

THE RISE AND FALL OF  
AUSTRALIAN  
SOCIALISM

by  
Joshua Smith



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OF  
AUSTRALIAN SOCIALISM

*Joshua Smith*

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Sydney  
AUSTRALIA

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*“I’m not going to allow you to transfer to Economics.  
You are only doing it to get back at the French Teacher”*  
—Mark Bishop, 1962.

Mark Bishop was Housemaster, Street House, Cranbrook School in Sydney from 1957 to 1962, and Headmaster, Cranbrook School from 1963 to 1985.



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## **PREFACE**

The aim of this book is to try to discover how an economic system as obviously flawed as socialism in its various forms could literally take over the world's political systems for over one hundred years, either openly (as it did in Australia and Europe) or surreptitiously (as it did in the case of the great anti-socialist economy of the U.S.A.).

This book deals principally with socialism in Australia. To try to address the whole world's experience of socialism would be too great a task.

There are differences between Australia and other countries, but there are also similarities. Australia is chosen because it is here that socialism first found a strong grassroots following and where socialism was first practised, well before the Russian, Italian and German disasters.

As we journey through the theories and ideas of various philosophers and economists, and explore how these ideas affected Australia over time, we can see how the socialist economy and state developed in Australia (a microcosm for the rest of the world), and how and why it ultimately collapsed.

Socialist thought is more pervasive than one might imagine. To explain this, the first chapter presents a definition and some examples of what socialism really means.





## *CHAPTER 1*

# **INTRODUCTION AND DEFINITION OF SOCIALISM**

At the time of Federation around 1900, Australia and New Zealand were regarded as the most socialist countries in the world. That is, a greater degree of socialism existed in the Australasian colonies than in any other economic or social grouping. They were also regarded as the social laboratory of the world.

Australian socialism, both at the end of the eighteenth century and since, has been a peculiar type of socialism. It was not a Leninist or Mao Tse Tung interpretation. These are the best known ones and they dominated twentieth century socialist thinking. Australian socialism was referred to as state socialism. It tried to maintain the nineteenth century liberal bourgeois ideals of individualism and material comfort, but used government power to assist in providing this material comfort to individuals.

The Leninist interpretation of socialism comes from a completely different foundation: that of a feudal aristocracy rather than a liberal bourgeois. Intellectually it draws heavily on the French socialist, Saint-Simon. This interpretation of socialism is less concerned with individual rights, and at the extreme has no concern at all for these rights. It is a two-class system comprising the 'planners' and the 'planned for'. The planners equate to the aristocracy under feudalism, and the 'planned for' work within the resulting plans. The lack of any concept of liberal bourgeois individualism is what differentiates it from Australian socialism. It can be argued that European socialism, which is another term for the

Saint Simon/Leninist stream, is a way of maintaining aristocratic power, when that power is threatened by a rising capitalist middle-class.

The theory of socialism is that of central, public, or governmental control of the economic activities of production, distribution and exchange (including finance). The only other economic activity which exists is consumption. What is consumed has to be produced and distributed, so that in reality the government or central authority has total economic control, with the exception of control over the act of consumption. The central authority does not therefore chew food for people living in the socialist state.

As indicated earlier, in a true socialist state there are two main economic classes: the ‘planners’ and the ‘plannees’, with possibly various levels within these classes. By contrast, under industrial capitalism there are generally three major economic classes. First, there is the working class, who rely on their labour power to maintain themselves although they do have the option of saving some of their income to move out of that class. Second, the middle class, which contains those who are in various stages of developing their own business, theoretically using funds accumulated while working. As their business expands they employ more workers, with the ultimate aim of either selling the business or organising it so they are able to retire from it. When they have accumulated sufficient funds to live without working, other than the work of looking after their investments, they are in the third class, that of the upper class. This analysis is purely economic, and assumes a timocratic society. It does serve, however, to highlight the difference in class structure between socialism and free market industrial capitalism. The fundamental difference is that the free market system can only survive on a three-class basis. It becomes ripe for conversion to socialism when it degenerates into a two-class system and where the middle class –which contains the bourgeois entrepreneurs – dies out.

Nineteenth century socialist theory took the form of what is now called left-wing socialism. In this model, the central authority controls virtually all economic activity through a series of planning

boards or government departments. The twentieth century saw the rise of another form of socialism: right-wing socialism. Right-wing socialism is still true to the basic aims of socialism, with central control of all major economic activities. However, instead of operating solely through government boards, departments or commissions, the central authority may also operate through bodies which regulate economic activity to such a degree that it is still able to be confined within the overall plan. The key word here is 'plan'. In practice this right wing system usually works through heavily regulated industrial monopolies. The central authority must have the final economic power to plan. The simple existence of monopolies and trade regulations does not necessarily constitute a socialist system. The most famous practical example of right-wing socialism is National Socialism (Nazism) in Germany. The encouragement of monopolies by the German state since Bismarck set the stage for an easy transfer to this system, where large companies performed the necessary economic activity within the plan laid down by the State.

One area which has no relevance to socialism specifically is social welfare. Although socialists try to highlight the social welfare aspects of their policies, an attitude of genuine concern for less fortunate citizens can be present in a non-socialist state. Free market economics in its present form, however, claims that even social welfare is best provided by using the market mechanism. For example, education is a service provided in most countries through the socialist mechanism. A central authority decides who will go where; how many and what resources are to be allocated; and where. The authority even decides what the consumers (students) will be allowed to consume. A free market approach would allow a proliferation of private schools and no state schools. Those who could not afford to pay school fees would be given assistance by the government. The amount of the assistance would, as with any such situation, be graduated according to the person's means. The free market system outlined contains the necessary social welfare provision, but contains no government interference in the education 'market'. The existing state system of education in Australia is totally socialist with central control.

As far as I can ascertain, Max Hirsch, an Australian, anti-socialist economist and Member of Parliament, produced the first intellectual, anti-socialist work in the world. His ideas are discussed in Chapter 13. The following is a summary of his definition of socialism, and of the outcome that Hirsch believed would result from its application.

The economic conceptions of socialism are that competition and private property in land and capital, and the consequent exaction of rent, interest and profits by private persons are social evils responsible for the material and mental destitution of the vast masses of the people.

The industrial, distributive and political proposals of socialism are the gradual abolition of private property and private control of the instruments and materials of production, land, transportation, trade, loan-capital, and public debts, such abolition to take place without compensation or through partial compensation only.

