal ALP during its 2010 re-election campaign, based upon their approval of the Rudd Government's well designed and targeted fiscal stimulus interventions, which they claimed had prevented 'a deep recession and ... a massive increase in unemployment'.[112] An IMF staff report also credited the Rudd Government's timely and sizeable fiscal stimulatory interventions as major factors in Australia having avoided the international recession which had afflicted other advanced economies,[113] and Treasury cited the OECD's support to claim that: 'Australia's fiscal stimulus measures are among the most effective in the OECD', having been both large and timely.[114]

Elsewhere it was identified that the increase in the first home buyers' grant made an immediate positive impact upon sales: a 25 percent increase on first home purchases was recorded within the first month.[115] Empirical evidence also suggests that the cash transfer payments had been successful in stimulating demand. Treasury's David Gruen estimated that approximately two-thirds of the cash transfer payments had been spent within the first six months of their dispersal,[116] and his departmental

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110 Kevin Rudd 2013, 'The Australian Economy in Transition: Building a new National Competitiveness Agenda', Canberra, 11 July, http://pandora.nla.gov.au/pan/79983/20130830-1433/www.pm.gov.au/press-office/address-national-press-club.html, accessed: 11 April 2017.

111 Joseph E. Stiglitz 2010, 'The Crisis Down Under', Project Syndicate website, 5 August, http://www.project-syndicate.org/commentary/stiglitz128/English, accessed: 23 August 2010; ABC Television 2010, 'Troubles ahead for world economy', transcript, *7.30 Report*, 27 July, transcript, http://www.abc.net.au/7.30/content/2010/s2965891.htm, accessed: 23 August 2010.

112 Various economists n.d., 'An Open Letter', http://johnquiggin.com/wp-content/uploads/2010/08/Labors-Stimulus-Package-2010.pdf, accessed: 20 August 2010.

113 IMF 2010, 'Australia: 2010 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion', IMF Country Report No. 10/331, October, http://www.imf.org/external/pubs/ft/scr/2010/cr10331.pdf, accessed: 28 February 2011, p. 4.

114 Treasury 2009, Statement 4: Assessing the Sustainability of the Budget, *2009-10 Budget Paper No. 1: Budget Strategy and Outlook*, Commonwealth of Australia, Canberra, p. 4-7; McDonald & Morling, 'The Australian economy and the global downturn, Part 1: Reasons for resilience', p. 22.

115 Taylor & Uren, *Shitstorm*, pp. 208-9.
See also: Kennedy, 'Australia's response to the global financial crisis', speech to the Australia Israel Leadership Forum, 24 June 2009; Steve Morling & Tony McDonald n.d., 'The Australian economy and the global downturn, Part 2: The key quarters', http://www.treasury.gov.au/documents/2130/PDF/02_Part2_keyquarters.pdf, accessed: 8 March 2012, pp. 43-4.

116 See: Taylor & Uren, *Shitstorm*, p. 208.

colleagues Steve Morling and Tony McDonald emphasised that Australia's retail trade figures were 6 percent higher in March 2009 than their pre-crisis levels, favourably compared to an average 3.7 percent decline in retail trade experienced during this period across other advanced economies.[117] In the absence of these cash transfer payments, Treasury estimated 'that household consumption would have contracted by 1.3 per cent over the year to June 2009'. Instead, '[t]he actual consumption outcome was growth of 1.7 per cent over that period, a difference of 3 per cent'.[118]

Treasury also estimated the respective contributions made to the maintenance of national economic growth, of both the Rudd Government's fiscal stimulatory interventions, and the Reserve Bank's monetary policy easing - affected through the reduction of short-term 'cash' interest rates from the level of 7.25 percent in April 2008, to just 3 percent in May 2009.[119] These estimates identified that the relative contribution of each factor to GDP growth in the year to September 2009 was: 2.4 percentage points attributable to the Rudd Government's fiscal stimulatory interventions; and less than 1 percentage point attributable to the monetary policy interest rate reductions of the RBA.[120]

Treasury also acknowledged, however, that other, pre-existing factors contributed to Australia's ability to sustain superior GDP growth figures when compared with other advanced economies. These factors included: the previously strong record of Australian macroeconomic management, as demonstrated through the achievement of budget surpluses under both the Hawke and Howard Governments; microeconomic reforms implemented over the previous three decades; Australia's effective system of financial market regulation; and the timely and substantial fiscal stimulus implemented by the Chinese Government, which bolstered demand for Australia's commodity exports.[121] Political economist Alan Fenna has argued that this latter factor was 'decisive' in bolstering Australia's export performance through 2009, in stark contrast to the significant export decline experienced in general across other advanced economies.[122] In opposition to this appraisal, however, Ken Henry specifically discounted the mining industry's contribution to Australia's avoidance of recession. He argued that, notwithstanding the mining industry's buoyancy from the latter-half of 2009, it actually shed 15.2

[117] Morling & McDonald, 'The Australian economy and the global downturn, Part 2: The key quarters', p. 42.
[118] Treasury, Treasury Briefing Paper for the Senate Inquiry into the Economic Stimulus Package, p. 6.
[119] See: RBA statistics for 'Interest Rates and Yields - Money Market', at http://www.rba.gov.au/statistics/tables/xls/f01hist.xls?, accessed: 22 March 2017.
[120] Gruen, 'The Return of Fiscal Policy', Australian Business Economists Annual Forecasting Conference 2009, 8 December 2009.
[121] See: Commonwealth of Australia 2009, Senate Standing Committee on Finance and Public Administration, 5 February, Canberra, http://www.aph.gov.au/hansard/senate/commttee/S11712.pdf, accessed: 13 February 2011, p. F&PA 7; Commonwealth of Australia 2010, Senate Economics Legislation Committee, 27 May, Canberra, http://www.aph.gov.au/hansard/senate/commttee/S13174.pdf, accessed: 27 February 2011, p. E 6; McDonald & Morling, 'The Australian economy and the global downturn, Part 1: Reasons for resilience', pp. 12-4, 22-6; Morling & McDonald, 'The Australian economy and the global downturn, Part 2: The key quarters', pp. 46, 56.
Swan also credited the RBA and APRA with preventing some Australian financial institutions from investing in the type of sub-prime assets which had occurred in the US, and had created the problems in international financial markets which led to the GFC. See: Swan, *The Good Fight*, p. 50.
[122] See: Alan Fenna 2010, 'The Return of Keynesianism in Australia: The Rudd Government and the Lessons of Recessions Past', *Australian Journal of Political Science*, Vol. 45, No. 3, September, p. 364.
See also the sentiments expressed by former Governor of the RBA Ian Macfarlane, in: Megalogenis, 'Australia's Second Chance', Episode Three, *Making Australia Great: Inside Our Longest Boom*.

percent of its workforce in the first six months of 2009. Henry calculated that if this had been replicated throughout the wider economy, the national unemployment rate would have increased from 4.6 percent to a staggering 19 percent over this period.[123] Treasury officials Steve Morling and Tony McDonald have similarly noted that:

> ... some have argued that the strength of demand from Australia's major trading partners, particularly China, is a competing – rather than complementary – factor with the importance of fiscal stimulus, in explaining the resilience of the Australian economy over this period. The estimated contribution to growth from China's demand for Australia's key commodity exports during the downturn ... does not support this argument. While demand from China provided considerable support [to] the economy during this period, it was not the only factor, nor the main factor, underpinning the resilience of the Australian economy.[124]

Jim Chalmers also argued that Australia's terms-of-trade were reduced by a significant 16% between the December quarter 2008 and the June quarter 2009, and that the nation's 'merchandise exports to China fell by almost one-third from October to November 2008, and did not recover to their previous level until February 2009'. He therefore concluded, that '[w]hile strong growth in China and other Asian economies certainly buttressed the Australian economy during the recovery phase, this wasn't the main arm of support during the worst of the global turndown'.[125]

Interestingly, Treasury's modelling of the counter-factual - the economic growth which would have likely occurred in the absence of the Rudd Government's fiscal stimulus measures – concluded that the economy would actually have contracted in 2009 by 0.7 percent of GDP, instead of growing by the 1.4 percent of GDP that it did.[126] This estimate provides a useful point of context, because it has been widely documented that the Rudd Government's skilful policy avoidance of the counterfactual situation, presented the federal Labor government, under the successive leaderships of both Rudd and Gillard, with a difficult political sales pitch. The major political difficulty the federal Labor government faced was that because much of the influence of the Keynesian multiplier goes unseen: 'Those whose jobs were saved don't know who they are'.[127] Wayne Swan explained this politically difficult situation in the following way: 'The "curse" of our emergency measures was that they had actually worked, and the community was never exposed to the trauma they were being protected from. ... but it was a small price to pay for the satisfaction of getting the big calls right on their behalf'.[128] As Jim Chalmers has explained, however, the problem was that:

> Having avoided recession, there seemed little reason for the debt and deficits that had accumulated. Australians had not experienced what policy-makers call the "counterfactual", for example, the higher

[123] Commonwealth of Australia 2010, Senate Economics Legislation Committee, 27 May, Canberra, http://www.aph.gov.au/hansard/senate/commttee/S13174.pdf, accessed: 27 February 2011, p. E 17.
[124] McDonald & Morling, 'The Australian economy and the global downturn, Part 1: Reasons for resilience', pp. 23-4.
[125] Chalmers, *Glory Daze*, p. 78.
[126] Treasury, Statement 1: Budget Overview, *2010-11 Budget paper No. 1*, pp. 1-5, 1-7.
[127] Taylor & Uren, *Shitstorm*, p. 211.
[128] Swan, *The Good Fight*, p. 139.

> unemployment that the stimulus had averted. A dominant narrative became that we had done too much, spent too much, and it was all unnecessary.[129]

Much of this criticism was targeted at the stimulatory public works programs. For instance, a Business Council of Australia commissioned report was critical that Infrastructure Australia had not conducted a thorough audit on the projects included in the 2009-10 Budget's $22 billion Nation Building Infrastructure package. The report argued that because of the haste with which these infrastructure projects had been planned, many of the proposals put forward by the states were of poor design and quality.[130] The Productivity Commission also argued that stimulatory infrastructure projects had not been chosen according to the original strict cost-benefit analyses the Rudd Government had initially envisaged for their Nation Building Investment Funds,[131] and they also reasoned that notwithstanding the need to stimulate short-term demand:

> infrastructure investments that are not well-allocated can impose a double burden: with future generations having lower incomes than otherwise, while still needing to service the debt incurred in financing such assets.[132]

Glenn Stevens also warned that stimulatory infrastructure programs still needed to 'pass the "good policy" test. Poor public policy proposals should not be accepted simply because they are presented as boosting short-term aggregate demand'.[133]

In response to this type of criticism, Rudd reasoned that investments in road, rail, schools, TAFEs, universities, hospitals and medical research, and clean energy projects, did increase the productive capacity of the economy, while community infrastructure projects in areas such as housing would 'deliver lasting benefits to working families across the nation'. However, Rudd also acknowledged that 'mistakes were made' in the haste to maintain demand, and added that more infrastructure projects would have been delivered had there been 'more infrastructure projects sitting on the shelf and ready to go'.[134] On the latter point, Rudd's view was in keeping with Keynes' advocacy for the creation of a planning body, charged with the responsibility to maintain advanced plans and ordered priorities for stimulatory public works, capable of returning economic or social dividends, and which could be implemented at short notice - no longer than a few months (see chapter three). Indeed, Rudd had already created Infrastructure Australia, charged with the responsibility to construct Infrastructure Priority Lists (see previous chapter), a similar and potentially complementary role.

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[129] Chalmers, *Glory Daze*, p. 123.
[130] See: Taylor & Uren, *Shitstorm*, pp. 231-2.
[131] Productivity Commission 2009, *Annual Report 2008-09*, Commonwealth of Australia, Canberra, p. 21.
[132] *Ibid.*, p. 20.
[133] Glenn Stevens 2008, 'The Economic Situation', address to CEDA Annual Dinner, Melbourne, 19 November 2008, in *Reserve Bank of Australia Bulletin*, December, p. 16.
[134] Rudd, launch of 'Shitstorm' by Lenore Taylor and David Uren, Canberra, 21 June 2010; Rudd, 'The Road to Recovery', *Age*, 25 July 2009.

For their part, Treasury acknowledged that Infrastructure Australia 'found it difficult to identify ready-to-deliver, nationally significant infrastructure investment proposals' for short-term stimulatory deployment, and emphasised 'a lack of rigorous, coordinated long-term planning, especially on the part of the states and territories'.[135] However, in response to questioning received in a Senate standing committee, regarding the apparent paucity of stimulatory expenditures targeted at capacity building economic infrastructure, Henry replied: 'If only one could find all of these high capacity building infrastructure projects and turn the tap on now everyone would do it. The difficulty is that they do not exist'. The time lags for implementation of such projects were considered too long, and Henry also argued that projects of great economic value should ordinarily be assessed 'on their merits as supply enhancement initiatives', and not be delayed for deployment as stimulatory public works.[136] On this point Treasury disagreed with Keynes, but were in agreement with the observations of the Chifley Government and its advisers (see chapter five), whose experiences of attempting to plan viable public works infrastructure projects, under the National Works Council in the late-1940s, had convinced them that the planning and deployment of infrastructure projects could not be artificially separated, but were really part of the same process. H.C. Coombs had, for instance, also considered that plans could not be placed on the shelf for deployment at some future date. Governor of the RBA, Glenn Stevens, agreed:

> In a perfect world, you would have a long list of infrastructure things that you would get out, dust off and turn on when the need comes. I have been through a few cycles now and I have not seen that happen quite so easily yet, because it is not feasible to do that. A government faced with a policy intention of filling in a hole in the economy that might last a year or 18 months is always going to face some degree of trade off between what you might think of as highest quality and maximum timeliness. ... I would be very surprised if we ever get away from that trade off completely.[137]

According to the appraisals of both Ken Henry and Glenn Stevens, therefore, the Rudd Government had to choose between the timely deployment of stimulatory public works programs, and the long-term efficiency benefits of the projects involved. According to the above assessment, the Rudd Government's fiscal stimulatory measures certainly achieved the former objective. Their fiscal interventions had been both timely and provided an effective stimulus to aggregate demand. The following assessments of the Rudd Government's most criticised stimulatory public works programs - the BER program, and the HIP – further establish this point, but also assess whether they were flawed in their design, planning, and deployment, particularly with regard to safety regulation design and compliance, and the delivery of value-for-money outcomes. This analysis is used to make recommendations likely to assist the deployment of Keynesian stimulatory public works programs in the future.