Private rights would be replaced by collective ownership acting through some government body. The political proposals of socialism are equal political rights for all adult individuals of both sexes; and the extension of the powers and functions of government bodies. Management by the state of all production and trade would involve a graduated body of officials to determine the occupation and place of employment of all individuals of both sexes. The state would also determine the kinds, qualities, and quantities of goods to be produced.

Because of the economic independence of women, there would be abandonment of separate family homes, early separation of children and parents, and transference of childcare to the state.<sup>1</sup>

Socialism and free market capitalism are thus two distinct modes of economic organisation. At one extreme of economic organisation – free market capitalism or ‘laissez-faire’ – there is absolutely no interference by government in the economy at all. At

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<sup>1</sup> Hirsch, M. *Democracy versus Socialism* 4th Edition, Robert Schalkenback Foundation, New York, 1948. P54–5

the other extreme is extreme socialism of either the right-wing or left-wing variety. Under this system a central authority ultimately controls every form of economic activity except consumption. In practice these extremes are purely theoretical. There is no industrial society which can be described as pure free market or pure socialist. What exists in practice is a mixture; more of one, less of the other or vice-versa.

There are various methods of ascertaining the degree of socialism in an economy. One method is by examining the private/public sector mix. This is based on such economic indicators as the origin of gross domestic product, or public sector expenditure, compared to private sector expenditure. In Australia, using these indicators, one could say that Australia is 30% socialist. That is, the mix between private and public sectors is 70/30. Communist Russian agriculture under this method could be said to be 30% capitalist, as 30% of Russian agricultural produce comes from private holdings.

Another method of determining the degree of socialism is by ascertaining the number of man-days a working person must work for the government. If a person worked three days in three for the government, then it would be easy to say that person lived under a totally socialist or collectivist system. In Australia, through excessive taxation, the sum of income and sales taxes shows that the average working person works approximately two days in three for the government. Under this method it could be said that Australia is 65% socialist.

A third method is to take the points listed in the most famous nineteenth-century statement of socialist aims – Karl Marx's *The Communist Manifesto* – and then deduce what percentage of these have been implemented. The 10 points of the Communist Manifesto are listed in Chapter 8 which deals with Karl Marx. Of the 10 points in the Communist Manifesto, between seven and eight have been implemented in Australia. On the basis of this method, Australia is 70% to 80% collectivist (or communist).

The fourth and most subjective method of determining the degree of socialism in an economy is to subjectively assess what amount of control the central authority in Australia – the Federal

government – has over the economy. For example, in 1979, the Prime Minister of Australia, Mr. Malcolm Fraser, promised the Australian car manufacturing industry 80% of the Australian car market. By 1981 this mix of domestic compared to imported cars in the Australian car market had been achieved to within a couple of percentage points. The fact that an Australian Prime Minister can make such a statement and be nearly 100% correct in an industry which falls undeniably into the private sector indicates a large degree of central control of the Australian car market. Although this is only one example, in one industry, it allows one to say that the degree of control in Australia is greater than it may appear superficially. Where Communist Russian agriculture may be 30% capitalist, perhaps it could be said that the Australian car industry is nearly 100% socialist, based on the real level of central control.

It is this degree of socialism in the economy which leads the world to put a particular label on a country. The reasons which lead to a country being labelled in a particular way are subjective and relative. In 1900 the Australasian colonies were more socialist than anywhere else in the world. In the 1945 to 1950 period Australia could be said to have been more socialist than at any other period in its history (see Chapter 16). In this same period, however, Australia was less socialist than other parts of the world. Its position along a continuum of relative degrees of socialism in the various countries of the world had dropped. These assessments are analogue rather than digital, approximate rather than absolute, subjective rather than objective. *We* are always living in a democracy; *they* are always living in subjection, regardless of who ‘we’ or ‘they’ are.

Surely we are not as socialist as Communist Russia? Surely Australia was founded on the nineteenth century principles of British Liberalism and laissez-faire economics?

I invite you take off the rose-coloured glasses, step back from your society, observe, and weep. We will start the journey of Australia’s (some would say) inevitable road to a socialist state not unlike Communist Russia and Nazi Germany with the beginning of European settlement.

## CHAPTER 2

# AUSTRALIA: THE PRISON CAMP ECONOMY 1788–1810

There are two models of primitive economic activity which economists love to use as examples. The first is the ‘Robinson Crusoe’ model. This involves a single individual allocating his resources to various economic activities without the distraction of social interaction. The second is the ‘prison camp’ model. This model allows economists to show an economy with all the sophistications of modern society stripped away.

Robinson Crusoe is particularly useful in the study of economics where an individual or individual firm is operating within a given set of limited resources. The particular advantage of the Robinson Crusoe model is that economists are able to isolate the effects of the individual’s actions on the given resources and on himself. They do not have the complication of other firms or individuals reacting to his economic activity in a way which may thwart his efforts. From this model more sophisticated models can be built.

The prison camp model is especially useful as it depicts economic organisation where all the trappings and specialisations of the modern economy are not present. It tends to be a closed economy with each individual reacting against other individuals within that ‘economy’ in a very primitive way. One example of this reaction is social peer group pressure. This can be observed in a prison camp economy far more easily than in the complicated modern economy. The ‘Prison Camp’ is a working example of a very simplistic macro-



economic model. The economic organisation of a prison camp is by its nature collectivist or communist with a small 'c'.

Modern European Australia started its existence as a prison camp. Founded as a prison camp, the only people in it were the guards, the prison administration and of course the convicts. If Australia had not proved to be as attractive and wealthy as it did, it is possible that the history of European settlement in Australia would have ended in about 1840, as it did temporarily on Norfolk Island.

Between 1788 and 1810 the various governors who were appointed to New South Wales were clearly instructed that they were simply governors of a gaol; their powers and activities were oriented towards that end.

It is significant that the colony of New South Wales in its early years fitted almost exactly the macro-economic collectivist model: convicts worked together, under direction, with strong peer group pressure caused by an anti-authoritarian feeling. This stands in direct contrast to the American situation which is better likened to a group of Robinson Crusoes spread across the western frontier, each working for his own individual reasons and aims. Australia started with no Robinson Crusoes. It was founded as a collectivist prison.