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135 Treasury 2010, Incoming Government Brief - Red Book Part 2, http://www.treasury.gov.au/documents/1875/PDF/Red_Book_Part_2_Redacted.pdf, accessed: 14 March 2011, p. 30.

136 Commonwealth of Australia 2009, Senate Standing Committee on Finance and Public Administration, 5 February, Canberra, http://www.aph.gov.au/hansard/senate/commttee/S11712.pdf, accessed: 13 February 2011, pp. F&PA 12-3, 25.

137 Commonwealth of Australia 2009, Senate Economics References Committee, 28 September, Sydney, http://www.aph.gov.au/hansard/senate/commttee/S12463.pdf, accessed: 24 February 2011, p. E 20.

Home Insulation Program (HIP)

The initial phase of the HIP (3 February 2009 – 30 June 2009) involved a Commonwealth Government rebate for the installation of home insulation up to the value of $1600 for households, following the completion of the installation work and an assessment for eligibility from the Department of Environment, Water, Heritage and the Arts (DEWHA).[138] Subsequently, the program's design was changed so that the Commonwealth Government's rebate was administered directly between the installers of the insulation and the Commonwealth Government. This decision meant that from 1 July 2009, most household recipients of the HIP would not encounter out of pocket expenses, because the rebate of up to $1600 would cover the cost of insulation installation for most dwellings.[139] This course of action was taken because of the concern that even generous government rebates may not have been taken advantage of by many households worried about their future employment prospects.[140] Unfortunately, however, it has been identified that this system removed the usual vigilance consumers normally exercise when choosing a tradesperson, and led to the proliferation of many new, small, 'shonky and inexperienced operators' into an industry which grew twenty-fold in less than a year.[141]

Within many of the reports which reviewed the program, it has been identified that many safety guidelines were initially inadequate, and that insulation installers often lacked adequate consideration for the reformed safety guidelines which were subsequently laid down from July 2009 by the Minister for the Environment, Heritage and the Arts Peter Garrett (2007-2010).[142] For example, the Auditor-General noted that for most of the second phase of the HIP (1 July 2009 – 19 February 2010), only the supervisor had to satisfy one of the following competency criteria: previous experience in the industry; an approved qualification in a recognised trade; or have undertaken 'insulation specific training'. It was only in February 2010, just days before the program's curtailment, that this competency requirement was strengthened so that all installers would have to adhere to at least one of these criteria. In December 2009, other guidelines relating to the safety of personnel were also belatedly strengthened: installers were required to 'complete a risk assessment prior to installation'; installers were required to have read the Construction Industry Pocket Book; installers were 'reminded of

[138] Auditor-General 2010, *Home Insulation Program*, Auditor-General Report No. 12 2010-11, Australian National Audit Office, Commonwealth of Australia, Canberra, pp. 20-1.
[139] See: Taylor & Uren, *Shitstorm*, p. 143.
The rebate was subsequently reduced to $1200 per household on 2 November 2009. See: Auditor-General, *Home Insulation Program*, p. 47.
[140] Kennedy, 'Australia's response to the global financial crisis', speech to the Australia Israel Leadership Forum, 24 June 2009.
[141] Taylor & Uren, *Shitstorm*, pp. 224-5.
The Auditor-General has estimated that the industry grew significantly from 200 to 10,834 firms during the course of the HIP. Auditor-General, *Home Insulation Program*, p. 29.
[142] See: Taylor and Uren, *Shitstorm*, pp. 143, 224-5; Hawke, *Review of the Administration of the Home Insulation Program*, p. x.

Workplace Health and Safety obligations including duty of care and mitigating the risk of electric shock by turning off the electricity supply'; and the 'use of non-insulated metal or conductive implements during installation [were] prohibited'.[143] However, other warnings of inadequate industry training, and inadequate monitoring and auditing, resulting from the decision to leave the burgeoning industry 'largely self-regulated', were reportedly ignored, with one anonymous DEWHA insider claiming 'that safety was of less importance than job creation'.[144] Four installers were killed while working under the HIP. Consequently, on 1 November 2009 metal fasteners for use in attaching foil insulation were banned, and it was made mandatory that covers be placed over down lights and other ceiling appliances. On 9 February 2010, the use of foil insulation was also suspended, and the entire program was subsequently terminated on 19 February 2010, with the Minister Assisting the Minister for Climate Change and Energy Greg Combet (2010) citing the behaviour of 'unscrupulous operators' engaged in sub-quality installations and fraud, as the major reason.[145] $56 million was allocated to assist those businesses and employees disadvantaged by the HIP's premature curtailment.[146]

The HIP insulated 1.1 million homes at an eventual cost of $1.45 billion. The Auditor-General's report noted that some 29 percent of the 13,808 homes inspected by March 2010 had identified 'some level of deficiency', and that some $424 million was allocated to further inspections through the Foil Insulation Safety Program (FISP - 50,000 homes), and Home Insulation Safety Program (HISP – estimated to include at least 150,000 homes). 'As at 1 August 2010, 36 per cent (544) of dwellings inspected under FISP (1526) had the foil insulation removed due to a range of safety concerns', while some 207 house fire incidents related to the HIP had been identified by 19 August 2010.[147] By 20 April 2011, the Minister for Climate Change and Energy Efficiency Greg Combet (2011-2013) was in a position to subsequently reassure the public that as a result of the inspections and rectification work carried out under the FISP and the HISP, the fire incident risk of the installed insulation had been reduced to the level that existed prior to the commencement of the HIP.[148]

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[143] Auditor-General, *Home Insulation Program*, pp. 22, 30, 199.

[144] ABC Television 2010, 'A Lethal Miscalculation', *4 Corners*, presented by Wendy Carlisle, 26 April, transcript, http://www.abc.net.au/4corners/content/2010/s2882985.htm, accessed: 1 August 2010; Hawke, *Review of the Administration of the Home Insulation Program*, p. vii.

[145] Greg Combet 2010, Ministerial Statements: Home Insulation Program, 10 March, House, *CPD*, pp. 2154-6.
The Auditor-General reported that more than 4,000 examples of potential fraud had been identified by the Department of Climate Change & Energy Efficiency (DCCEE). See: Auditor-General, *Home Insulation Program*, pp. 22-3, 26, 30.

[146] For more details regarding the compensation made available for affected insulation workers and businesses, see: Kevin Rudd 2010, 'The Government's commitment to insulation workers', Media Release, 24 February, http://pandora.nla.gov.au/pan/79983/20100624-1429/www.pm.gov.au/node/6500.html, accessed: 11 March 2011; Greg Combet & Nick Sherry 2010, 'Tax relief for insulation industry', Joint Media Release, 20 April, http://www.climatechange.gov.au_Tax relief for insulation industry.aspx, accessed: 24 June 2010; Greg Combet 2010, 'Applications open for insulation industry assistance', Media Release, 6 May, http://www.climatechange.gov.au_Applications open for insulation industry assistance.aspx, accessed: 24 June 2010.

[147] Auditor-General, *Home Insulation Program*, p. 31. It is worth noting, however, that the FISP inspections undertaken by 20 August 2010 had noted that '17 per cent of homes inspected had pre-existing electrical defects'.

[148] Greg Combet & Mark Dreyfus 2011, 'Home Insulation Safety Plan update', joint media release, 20 April, http://www.climatechange.gov.au/minister/greg-cambet/2011/media-releases/April/mr20110420.aspx, accessed: 20 April 2011.

The Auditor-General's report was ultimately damning of the Commonwealth Government's negligence in its design of the HIP. It argued that the 6,000 to 10,000 jobs created 'were shorter-lived than intended due to the early closure of the program'. It noted that: 'In large measure, the focus by the department on the stimulus objective overrode risk management practices that should have been expected given the inherent program risks', and added that the delay in the implementation of the compliance and audit components of the program meant that 'risks were not adequately addressed'. The report questioned why consultation was not undertaken with 'members of the electrical industry or relevant State and Territory agencies when developing supervisors' minimum competency requirements', and it was also critical that the New Zealand experience, which involved three fatalities in the 2007 'do-it-yourself' underfloor insulation program, was ignored. Fundamentally, the report noted that 'DEWHA underestimated the level of risk involved in installing insulation in ceiling spaces by inexperienced and often untrained installers working in a largely unregulated industry'.[149] Moreover, on this latter point, and of great important for the future implementation of stimulatory public works programs, the Auditor-General also pointed to the inexperience of the DEWHA in project management, and the under-resourcing of the department for this task. The report concluded that the HIP was overly costly for the outcomes achieved, and contributed reputational damage to both the insulation industry and 'the Australian Public Service for effective service delivery'.[150]

Macquarie University researcher Jean Parker has also identified DEWHA's inexperience in project management as having been central to the HIP's shortcomings. Parker has argued that the program's 'market-delivery' rebate model was designed upon the advice of private sector consultants Minter Ellison whom DEWHA proved unable to effectively manage. Parker described that Minter Ellison's program design aimed ultimately to transfer program risk from the Commonwealth Government to the private sector installers. As Parker summarised: 'the notion of risk that prevailed among program designers had nothing to do with the provision of a safe program. Risk management was instead concerned to minimise the financial, political, legal and reputational risks to the Commonwealth', with disastrous consequences for program safety. Parker concluded that unless project management capacity is rebuilt within the Commonwealth public service, the type of program shortcomings experienced within the HIP would likely be repeated in future public service delivery.[151]

As the following section establishes, while the BER program also experienced some concerns regarding value-for-money outcomes, the evidence procured from the BER Implementation Taskforce established that this program provided a timely and effective public works stimulus, and has provided schools across Australia with valuable infrastructure projects, greatly appreciated by both principals and school communities. However, one important observation cited above in the Auditor-General's

[149] Auditor-General, *Home Insulation Program*, pp. 27, 33.
[150] *Ibid.*, pp. 27, 32, 35.
[151] Jean Parker 2014, 'Insulation royal commission exposes fatal market flaws', 8 September, https://theconversation.com/insulation-royal-commission-exposes-fatal-market-flaws-31189, accessed: 11 April 2017.

review of the HIP, and Jean Parker's research, was also identified by the BER Implementation Taskforce: the paucity of project management skills, or public works capacity, within the public service departments of Australian governments. The implications of this for the future deployment of stimulatory public works are analysed below.

Building the Education Revolution (BER) Program

A program that the Auditor-General estimated to have delivered projects in as little as a third of the time than usually expected[152] was perhaps always going to attract the type of media criticism the program received with regard to its alleged failure to deliver value-for-money outcomes.[153] The BER Implementation Taskforce, established by the Rudd Government to independently investigate the deployment of the program,[154] discovered in its *Interim Report* that common complaints related to the absence of school level involvement in how projects would be implemented, program inflexibility, and concerns over costs.[155] Subsequent complaints related to 'the final project scope, the quality of building work, defects and building delays'.[156]

The Implementation Taskforce's overall appraisal of the program was, however, very positive. Its *First Report* cited approvingly that the program was expected to support 120,000 jobs in total over the full life of the program, 'filling the gap left in demand from the private sector and playing an important role in supporting apprentices and skill retention in the building and construction industry'.[157] On this point, the Taskforce's *First Report* is worth quoting in detail:

> The total value of non-residential building fell in late 2008 and early 2009 before picking up in mid 2009. At that point, the private sector contribution continued to fall, while the public sector contribution increased substantially. The public sector generally accounts for around 15 per cent of total non-residential building, but in late 2009, it was nearly 50 per cent.
>
> The building and construction industry accounts for seven per cent of GDP and employs over one million people, representing nine per cent of the Australian workforce. The construction industry has

[152] Auditor-General 2010, *Building the Education Revolution—Primary Schools for the 21st Century*, Audit Report No.33 2009–10, Australian National Audit Office, p. 14.

[153] In her memoir, Gillard emphasised that the media criticisms of the program originated in *The Australian* newspaper, under their 'Schools Watch' banner, but subsequently also moved onto television reporting. See: Gillard, *Julia Gillard*, p. 255.

[154] The investigations of the BER Implementation Taskforce had several objectives. Its *Final Report* noted that the taskforce: investigated complaints from 332 schools; investigated value-for-money outcomes for 460 schools (both complaint and non-complaint schools); conducted a comparative analysis of value-for-money outcomes achieved under the different school authorities (i.e. under each state and territories' government school authority, and each state and territories' Catholic and/or independent school authority); proposed and negotiated solutions for those schools which failed the Taskforce's value-for-money assessment; and agreed resolutions with the relevant educational authorities for those projects which featured identified construction defects. See: BER Implementation Taskforce 2011, *Final Report*, July, Commonwealth of Australia, pp. 9-10.