One aspect which is important in the prison camp model is the form money takes. As noted by Frederick Benham, a British economist of the 1950s, cigarettes were used as a medium of exchange and measure of value in some prisoner of war camps during the Second World War. In the same paragraph he also notes that rum – highly liquid (in the financial as well as the physical sense) but difficult to store – was used in the early years of New South Wales.<sup>2</sup> Here Benham is describing the kinds of money used in the past that are different from legal tender such as cheques. In New South Wales rum had all the attributes of money. In early New South Wales rum was, for example, a means of exchange, a unit of value and a store of value. The reasons for demand for rum other

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<sup>2</sup> Benham, F. *Economics*. Sir Isaac Pitman & Sons, London. Sixth Ed. 1960. Page 425

than for consumption were the same three reasons for holding money in a normal economy: the classical transactions motive, the Keynesian speculative motive and the precautionary motive. The transactions motive was that rum was used simply to purchase other goods. The speculative reason for holding rum was present because of the uncertainty of supplies of rum arriving from Britain when needed, in which case the real value of rum would rise. The same uncertainty caused the precautionary motive to be present, as failure of other supplies to arrive would cause their prices – in terms of rum – to rise. New South Wales, then, was unique in world history, in that rum became legal tender from the late years of the eighteenth century to about 1810.

Factors of production in early New South Wales were also different from the European experience. Land was in abundant supply, while labour was in a very limited supply. This problem was to face Australia for many years, up until the late twentieth century. Capital was virtually non-existent. Allocation of these resources was not done through the market system. The labour market, the capital market and the general consumer market did not exist. Resources were allocated from the top by the government, closely following the collectivist model. The government, led by the governor, decided what was to be planted, where, and by whom. In this situation supply and demand became somewhat meaningless because there were no markets. The private/public sector mix was not an issue either, because everything fell under the public sector. Virtually all economic activity was government controlled. Everything that was produced within the colony – national income – was appropriated and then allocated by the government. In addition, the workers (convicts) were maintained by the government.

A further consideration which plays an important part in socialist economics is the concept of class structure. Early New South Wales was very simply a two-class system. There was a convict class with various levels within it. Emancipists, convicts who had served their time, fell into this class, as they were regarded as little better than convicts. The ‘upper class’ consisted of the government and administrative class: the Governor, the military, and

administrators on the one hand, and those who had no say but had to carry out the plans, on the other.

The Australian Aboriginal Social Structure was, at this time, a primitive communal, that is, communist system. Sociologists have noted that, in opposition to the Marxist doctrine, many societies start with a communist system which 'degenerates' into capitalism as private ownership is introduced.

The early colonial system ultimately started to degenerate into capitalism around 1805. This was primarily due to the efforts of the amazing John MacArthur. John MacArthur came to the colony as an officer in the marines. He therefore started in the 'planners' class. After he had retired from the marines, he stayed on as a free settler with convicts working for him. He took up some land near Camden, south-west of Sydney, and over a period of time developed a strain of Merino sheep which were acquired in a typically Australian way, from a Spanish shipment. From this small beginning he developed an infant industry – wool – which ultimately became the mainstay of the Australian export industry for well over one hundred years.

As often happens in centralised, government controlled, planned economies, individuals slowly branch out into capitalist enterprise. John MacArthur was probably the most volatile and successful of those petty capitalists who had started appearing in the colony. This Authoritarian prison system had started to 'degenerate' into a form of capitalism. The system had started to tear at the seams as John MacArthur not only fed and clothed the colony as other capitalist farmers were now doing, but he was able to go further than this and create a surplus and export it back to Britain, increasing revenue for himself and the colony. The MacArthur experiment in wool, however, should not be over-estimated in the period up to 1810. In the total period, less than one thousand pounds weight of wool was exported from Australia to Britain. The best year was 1807 where 563 pounds of wool was exported to Britain. In the same year Britain imported over 10 million pounds weight of wool from Spain, so 563 pounds is insignificant.

This break-down of the collectivist system into a more capitalist one culminated in the revolution of 1809, often referred to

as the Rum Rebellion. Governor Bligh was forcibly removed by a group of officers led by John MacArthur. Mutinies, as this rebellion was labelled by the British Admiralty, seemed to follow Bligh. He was famous for his exploits on H.M.S. 'Bounty' where he also faced a mutiny. After the revolution of 1809, various measures were taken by the British government to adjust to the changed economic and political circumstances. The position of the capitalist farmers was accepted, as was the need for a move away from authoritarianism towards a more democratic system.

What was now needed was someone who could develop a theory and policies to suit this new situation – preferably an Australian-born thinker and statesman. This role was very ably taken by William Charles Wentworth, Australia's first native-born economist.



## CHAPTER 3

# WILLIAM CHARLES WENTWORTH: THE FIRST AUSTRALIAN-BORN ECONOMIST

William Charles Wentworth was an Australian-born patriot who studied at the University of Cambridge in England. He studied political economy and was influenced by the father of modern economics, Adam Smith. He was also influenced by the two most influential economists of that time: Ricardo and Malthus.

In describing the situation in the early colony around 1804 Wentworth says it is at the:

epoch when the produce of the colonists began to exceed demand, and when their industry, instead of being encouraged and directed into new channels of profitable occupation, was not only left to its own blind unguided impulse but also placed under the most impolitic and repressive restrictions, that I have taken up the pencil, and made a rapid and faithful delineation of the deplorable consequences that have been attended on a concatenation of injudicious and absurd disabilities, which though not altogether imposed by its immediate Government would have been easily removed by the more weighty influence of a combined representative legislature.<sup>3</sup>

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<sup>3</sup> Wentworth, WC. *Description of the Colony of New South Wales* G and WB Whittaker, London, 1819, P326

Wentworth was no doctrinaire advocate of ‘laissez-faire’ and in this he followed Adam Smith. However, his view that industry should be ‘directed into new channels of profitable occupation’ implies a level of government control of the economy which Smith would have been unlikely to accept. We see, therefore, the beginnings of individualistic, state socialism contained within the Wentworth interpretation of Adam Smith’s liberal economics. Wentworth accepted totally the Adam Smith view that it was necessary to produce a surplus in agriculture prior to any manufacturing activity. Wentworth is highly critical of manufacturing industries which were set up in the colony of New South Wales simply because of the lack of ‘a well regulated government’<sup>4</sup> to organize the colony such that British manufactures could be sold in Australia and be paid for by exports of primary produce. Wentworth sees the real future of the colony in importing capitalists, then selling land to them at not less than a dollar which will go to state coffers to limit the expense of maintaining the colony. Alternatively, land should be sold at up to half what it was being sold for in the USA, which at that time was attracting vast quantities of farmers.<sup>5</sup> It was with agriculture, at least in the early stages, that Wentworth saw the future prosperity of the colony. He saw manufacturers – which were developing mainly in the area of weaving, cloth making and clothes – as detrimental to the wealth of the colony. In this Wentworth is supporting Adam Smith’s free trade argument, although he is suggesting that trade should be only within the British Empire and that the USA should be excluded from the British market.