[155] BER Implementation Taskforce 2010, *Interim Report*, Commonwealth of Australia, p. 7.

[156] BER Implementation Taskforce, *Final Report*, July 2011, p. 9.

[157] BER Implementation Taskforce, *First Report*, December 2010, p. 7.

The Taskforce estimated (p. 66) that the BER program featured an implied multiplier of 1.14 in its first year, and 0.64 in the year to September 2010. The Taskforce stated that: 'These estimates fall within the International Monetary Fund (IMF) range for large scale infrastructure programs'.

On the support the program provided to apprentices, the *First Report* noted (p. 69) that: 'Training commencements fell by close to 20 per cent in 2008-09 but quickly recovered to record levels in 2010. This is in stark contrast to the 1990s recession when apprenticeships commencements fell by over 30 per cent in two years and failed to fully recover over the following decade'.

> emerged from the global financial crisis relatively unscathed, in contrast to the recession of 1990-91 when approximately 110,000 construction jobs were lost between January 1990 and September 1991. Modelling conducted for the Taskforce estimates that 22,970 direct building and construction jobs were supported by the Program up to September 2010.[158]

In other words, the BER program successfully stimulated an important sector of the economy, at the precise time when private sector activity and employment in the construction industry had been severely affected by the impact of the GFC. This was an effective deployment of Keynesian fiscal stimulus. The BER avoided a repeat of the significant job losses which occurred as part of the early-1990s recession in the construction industry, as well as the attendant human suffering and loss of industry skills that this entails.

The vast majority of school principals and school communities also appreciated the infrastructure projects the BER program provided. While serving as Minister for Education, Gillard pointed to a survey conducted by the Australian Primary Principals Association (APPA), which revealed that in September 2009, 85 percent of primary school principals 'strongly supported' the BER program.[159] A subsequent APPA survey, also identified that 97 percent of surveyed principals believed that students would benefit from the P21 projects, and 90 percent of principals believed the community would similarly benefit;[160] a finding consistent with the Audit Office's claim that 95 percent of primary school principals acknowledged the 'ongoing value to their school and school community' of the P21 projects.[161]

While the Implementation Taskforce identified that on average the BER delivered its infrastructure projects at a premium price of between 5 and 6 percent in excess of pre-BER costs, the variances identified were not uniform across each educational authority. The Taskforce noted, for instance, within its *Final Report* that:

> The Catholic and independent schools across the country, accounting for 31 per cent of the program, have generally grasped the opportunity to build quality new school facilities integrated into their school campuses. For many, the existence of master plans underpinned the capacity to deliver bespoke design, a reasonably rapid implementation, and good outcomes on cost and quality.

Alternatively, while the Taskforce was 'confident' that the Queensland, Western Australian, South Australian, the Australian Capital Territory and Tasmanian government systems – which constituted a

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[158] *Ibid.*, 65.
[159] Julia Gillard 2009, 'Primary school principals give BER a big tick', Media Release, 1 October, http://www.deewr.gov.au/Ministers/Gillard/Media/Release/Pages/Article_091001_085411.aspx, accessed: 24 June 2010.
[160] Julia Gillard 2010, 'Principals say BER is benefitting students', Media Release, 1 May, http://www.deewr.gov.au/Ministers/Gillard/Media/Release/Pages/Article_100513_183459.aspx, accessed: 24 June 2010.
[161] Julia Gillard 2010, 'Government welcomes Auditor General's report into the Building the Education Revolution', Media Release, 5 May, http://www.deewr.gov.au/Ministers/Gillard/Media/Release/Pages/Article_100505_124120.aspx, accessed: 24 June 2010.
See also: APPA n.d., Submission to the Senate Education, Employment and Workplace Relations References Committee into Primary Schools for the Twenty First Century Program, https://senate.aph.gov.au/submissions/committees/viewdocument.aspx?id=6038f108-64e0-4825-b6fe-7997617f1ed8, accessed: 8 March 2012.

further 30 percent of the program – 'have attained value for money in their BER implementation', the New South Wales and Victorian governments delivered 'poorer performance on both cost and observed quality', while also disenfranchising their school communities.[162] Within its *Final Report*, the Taskforce identified that while the average cost of halls, classrooms and libraries for the BER P21 program nation-wide was $2,333/m^2 (regionally adjusted). Under the NSW government education authority, the average cost identified was $3,448/m^2 (regionally adjusted), and the figure was $3,075/m^2 (regionally adjusted) under the Victorian government education authority.[163]

In explaining the cost and quality discrepancies between the different education authorities, one of the key findings of the Taskforce's *Final Report* was that those education authorities who achieved better outcomes either:

- 'leveraged existing capital works capacity to act as an informed buyer, and/or
- [e]mpowered school principals and managing architects'.

In making this point the Taskforce explained that those education authorities who achieved better value-for-money outcomes used the capital works capacity – knowledge of the construction industry, and experience in procuring and monitoring the deployment of construction projects – of their organisations, school principals, or managing architects, to achieve better value-for-money outcomes. Alternatively, those educational authorities who outsourced the management of their BER programs to a private sector organisation – most notably the Queensland, Victorian, and New South Wales governments – experienced varying degrees of difficulty in managing the program, depending on the relevant state government's existing public works capacity.[164] The Taskforce explained this point in relation to experienced cost discrepancies:

> Analysis suggests that much of the variability of total per m^2 project costs between authorities is driven by the level of agency and management fees paid to implement the program and the level of external works and services and unique project costs. The Taskforce view is that the NSW Government's high total project costs ($3,448/ m^2) reflects the relatively high fees paid to managing contractors (20 to 24 per cent) which itself is a product of the lack of NSW public works capacity available and leveraged by the education department for BER. This progressive diminution of public works capacity evident in NSW and Victoria may represent a false economy (i.e. governments may incur increased costs when the capability to be a fully informed buyer is lacking and services are outsourced).[165]

The Taskforce therefore identified that 'the Victorian Government lacked the public works capacity to act as a fully informed buyer', and noted that 'while NSW had capacity within the state government, this was not effectively extended to the BER program'.[166] In other words, in the opinion of the Taskforce, and despite these educational authorities having outsourced the management of their BER programs, the Victorian and New South Wales education authorities even lacked the technical capacity

[162] BER Implementation Taskforce, *Final Report*, July 2011, p. 12.
[163] *Ibid.*, pp. 41-2.
[164] *Ibid.*, p. 11.
[165] *Ibid.*, p. 10.
[166] *Ibid.*, p. 53. The Taskforce outlined the attributes of an 'informed buyer', of contracted out public works program management, on page 60 of its *Final Report*.

'to ensure the external managing organisations delivered fully on their contract obligations'.[167] In short, these educational authorities not only lacked the public works capacity needed to directly manage the BER program's delivery, but they also lacked the knowledge needed to cost effectively outsource the program's management to the private sector.

Building on this latter point, the Taskforce explained in its *Final Report* that an analysis of state government employees across the nation reveals that according to their stated occupation, the number of 'civil engineers' almost halved over a 30 year period: from 4,480 in 1976 to just 2,547 in 2006. The Taskforce identified a similar trend in the state government employment of architects. Their conclusion was that:

> This [trend] has diminished state governments' in-house capability. In addition, there has been a marked de-professionalisation with a reduced focus on specialist skills (engineers and architects) relative to generalists. ... The only state government that can claim to have all the attributes of an informed buyer of capital works projects currently is the Queensland Government.[168]

The Taskforce identified that the appointment of 'generalist' public service managers, who lack occupation-specific knowledge and experience in the management of public works, can prove problematic, 'particularly when the management role is required to make judgments about technical issues'.

> This is especially so in relation to the procurement of capital works where expertise is required to ensure that the specifications for the project properly meet the client requirements, and that the delivery model of the project is best suited to dealing with the risks attendant to that project. The ideal skill set for such a role is a combination of technical knowledge, experience in managing similar projects, and the ability to understand and manage contracts.[169]

In addition, the Taskforce identified that the disappearance of centralised systems of public works coordination within state governments, and their replacement with the devolution of responsibility for public works to 'host' departments, such as education departments, has meant the loss of useful institutional knowledge. One important consequence of this is that when departments contract out the management of program delivery - as occurred with the deployment of the BER program under the Victorian and New South Wales education authorities - they lack knowledge of 'benchmark project costs and performance or the longer term life cycle issues associated with capital works maintenance'.[170] They are in short, an uninformed buyer. Importantly, moreover, because under these circumstances more of the program risk and decision-making responsibility is transferred to a private sector managing contractor, these contractors increase their fees to appropriately compensate themselves for the increased level of responsibility transferred. Under these circumstances, the achievement of value-for-money outcomes in the deployment of public works is less likely than if in-

[167] *Ibid*., p. 56.
[168] *Ibid*., p. 11. See also: pp. 54-60, 240-5.
[169] *Ibid*., p. 54.
[170] *Ibid*., p. 57.

house technical expertise had been maintained, and made available to inform the cost-effective delivery of stimulatory public works programs.[171]

In light of these observations, the Taskforce concluded that: 'Demonstrated technical expertise should in the future be seen as an absolute necessity but not in and of itself, a sufficient basis for all senior appointments to overseeing capital programs'.[172] The Taskforce also recommended that Australian governments should ensure: the continuous recruitment of graduate engineers; 'that sufficient design and contract supervision is undertaken in-house to provide opportunities for hands-on development and experience of the young engineers'; and that engineers are provided with opportunities to work on major projects, as well as secondments to other agencies, the private sector and internationally.[173] These recommendations inform the concluding remarks of this chapter, which address how the deployment of stimulatory public works can be improved in the future.

Conclusion and Recommendations

This chapter has established that Rudd and Swan's long-standing ideological support for government economic interventions, designed to correct market failures and increase productivity growth through targeted public sector investments in economic infrastructure and human capital (established in the previous chapter), predisposed the Rudd Government to the Keynesian interventionist policies it implemented in response to the GFC. It has been acknowledged that these Keynesian policy responses were both informed and supported by the Commonwealth Treasury, as well as key international intergovernmental institutions, including the OECD and IMF. Indeed, the policy advice the Rudd Government received from Treasury is particularly notable, because it reversed the strident market liberal advice the Hawke and Keating Governments had received during the early-1990s recession. Rather than expressing an aversion to Keynesian fiscal intervention, senior Treasury officials shared the Rudd Government's desire to avoid a repeat of the burgeoning numbers of long-term unemployed, as well as the permanent skill atrophy, and business failures, prevalent during this period.

While acknowledging these institutional sources of support, this chapter has also argued that when confronted with the largest international economic downturn since the Great Depression, the Rudd Government's evident concern for the plight of workers and their dependent families, and the acceptance amongst its most senior cabinet ministers that Keynesian policy interventions can provide an effective stimulus to aggregate demand, meant that the Rudd Government was ideologically predisposed to protect jobs through Keynesian methods. In support of this argument this chapter emphasised that the Rudd Government's substantial fiscal stimulatory actions were taken in spite of their effect in exacerbating the Commonwealth Government's burgeoning budget deficit, and the

[171] *Ibid.*, pp. 57, 63.
[172] *Ibid.*, p. 54.
[173] *Ibid.*, pp. 59-60.

likely electoral unpopularity of this outcome for a federal Labor government. It has been argued that in spite of this political pressure, the Rudd Government's concern for the material wellbeing of the ALP's working constituents and their dependents, took precedence over any countervailing desire to adhere to popularly accepted notions of fiscal prudence. In any case, it has also been established that the Rudd Government – in combination with Treasury advice – believed, like Keynes, that the most sensible policy for medium-term fiscal balance was to engage in stimulatory measures during a threatened macroeconomic crisis, and at the same time plan for the implementation of fiscal consolidation, once trend growth had returned.

This chapter also emphasised how closely many of the Rudd Government's stimulatory public works programs complied with the general principles outlined by Keynes (see chapter three), and the criteria devised by E.R. Walker in the 1930s (see chapter four). It was demonstrated that many of the local government infrastructure projects, in addition to the BER program and the HIP, included the type of timely, regionally-dispersed public works projects which Keynes had advocated because of their stimulatory usefulness. Moreover, it was also demonstrated that these public works programs included many of the criteria outlined by E.R. Walker:

- they used a large share of resources, which might have otherwise remained idle, in the regionally-dispersed and labour-intensive construction industry;
- they employed a high level of Australian materials (including labour);
- they were designed to taper off as the private sector recovered; and
- they usefully maintained demand in the wider economy.

It has also been established that observation of the key macroeconomic variables confirms that the Australian economy successfully negotiated its way through the crisis, and that based upon Treasury's estimations of the contributions made by the Rudd Government's various fiscal stimulus interventions, these measures can take much of the credit. While Treasury acknowledged that other factors also contributed to Australia's favourable macroeconomic performance, Treasury concluded that the most important factor which buttressed the Australian economy during the depths of the crisis was the Rudd Government's stimulatory fiscal interventions. Based upon this analysis, this chapter concludes that the Rudd Government's Keynesian response to the GFC offers a valuable case study in how successful Keynesian policies can be, if implemented in a timely manner, in maintaining high levels of employment amidst serious macroeconomic crises.

It has been established that the BER public works program bolstered employment in the regionally-dispersed construction industry, and thereby significantly contributed to the retention of important workforce skills, and the maintenance of apprenticeship training. It has also been acknowledged, however, that program reviews identified serious shortcomings with regard to the HIP's inadequate safety regulation design and compliance, and some instances within the BER program of excessive costs, and the failure to meet value-for-money outcomes. An important finding also established by separate investigations into both of these programs reveals, however, that had those state and Commonwealth government agencies, given responsibility for the planning and implementation of these programs, had greater access to technical expertise relevant to the management of public works, then these programs would likely have avoided or lessened the severity of these shortcomings.