In Wentworth’s judgement, the colony should specialize in primary produce – wool, flax etc. He also suggests the possibility of growing tobacco. Manufactured goods could then be bought from Britain and both countries would benefit. This is the Adam Smith free trade ‘comparative advantage’ argument, which argues that it is far more beneficial for the colony, as well as for Britain, to do this than to have a self-sufficient colony.

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<sup>4</sup> ibid P330

<sup>5</sup> ibid P402

‘The colony offers little encouragement for the manufacturer,’<sup>6</sup> Wentworth says. Indeed he expected a few years to ‘annihilate them entirely’.<sup>7</sup> Part of the reason for this was the repressive rule of Governor Bligh. Prosperity, which would support manufacturing, had not been able to grow. Again, Wentworth here is following Adam Smith’s liberal view, which says that prosperity can only exist in a society of free persons. He supports this by reference to historical and then current experience.<sup>8</sup> Population expansion had been halted, partly by this repression, as anyone who was able would quit the colony. The other cause of limited population growth was linked to the wretched conditions which Bligh’s appalling administration had, according to Wentworth, created. Here Wentworth was using the Malthusian doctrine which said that population was held in check by its ability to find subsistence. According to Malthus, whereas food production increased in an arithmetic progression, population tended to increase at a geometric rate and was then held in check by the subsequent inability to find sufficient substance. Wentworth saw conditions in the colony influenced partly by the Malthusian doctrine of population expansion, and partly by the lack of the liberal philosophies of Adam Smith.<sup>9</sup>

It is reasonable to assume that it was partly as a result of Wentworth’s book that the British Government appointed Commissioner J.T. Bigge to report on the colony. He arrived in 1819 and proceeded to produce the cleverly named ‘Bigge Report’. Bigge was a mercantilist, not a liberal economist as Wentworth was, and accordingly his general recommendations suggested the setting up of a privileged class. Like Wentworth, however, he recommended that the Governor’s power should be curtailed and a Legislative Assembly instituted.

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<sup>6</sup> *ibid* P402

<sup>7</sup> *ibid* P408

<sup>8</sup> *ibid* P327

<sup>9</sup> *ibid* P214 15



Bigge's report also called for the transition from jail to colony. It proposed that convict labour – which was previously used and controlled by the Government – should come under the control of merchants and large settlers, who in the 1820s had the economic, political and social power. In this period 'Religion and education were being fashioned to serve the interests of a society in which economic and political power was concentrated in the officials, the large proprietors of land, and the wealthy merchants'.<sup>10</sup> John Dunmore Lang, a Minister of religion, wrote copiously on such things as economic growth. In the depression of 1843, for example, he wrote:

Your committee have no hesitation in expressing their conviction that the Government have other duties to discharge, in regard to the unemployed, besides merely sympathising with them in their present condition; it is the bounden duty of the Government, to afford relief, and the means of subsistence, to the utmost extent practicable in the actual circumstances of the colony.<sup>11</sup>

Here we have an example of a prolific local colonial writer on economic subjects who, with very few limitations, was prepared at this relatively early period of development in Australian economic thought to sanction the strong hand of the government in an emergency situation. Lang was typical of Australian thinkers throughout history: theory takes second place to practical help where needed.

This attitude was further evidenced by a report in 1830: 'much fear if we are not fostered and guided by the assistance of the Government, and are left to the slow course of time, that the colony

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<sup>10</sup> Clark, CMH. *A Short History of Australia* Heinemann London 1964 P63

<sup>11</sup> Report from the select committee on the Distresses of Mechanics and Labourers, with minutes of evidence. Votes and Proceedings of the Legislative Council of New South Wales. 1843. P3.

will long languish and be retarded in its prosperity.<sup>12</sup> Colonists seemed to doubt that private initiative in a new environment could equal the efficiency of the Government.

Governor Macquarie had petitioned the British Cabinet that a bank should be set up under Government control in New South Wales when he arrived in 1810. This was rejected by the colonial office in Britain. What Macquarie wanted to achieve was the provision of commercial bank services on the one hand, and the institution of government control over banking on the other. In 1843 Wentworth proposed a national bank, controlled by the government. He further suggested that commercial banks should be prohibited from issuing notes.<sup>13</sup> This was a continuation of Macquarie's request, and remained a feature of Australian economic policy until the establishment of the Commonwealth Bank by King O'Malley in 1910. The basic elements of the later socialist developments, and the attitudes necessary for their acceptance, were therefore becoming evident even in this early period.

The policies and attitudes necessary for socialism to take hold were present, but where were the planners necessary to put actions into the system for socialism to grow? One was just around the corner: an ex-convict called Edward Gibbon Wakefield.

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<sup>12</sup> *Report of the Agricultural and Horticultural Society of New South Wales of 1830*, by the President, John Jamison. Sydney, N.D. P64-65.

<sup>13</sup> *Report from the Select Committee on the Monetary Confusion with Appendix and Minutes of Evidence*. Votes and Proceedings of the Legislative Council of New South Wales 1843 P62-65



## CHAPTER 4

# EDWARD GIBBON WAKEFIELD: ONE OF AUSTRALIA'S EARLIEST PLANNERS

Edward Gibbon Wakefield was one of the first thinkers to produce a general theory of the colonisation of the Australasian colonies. Most of the anti-colonisation theories held by later Leninist communists stem from Marx's attack on Wakefield's views. Even so, Wakefield's ideas have a socialist element in them, especially in his recommendations for colonial government. Wakefield studied the history of the colony of New South Wales while in Newgate Prison on a charge of abduction. During his three-year stay in Newgate, it is reported that he read every newspaper from New South Wales that he could get his hands on, as well as Wentworth's 'Description of the Colony' quoted in the previous chapter.

From these readings Wakefield developed a theory which he published in the press under the title 'A Letter from Sydney', written in Newgate Prison. In this document Wakefield says that the current method of colonisation of New South Wales had been a failure and he pointed to a number of reasons. One of the worst excesses was, he said, 'the granting of large parcels of land to individuals who had no hope of doing anything with them'.<sup>14</sup> This was inefficient and not considerate to new immigrants, especially when New South Wales was considered merely an extension of Britain. Where Britain

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<sup>14</sup> Quoted in Mills R.C. *Colonisation of Australia*. Sydney University Press, Sydney, 1915. P 121-2

contained Yorkshire, Kent and Cornwall, the prevalent attitude at this time was that it contained Yorkshire, Kent, Cornwall and Australia. The solution presented by Wakefield was that land in the colony should be sold at a 'sufficient price', and the money collected used in the administration of the colony. What was left (which he believed would be most of it) would be used to assist free immigrants to come to the colony by paying for their passage.