This chapter therefore agrees with a key recommendation of the BER Implementation Taskforce's *Final Report*, cited above. It is recommended that serious consideration should be given by Commonwealth, state, and territory governments to the recruitment of a greater number of technically qualified graduate engineers, so that Australian governments regain the public works capacity required to manage the deployment of stimulatory public works programs both more competently, and more cost effectively, in the future.

This recommendation notwithstanding, however, it is also likely that lower quality public works projects may still have to be tolerated when deployed for stimulatory purposes. On this point, it is notable that the assessments of senior public servants under the Rudd Government reflected the earlier concerns expressed by the Chifley Government and their advisers in the late-1940s, with the regard to the difficulties involved in effectively planning lists of public works projects for stimulatory use (see chapter five). Their conclusions were essentially the same: shovel-ready, high quality public works, cannot likely be planned in advance, or valuable public works delayed for stimulatory deployment.

Nevertheless, this chapter firmly concludes that the Rudd Government's successful handling of the GFC provides a valuable case study for the ongoing usefulness of Keynesian macroeconomics for federal Labor governments. Whereas the Hawke and Keating Governments' market liberal policies precipitated and then prolonged a damaging recession in the early-1990s, one of the chief legacies of which was a stubbornly high rate of unemployment which remained above 8 percent for the remainder of the Keating Government's period in office (see chapter eight), the Rudd Government's Keynesian response to the GFC avoided both a damaging recession and a high rate of unemployment. It is from this position that this chapter concludes that Keynesian policies provide federal Labor governments with the macroeconomic demand management policies needed to facilitate the conditions of low inflationary, full employment prosperity, from which the ALP can attempt to fulfil its social democratic objective of improving the living standards of its working constituency and their dependents. It is Keynesian policies which best facilitate the achievement of the key ideological objective the Party has pursued since its formation in the late-nineteenth century (see chapter one). As Wayne Swan acknowledged, Keynesian economics had been at the heart of the Curtin and Chifley Government's plans for post-war reconstruction, and it was Keynesian economics which had 'guide[d] the emergence of Australia as a 20th Century social-democratic state', implemented through policies of 'demand management in pursuit of full employment and rising prosperity'. Although Swan acknowledged that the influence of Keynesianism had waned in the intervening period, he argued that its core insights into market failure, and prescriptions for reinvigorating private sector investment and consumption amidst recessionary economic conditions, were rightly returned to prominence amidst the global economic turmoil of the GFC.[174]

The concluding chapter of this thesis summarises its central argument.

[174] Swan, 'Keynesians in the recovery', pp. 3-4.

CONCLUSION

This thesis is an addition to the existing academic debate concerned with whether the Australian Labor Party has maintained ideological continuity, or whether the Party has betrayed its ideological roots. Chapter one established this thesis' case for assessing ALP ideological continuity through an analysis of the vacillating influences of Keynesian and market liberal macroeconomic theories on the policy-making of federal Labor governments in the period since the Great Depression. This chapter does not revisit the detailed chapter summaries provided in chapter one. Rather it re-establishes the key argument which has been made throughout this thesis: that although market liberal policies have not been inconsistent with the ALP's social democratic ideological objective of attempting to improve the living standards of the Party's working constituents and their dependents (established in chapter one), they have proven less successful in providing the stable and prosperous macroeconomic circumstances necessary to facilitate this objective, than have Keynesian policies.

The previous chapters have argued that all federal Labor governments analysed within this thesis have consistently adhered to a social democratic ideology. This thesis has argued that the analysis of federal Labor governments' macroeconomic policies suggests that although these governments have been periodically influenced by two competing and incompatible macroeconomic theories, all federal Labor governments have sought to uphold the Party's ideological objective of improving the living standards of the ALP's traditional core constituency: working people and their dependents. They all implemented those fiscal, monetary, wages, and financial regulatory policies they believed would best facilitate sustainable low inflationary employment growth, needed to facilitate improvements in the living standards of this constituency. In this context this thesis argues that while the economic policy means adopted by successive federal Labor governments have differed, the Party's broad ideological objective has remained unaltered.

In addition to the argument for ideological continuity, this thesis has also argued that successive federal Labor governments have learnt from their predecessors' policy-making experiences. For instance, chapter five established that the Curtin and Chifley Governments' adoption of Keynesian policies had been heavily influenced by their experiences – and those of their public service policy advisers – of the human suffering and economic waste associated with the Great Depression, and the policy ineffectiveness of the Premiers' Plan, which had been reluctantly implemented by their Scullin Government during this period (see chapter four). It has also been established in chapters seven and eight, that although the Hawke and Keating Governments alternatively concluded that market liberal macroeconomic policies provided a more feasible method of increasing private sector investment and employment, this conclusion similarly drew upon the policy-making experiences of their Whitlam Government predecessors (see chapter six). It has been argued that part of the reason the Hawke and Keating Governments upheld policies of fiscal and wages restraints throughout most of their period in office, was because of their desire to avoid the crowding out of private sector investment which they believed had occurred under the Whitlam Government. Finally, as chapter ten has established, the Rudd Government and their Treasury advisers were also heavily influenced by the experience of the human suffering, loss of workforce skills, and the waste of idle capital and labour resources, which had accompanied the significant rise in unemployment which occurred during the early-1990s recession.

This thesis has also argued, however, that some key lessons from the policy-making experiences of earlier federal Labor governments were subsequently forgotten. Most notably, it has been established that the Hawke and Keating Governments discarded or were not aware of the pertinent criticisms Keynes had made of unfettered market forces, which had previously influenced the policy-making of the Curtin and Chifley Governments. For instance, Keynes' scepticism of financial markets' inherent tendency to engage in speculative, inefficient activity had underpinned his advocacy for several measures of financial market regulation, including the 'socialisation of investment' (see chapter three). These insights were reflected in the Curtin Government's 1945 banking reforms, which had been designed to facilitate a high and stable rate of investment through direct regulatory controls (see chapter five). Notwithstanding Keynes' theoretical insights, however, the Hawke and Keating Governments eagerly embraced the deregulation of financial markets, believing that the removal of financial regulatory impediments, including the introduction of foreign banking competition, would facilitate a more efficient distribution of finance capital to enterprising firms and businesses, and thereby assist in creating greater employment opportunities for the ALP's working constituents. Therefore, and in combination with these governments' policies of fiscal and wages restraints, and other policies designed to facilitate greater market distribution (see chapter eight), the Hawke and Keating Governments disregarded one of Keynes' central conclusions: that unfettered markets tend towards a state of employment equilibrium below that of full employment. In other words, according to Keynes, financial markets had to be significantly regulated in order to ensure the efficient distribution of finance capital, and a high level of employment.