Wakefield's argument therefore involved two basic changes in attitudes towards the way Australia should be colonised. Firstly, he argued that land was to be sold in small holdings. The Swan river establishment in Perth had failed, it was said, because the settlement was too widely spread. Large tracts of land had been held by individuals, and others who wanted land had to move a long way from the centre because all the land around the centre had been taken. They then had to start work clearing, but there were problems in getting the implements, and then problems getting produce back to the centres. The whole thing had been totally unsatisfactory and was heavily criticized by Wakefield as well as by people in Australia. So Wakefield recommended that land was to be in small holdings and was to be sold.

Secondly, immigrants who came out were initially to work as labourers and then after a period, which Wakefield indicated should be three to four years, they should be able to save enough to buy a decent plot of land. This was where the definition of 'sufficient price' was formed. The price was to be sufficient to keep the labourers working for three to four years. It was to be calculated such that at the end of this period they should be able to buy themselves their decent plot of land. Immigration would be able to supply quality immigrants as opposed to convicts, and hopefully these people would be better motivated than the average convict. Considerable criticism had been leveled at the lack of interest of the convicts and this was a real problem.

Having exposed the problem, Wakefield's solution was open to considerable criticism. A further problem was that by the time the Wakefield theory had gone through the myriad of committees, the colonial office and the English parliament, what actually ended up as

an Act of Parliament bore only a very vague resemblance to Wakefield's original theory. Only the very basic elements of Wakefield's theory were incorporated into the act. This was that the colony was to be self-sufficient, and that there were to be assisted immigration and land sales.

Part of the attraction of Wakefield's theory was the exportation of the unemployed, or 'paupers' as they were then called. The attraction of this was that there was a shortage of labour in the existing Australasian colonies. There was also no doubt that the new Wakefield colony, ultimately founded in Adelaide, would have a shortage of labour too. That Britain should export its surplus labour seemed an easy solution to the problem. The labour surplus had been created partly by the Industrial Revolution and was then further exacerbated by the fact that from 1815 to 1914 there was no major war. Wakefield's scheme offered, at no expense to Britain because it was to be financed through land sales, the ability to ship the surplus unemployed to an area that was still regarded as part of Britain but where there was a shortage of labour.

Colonisation then came to be seen, not by Wakefield but by others who adopted the theory, as a solution to the unemployment problem in Britain. Another of the aims according to Wakefield was that the mother country and the colony would become partners in a new trade:

the creation of happy human beings, one country furnishing the raw material that is the land, the dust that which man has made, the other furnishing the machinery, that is the men and women to convert the unpeopled soil into the living images of God.<sup>15</sup>

Wakefield's thesis also extended to the demand for self-government. Wakefield believed that self-government in a colony attracted a better class of immigrant. Free men prefer to go to a free country instead of to a country ruled by a governor. It also gave them an incentive to manage their own affairs and made them more willing to

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<sup>15</sup> *ibid.* P. 121 quoting Wakefield E.G. *A Letter from Sydney* 1829, p 196-7

protect themselves, thus relieving Britain of the heavy burden of defense.

Wakefield, therefore, was an imperialist, a capitalist, and an elitist, favouring an aristocratic type of government. He did, however, believe in government interference. In his evidence before the 1836 commission on lands and wastelands, to question 1018 he replied:

This appears to me to be one of those cases which require a central authority. The end is the advantage of the whole empire; two of the most important means are uniformity in the practice and very great care in the distribution of the labourers among the several colonies so that the supply should never be more or less than the demand. None but a central authority should be able to conduct the operation.<sup>16</sup>

What he proposed here was that a central government maintained a uniformity of practice in the distribution of labourers in various colonies, and control the supply of that labour so that it meets but does not exceed the demand. His desire to use a central authority, which one can assume means the government; to distribute labourers to the areas where they are required is a socialist doctrine. Wakefield also accepted the Malthusian doctrine including the principle of fundamental checks. He used the argument in his colonisation theory, saying that although Malthusian checks would prevent future population expansion, the aim of colonisation was to remove the present surplus of population so that the Malthusian checks would be able to operate. In Wakefield's metaphor 'it was no use advising walking exercises as a cure to a dropsical man until measures were taken to enable him to walk'. Malthus' ideas were not generally accepted among academic economists at this stage. However, they influenced Australia right up to the 1920s when they were still being supported in universities.

An area of the Wakefield theory which influenced the development of Australian economic thought was that land had to be

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<sup>16</sup> Quoted in Mills R.C. *Colonisation of Australia*. Sydney University Press, Sydney, 1915. P 121-2

sold at a 'sufficient price' in order to keep the labourers as labourers for a certain length of time. This stood in stark contrast to the American experience, where that country was developed by small holdings. Whether the holdings were given away as free grants or sold, small landowners were developing that country as opposed to labourers, while the Wakefield system was very much a system of landowners and labourers. Where there were convicts under the original penal system, under the Wakefield system there was the creation of the landless itinerant agricultural labourer. This set the scene for some later reforms. It also affected the Australian character as we shall discuss in Chapter 7 on The Australian Economic Man, as Wakefield saw the labourer or worker as a necessary element in the development of a new colony.

The American experience was completely ignored by Wakefield and it is likely that the differences between America and Australia stem from differences in the method of early settlement. In the USA, the attitude tended to the view that everyone was free to start his own business. In Australia, however, the Wakefield system clearly required the existence of a working class. Here is part of the reason for Australia being a fertile ground for socialist literature. American socialists found very little fertile ground for socialism in the USA for reasons that should now be obvious.

The Wakefield system was also socialistic because it was planned. Wakefield's criticism up to that time was that the previous colonies had been unplanned, notably New South Wales and Western Australia. In contrast, what he was proposing was a form of planned economy with the inherent problems that this system tends to cause. The most obvious problem was fixing the 'sufficient price' for land. The 'sufficient price' had been presented as a scientifically elegant theory but in practice was a myth. It was impossible to find the correct price to be fixed because the whole system was unscientific. Accordingly, the system suffered from the problems of any socialist system or planned economy. Under a planned system, the forces that fix prices, of land or whatever other goods are some human instrumentality, rather than normal market forces.



If the price is fixed too high, then there is a surplus, and in Wakefield's situation, the colonisation system will not get off the ground. If the price is fixed too low, then some form of rationing will be required, giving unearned privileges to those who were fortunate enough to secure land holdings.

As the previous discussion suggests, the first main element of Wakefield's theory that affected the development of Australian socialism was the fact that the Wakefield system was a planned system, which involved the conscious establishment of a planned or at best a semi-planned economy. The second element is the emphasis in Wakefield's theory on the availability of labour and the plan to ensure the existence of a labouring class. The existence of a labouring class in a new country was not in itself socialist but was an important element in later socialist developments. It is also interesting to note the comparison between the society of 2000 AD envisaged by Edward Bellamy in *Looking Backwards*, published in 1887, and the Wakefield system. Under the Wakefield system the sufficient price was supposed to be fixed so that the labourer was forced to work for a given period of time, say three to four years. He was supposed to be able to save enough in that period to buy land and himself become a landed proprietor. The corollary to this is that he was then able to live off the labour of others. A similar view was expressed by Bellamy. In his utopian system, people would work from about age 20, when they finished their education, until age 45, when they would retire. They would then live on the labour of others in just the same way as in the Wakefield system. Bellamy's *Looking Backwards* had considerable influence on Australian socialist thought and is discussed in Chapter 10.

In practice, Wakefield's doctrines were saved by the gold rush, after which the whole principle of systematic colonisation died out. The major criticism was that the extraction of money from people in the colony and the sending of that money overseas to import immigrants was making the colony poor. The other problem was that, unlike Europe where everything was developed, the new colonies were wild bush. When a new immigrant had disposed of his capital by buying land, he had no money with which to either pay the

labourers or make improvements. The principle of selling land in a new country where many believed land should be free led to the impoverishment of the very people Wakefield had hoped would build his glorious utopia.

The export of money which led to balance of payment problems and the impoverishment of the very people who were to build the colony meant that the system was doomed to fail; but for the intervention of the British Government it would probably have been abandoned. The gold rushes did what the Wakefield system failed to do and in a totally unplanned way.

The Gold Rushes changed the Australian economy from one dependant on Britain to one independent in thought as well as financially. What Australia needed now was someone to put an intellectual structure around this new-found position. That person was William Hearn, Australia's first academic economist.



## CHAPTER 5

# WILLIAM EDWARD HEARN: AUSTRALIA'S FIRST ACADEMIC ECONOMIST

Hearn was the first professor of economics at Melbourne University. He was also a professor of modern history, modern literature, and logic, as well as political economy. Between 1855 and 1873, however, he was professor of history and political economy only. Hearn was born in Ireland in 1826 and had a brilliant academic career which culminated in his admission to the Irish bar in 1853. Hearn was only 29 when he arrived in Melbourne at the time of the gold rushes. His major activities were the writing of articles for *The Australasian* and *The Argus* against *The Age* which was edited by David Syme and whose ideas are analysed in Chapter 6.

Hearn wrote a number of books but *Plutology*, written in 1863, is his most famous. It is an economics textbook which received worldwide acclaim. Accordingly, Hearn's theories had some effect on economic thought worldwide. It is clear for instance that he had some influence on the great Alfred Marshall, whose ideas dominated world economic thought from the 1890s to the 1930s. Hearn received extensive praise from Alfred Marshall and from Stanley Jevans, who had spent four years in Australia before becoming one of the major British economists of the nineteenth century. Nearly one hundred years later, Fredreich Von Hayek called Hearn 'a great economist who had a singular gift for making original

and penetrating observations in the most apt and lucid language'.<sup>17</sup> Fredreich Von Hayek was famous for *The Road to Serfdom* as well as many other anti-socialist, free market writings. Von Hayek also influenced Milton Friedman.

It would be untrue to maintain that Hearn made any momentous contribution to economic thought. Hearn was the Australian disciple of the English political economy schools, notably John Stuart Mill and Nassau Senior. He was also exposed to the underestimated writings of the Canadian John Rae, who also had some influence on Mill. Hearn did not consider particular Australian conditions such as the minimum real wage. He was not concerned about the effects of high tariffs on the standard of living, which was a major concern. Nor does he discuss land nationalisation, although he does make fleeting references to both tariffs and nationalisation. He was heavily influenced by the economists mentioned above. In fact, his book *Plutology* is so heavily indebted to them that it has been described as approaching plagiarism.<sup>18</sup>

The subtitle to Hearn's work – *Theory of the efforts to satisfy human Wants* – gives the general orientation of his work. It studies society from the point of view of the satisfaction of needs and wants, rather than from the point of view of production. It was in this way that Hearn differed from the Ricardo/Mill approach, where they consider the central problems of an economy to be in the area of production. The second point where Hearn brought a new concept to economic analysis is the use of the analogy of evolution. He was the first economist as far as we know to introduce the theory of evolution into economics: he saw society as an organism which was evolving, and he saw the state of English political economy as the epitome of economic development to that point.

Hearn was elected to the Legislative Council of Victoria where he played a prominent part between 1878 and 1888. In this way he was able to influence in some way the political economy of

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<sup>17</sup> *Economic* (N.S.) 1936 P.101.

<sup>18</sup> J. La Nauze. *Political Economy in Australia*. M.U.P. Melbourne, 1949, P.55.

the colony of Victoria which became the most important state in Australia under the federal system.

Hearn followed the school of free trade and free enterprise, but because of his approach prioritised wants as opposed to production, the position of the consumer becomes more important and labour becomes the primary source of wealth, given natural resources. On page 135 he quotes Bentham: ‘labour precedes capital, from land and labour everything proceeds.’ The extension of this is something approaching a labour theory of value. However, he balks at this and instead of following through his argument – that at some stage capital must be produced by labour – he says that capital has always existed:

There is no savage tribe where we cannot trace its capital’s rudiments. All that is known is that as far as the evidence extends, men have never been without some accumulation: that wherever that accumulation becomes considerable, its rate is accelerated; and man’s general well being is increased.<sup>19</sup>

It is important to emphasize that Hearn did not write about Australia but about the British system, and as many have done before and since he took the British system to be the general case. J.S. Mill was one of the few who did not fall into this fallacy of imagining that experience in Britain was general experience. Hearn, however, did.