Moreover, as chapter eight established, the speculative financial activity associated with the late-1980s investment boom was not only facilitated by the Hawke and Keating Governments' financial deregulatory reforms, but it also required the intervention of a severe corrective monetary policy, which precipitated the early-1990s recession. This recession revealed that if Keynesian stimulatory action is not taken to avoid or alleviate a contraction in demand, market forces can be very slow in producing a recovery in investment and employment levels. In this context, while the Hawke and Keating Governments rejected the insights and policy advocacy of Keynesian macroeconomics, its own policy-making experience revealed the risks social democratic governments confront when they place too great a trust in the resource distribution of the private sector to determine the pace of economic activity, the level of investment and employment, and ultimately the living standards of workers, and their dependents. As chapter eight concluded, any discernible improvement in broad macroeconomic variables which were evident by the late-1980s – and particularly the discernible improvement in the unemployment rate – was subverted by the deep and long-lasting recession of the early-1990s, one of the chief legacies of which was a stubbornly high level of unemployment, not reduced below the level of eight percent for the remainder of the Keating Government’s period in office.

This thesis therefore concludes that although market liberal non-interventionist policies are not inconsistent with the Party’s social democratic ideology, they have proven less reliable in maintaining macroeconomic stability, with consequent adverse effects on the living standards of the ALP’s working constituents, and particularly during times of recession and recovery. Moreover, this thesis also concludes that the Rudd Government’s successful handling of the GFC provides a valuable case study for the ongoing usefulness of Keynesian macroeconomics for federal Labor governments. Whereas the Hawke and Keating Governments’ market liberal policies precipitated and then prolonged a damaging recession in the early-1990s, the Rudd Government’s Keynesian response to the GFC avoided both a damaging recession and a high rate of unemployment. In this context, this thesis argues that the ALP would be well advised to advocate and plan for the long-term implementation of Keynesian macroeconomic management. However, this course of action would entail some significant policy and political challenges.

For instance, the difficulties involved in implementing and administering a policy of cooperative wages restraint, capable of restraining inflationary wage pressures under the conditions of full employment, remains a key challenge. Chapter five established that although the Chifley Government proved successful in restraining inflationary wage pressures during its period in office, it did not succeed in obtaining broad workforce support for this policy. Conversely, chapter six established that under the Whitlam Government significant and inflationary nominal and real wage increases were allowed to proliferate, largely because the government proved unsuccessful in convincing wage earners that the provision of increased social wage benefits, associated with the implementation of its social reform program, meant they no longer required large wage increases to improve their living standards. Chapters seven and eight established that the Hawke and Keating Governments did manage to constrain inflationary wage pressures, and that this was achieved through a cooperative, centralised system of wages restraint, negotiated with the trade union movement under the Accord process. However, rather than having merely restrained inflationary wage pressures, chapter eight established that the Accord process actually reduced average real wages for an uninterrupted six year period, at significant cost to the living standards of the ALP’s working constituents. Chapter nine also revealed that prior to the GFC, the Rudd Government had not implemented a credible policy to ameliorate inflationary wage pressures in the context of an economy confronting capacity constraints. This thesis concludes, therefore, that the challenge of establishing an effective cooperative policy of wages restraint, particularly in the context of declining trade union membership, presents an ongoing challenge for future federal Labor governments.

As noted above, the Rudd Government's timely and effective deployment of stimulatory public works projects revealed the ongoing relevance of the basic principles outlined by Keynes, and the criteria for the effective deployment of stimulatory public works programs established by E.R. Walker in the 1930s (see chapter four). These principles and criteria were closely followed by the Rudd Government, and were widely recognised to have underpinned the effectiveness of the Rudd Government's fiscal stimulatory interventions. Notwithstanding these achievements, however, in order to restore the public works capacities of Australian governments - so that they might better manage the deployment of stimulatory public works programs in future - it is recommended that the federal ALP should seriously consider advocating for the greater public sector recruitment of technically qualified graduate engineers at the Commonwealth, state and territory levels, as recommended by the BER Implementation Taskforce (see chapter ten).

It has also been established within this thesis that in two disparate periods of federal Labor government, Keynes' advocacy for the advanced plans and ordered priorities of stimulatory public works projects has been found to have been too difficult in practice to produce. Chapter five established that the planning experience of the Chifley Government suggested that the tap of public works could not be turned as quickly as Keynes and his supporters had originally hoped. The Chifley Government's experiences of attempting to plan viable public works infrastructure projects, under the National Works Council in the late-1940s, had convinced them that the planning and deployment of infrastructure projects could not be artificially separated, but were really part of the same process. H.C. Coombs considered that plans could not be placed on the shelf for deployment at some future date. Passing comment some 60 years later, Secretary to the Treasury Ken Henry, and Governor of the RBA Glenn Stevens, also argued that the planning of shovel-ready, high quality public works, cannot likely be planned in advance, or delayed for stimulatory deployment. According to these appraisals, governments had to choose between the timely deployment of stimulatory public works, and the long-term efficiency benefits of the projects involved. In considering these options, this thesis draws upon the policy advice of Keynes and the recent policy experience in Australia. As cited in chapter ten, Henry argued that projects of great economic value should ordinarily be assessed 'on their merits as supply enhancement initiatives', and not delayed for deployment as stimulatory public works.[1] In this context, the advice of John Maynard Keynes, cited in chapter three, is of great relevance. For Keynes the overwhelming priority was 'to get the money spent'.[2] Keynes emphasised that even in those circumstances in which it is difficult to avoid waste, inefficiency, and corruption in the

[1] Commonwealth of Australia, Senate Standing Committee on Finance and Public Administration, 5 February 2009, pp. F&PA 12-3, 25.
[2] Keynes, 'Can America Spend its Way into Recovery?', p. 337.

implementation of public works, these considerations should be properly outweighed by the alternative risks of recession, high unemployment and general misery, so that if necessary more timely, if less useful, projects should be deployed.[3]

In this light, because lower quality public works projects may still have to be tolerated when deployed for stimulatory purposes, future federal Labor governments will likely confront similar criticisms of profligacy, waste and economic mismanagement, as confronted the Rudd Government. However, the analysis in this thesis provides evidence which supports the long-standing policy logic of the Keynesian position. The analysis of this thesis has suggested that future federal Labor governments can make the case that fiscal stimulatory interventions are needed to ensure the maintenance of macroeconomic stability and full employment, from which the ALP's working constituency directly benefits. Moreover, it can also be argued that it is from a position of stable economic growth that public finances are most prudently managed. In short, this thesis argues that there are strong grounds on which federal Labor governments can defend Keynesian policies, given their capacity to both protect Australian workers' job security in times of crisis, and facilitate sustainable economic growth over the longer-term.

[3] Keynes, An Open Letter to President Roosevelt, in Freedman (ed.), *Roosevelt and Frankfurter*, p. 180; Keynes, *The General Theory*, p. 127.

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