However, Hearn was influenced to some extent by the environment in which he was writing. He was writing, and involved in the government, in Victoria during and just after the gold rushes. This experience no doubt prompted him to write in *Plutology*: ‘Man is not only a gregarious but a political animal. His tendency towards association is an attitude not so much of his physical but his moral constitution.’<sup>20</sup> Hearn had noticed the tendency, in Australia more so than in other countries, to collectivism. This was expressed in the Australian term ‘mateship’ which had grown out of the privations of the gold rush areas. This is in opposition to Hearn’s normal stance,

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<sup>19</sup> Hearn, WE. *Plutology*. George Robertson, Melbourne, 1863, P136–7

<sup>20</sup> *ibid* P.406

which was opposed to government interference. Here he notes those things which the government is able to do to assist industry. The name of this chapter is, significantly, 'Of the assistance rendered to industry by government'.

Fundamentally Hearn is concerned that government be responsible for the maintenance of the rights of individuals, and he considers that political organisation is essential to industry. He is prepared to concede, however, that matters of common interest are the subjects, if not the sole subjects, of state interference. He sees government as part of the evolutionary process within society. The industrial organisation springs from cooperation and exchange, he says. This is the essence of Hearn's economics. Whereas diminishing returns and Malthus' population devil were seen as obstacles towards consumerism, Hearn's view is more optimistic. He sees capital and land subject to diminishing returns as assisted by the four friendly aids to labour: capital, invention, cooperation, and exchange. The importance which Hearn gives to labour is significant. It is in these areas of aids to labour that he sees the need for a strong government to maintain rights, so that exchange and the reward of labour can be maintained. A weak government, he implies, is sufficient to destroy the industry of the most flourishing community.<sup>21</sup>

Hearn goes on, however, to list a number of impediments which government can put in the way of industry. These involve the non-performance of government in the maintenance of rights. Where these are not maintained, he says, theft and plunder stop the industrious from producing. Mal-performance by government can have similar results as non-performance; for instance, uncertain or excessive taxation. Indirect taxation and the regulation of industry by government are also considered impediments to industry. Hearn is a free market economist writing in Australia, but not about Australia.

One of the main areas of debate in Australia at this time was that between free trade and protection. David Syme was in favour of

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<sup>21</sup> *ibid* P. ~10

protection. He saw English political economy as a confidence trick, where English economists were presenting views (especially free trade) which just happened to be of benefit to English interests.

The Protectionists considered that protection was necessary for the development of the Australian economy. The Protectionists quoted the major economic text of the time, J.S. Mill's *Principles of Political Economy*, where Mill had argued that protection was justified in the case of infant industry. However, this was the only case where in Mill's opinion protection was justified. Sir Henry Parkes, Premier of New South Wales, used this protectionist argument until he was personally attacked by J.S. Mill when visiting Britain. Thereafter New South Wales became a free trade economy. It is reported that in 1855 Parkes actually read aloud selections of J.S. Mill's *Principles of Political Economy* from his seat in the Legislative Council, saying that the time had come for New South Wales to adopt free trade as all other countries of commercial standing had done. Free trade was one case which Hearn lost in Victoria, due largely to the journalism of David Syme.

On population, Hearn again showed optimism in spite of the Malthusian devil. 'If wealth bring with it population, population in its turn brings with it wealth'.<sup>22</sup> He sees the pressure of population in the new colonies being eased with the recently discovered areas of Queensland, Central and Northern Australia, using the assumption of unlimited resources.<sup>23</sup> He notes, for example, that 'the intrepid voyages in the Arctic Seas have opened new fields for the cramped energies of the hunters of the whales'.<sup>24</sup>

Hearn ignores the problems of over-population presented by Malthus and the problems of effective demand. Instead, he concentrates on the optimistic assumption of unlimited resources. This optimistic view of resources was common in economic thinking until the 1960s. In his book *The Ayrian Household*, Hearn described from history how primitive tribes had viewed land as the common

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<sup>22</sup> *ibid* pp. 391–392

<sup>23</sup> *ibid* P. 96 *Plutology*

<sup>24</sup> *ibid* P. 95.



possession of the state. In this way ‘Land Nationalisers’ – people who wanted land nationalised by the government in Australia – used Hearn’s anthropological work to justify the nationalisation of land.

Hearn had a reactionary effect on the development of Australian socialist thought. The progressives of the day, notably Syme, discussed in the next chapter, used his ideas as examples of British imperialism; as ‘Aunt Sallies’, put up to be easily knocked down; or as justification for policies he would have opposed, as in the case of the ‘Land Nationalisers’ quoted above. Hearn’s rival, David Syme, called him derisively one of the theoretical academic economists of the English political school. The third leader written on Hearn’s death in Syme’s Melbourne *Age* newspaper sums up Syme’s attitudes – and those of many others – to Hearn’s ideas:

Dr. Hearn was void of sympathy and therefore adopted the more readily the opinions of a political school which makes no allowance for the shifting character of political problems. Fortunately his influence in Parliament was small and in the country nil and he lived to see the reforms against which he struggled accomplished one after another, despite his impotent protests.<sup>25</sup>

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<sup>25</sup> *The Age*, 24 April 1888

## CHAPTER 6

### DAVID SYME: ONE OF AUSTRALIA'S MANY NON- ACADEMIC ECONOMISTS

In the second half of the nineteenth century in Australia, a typical radical appealed less for the overthrow of capitalism and more for free homesteads, land tax, an eight-hour day, a national bank, and in some instances, tariff protection. David Syme was a radical and led the movement in Victoria mainly for tariff protection but also for the other elements of the radical movement.

Syme was a Scotsman who arrived in Melbourne in 1852, via the Californian goldfields. He started his life in Australia as a digger on the Victorian goldfields and after the gold rush, when a 'philistine optimism' swept the country,<sup>26</sup> he and his brother purchased Melbourne's *The Age* newspaper. When his brother died in 1860, David Syme assumed full control of the newspaper. He personally directed its policy until his death in 1908.

*The Age's* first stance was against the power and wealth of the so-called 'Squattocracy'. After the initial euphoria of the gold rushes, miners and other emigrants looked to settle in Australia but could not get the land they needed because this was mostly owned by the earlier settlers who had 'squatted' on it and thus claimed vast tracts of land for themselves. Syme had inherited or acquired en route a healthy anti-British feeling, which led to numerous attacks on

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<sup>26</sup> Clark, CMH. *Short History of Australia*, Heinman, London, 1964 P.

things British. This attitude had a more positive aspect: Australian nationalism. The Land Reform League centered in Melbourne in the 1870s fought for land nationalisation. As indicated in the previous chapter, they were partly influenced by Hearn. Land nationalisation was favoured by Syme. This movement died in the 1880s when its adherents lost all hope of repossessing the land. They then moved to a more palatable alternative, the land tax method of confiscating income, which was a system developed by the American economist Henry George. This is discussed in Chapter 9.

The second issue which *The Age* under Syme addressed was the free trade/ protection debate. Syme took the side of protection for native industry. In doing so he went against the traditional economic thinking of that time, personified by Hearn. It appears that, having decided to back the protectionists, Syme found it necessary to support his argument and so went looking for theories and evidence to back it up. Although his most influential writings in Australia were found in *The Age*, and he has been described as being a kingmaker, which seems to be a popular title for Australian newspaper proprietors, our concern here is with his more serious writings and how these developed Australian economic thinking along the road to the Australian socialist state.

The English political economy school, led by John Stuart Mill and represented by Hearn in Australia, was convinced of the value of free trade. Syme, by contrast, supported protectionism. He considered free trade erroneous because it was unscientific and made assumptions which were not proven.

One such assumption was that man is motivated purely by self-interest, ignoring such aspects as morality or a sense of duty. Syme's basic criticism of political economy was of its method. In his *Outlines of Industrial Science* he says:

There is, therefore, no special reason why the inductive method should not be applicable to the moral sciences, at least in the first instance. Once the facts have been correctly ascertained deductive reasoning may be founded on them,

but not before. Deduction properly begins where induction ends.<sup>27</sup>

Professor T.E. Cliffe Leslie, whom Syme acknowledges in *Outlines* for ‘his kindness in reading over the proof sheets’,<sup>28</sup> had previously (in 1870) published a similar line of thought:

I venture to maintain ... that Political Economy is not a body of natural laws in the true sense, or of universal and immutable truths, but an assemblage of speculations and doctrines which are the result of a particular history, coloured even by the history and character of its chief writers.<sup>29</sup>

These were disquieting noises about the methodology employed in the study of political economy from more academically accepted sources than Syme. The debate divided into two camps: the inductive or historical method, and the deductive method, which was the method of Mill and the other classical economists including Mill’s Australian disciple, Hearn. Syme was therefore able to attack at its roots the discipline that had produced all the evils that he perceived in economic thinking, and be in good company doing so.

It is important to note that *Outlines* was translated into German, where it attracted attention, as it also did in the USA. In both countries it was appreciated for attacking English political economy, as both the Americans and the Germans were irritated by the political economists’ calm reference to ‘universal principles’ which doubtless appeared to them more than coincidentally suited the interests of Great Britain.

A further reason why Syme’s work should arouse interest in Germany is that, prior to the publishing of *Outlines*, there existed the

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<sup>27</sup> Syme, D. *Outlines of Industrial Science* Henry S. King, London, 1876, P30

<sup>28</sup> *ibid* Preface

<sup>29</sup> ‘The Political Economy of Adam Smith’. TE Cliff Leslie. *Fortnightly Review*. 1 November 1870. P1.

<http://cupid.ecom.unimelb.edu.au/het/leslie/leslie01.html>

so-called 'historical school.' This school was founded as a result of publication of the views of Roscher, Hildebrand and Kniew between 1843 and 1853. In a similar vein to Syme, they argued that inductive historical research should be the basis of the study of political economy, not *a priori* or deductive reasoning. Kniew in particular argued that the theory of political economy is an outcome of historical development. This German historical school had some influence on Marx. *Capital*, which was written in German about this period, used the historical or deductive method of reasoning.

Syme, however, was not directly influenced by the German school and neither was Cliffe Leslie, as the works published by the German economists had not been translated and were almost unknown outside Germany at this time. It is important to record, however, that Syme did spend some time at the University of Heidelberg in 1849 where he came in contact with liberal views.

The inductive method of reasoning followed by Syme uses the following system. Firstly, one observes and examines natural phenomena. Secondly, one experiments where possible. This doctrine of experimentation implicated the doctrine of government interference in economic affairs, because the government was needed to initiate the experiments by legislative changes. Another method used by this school compares economic activities between different peoples and places, in order to arrive at a general theory. That is, an actual 'general theory', not merely a parochial theory which assumes general properties. The problem with these methods was that they required considerably more work to formulate a theory than the leisurely pace of the deductive method.

The inductive school received a moral boost when John Stuart Mill reviewed his friend Thornton's book *On Labour*. In this book Thornton attacked the Wages Fund theory, as had many before him, including Syme. In the review Mill quietly admitted the validity of Thornton's arguments and abandoned the doctrine, which had held a central place in his economic system. Oddly, the theory of the wages fund appears unchanged in later editions of *Principles of Political Economy*.

Charles Gavan Duffy, a Victorian politician, wrote to John Stuart Mill in 1866 in search of a solution to this problem of conscience. Duffy supported free trade in private but, thanks to Syme's efforts, public support would have been political suicide. The reply was used as a guide by a number of Victorian politicians:

If he [the Victorian politician] conscientiously thought that the strong feeling of the public in its (protectionist) favour gave them a right, or made it expedient to have it practically tried, I should not think him wrong in promising to support it; though it is not a thing I should lightly or willingly do. He might even, for adequate public reasons, consent to join a protectionist ministry, but only on condition that protection should be an open question, and that he should be at liberty to speak his mind publicly on the subject.<sup>30</sup>

This indicates how Syme, and to a lesser extent others in the protectionist lobby, had brought the major economist of that time to his knees, at least as far as protection in the Victorian colony was concerned.

Syme extended his views against free trade to attack the whole economics of competition. Syme expressed the view that free trade within a country, that is free competition, led to monopoly. This was because firms with large capital were able to drive out their weaker rivals. Alternatively, where the organisation of an industry is more equal, there is a tendency of the firms within that industry to combine.<sup>31</sup> He extends this argument to international trade: 'England's commercial policy is, and always has been, the extension of this manufacturing monopoly'.<sup>32</sup>

This obsession with monopoly is significant. Most contemporary English economists ignored the problem of monopoly or oligopoly in their systems and did so for many years. They tended to assume that the prevailing economic situation was one

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<sup>30</sup> Letter to C. Gavan Duffy, 2nd October, 1866, in Hugh S.R. Elliot, ed. *The Letters of John Stuart Mill*, London, 1910, 14 P. 67

<sup>31</sup> Outlines P. 59

<sup>32</sup> Outlines P70

approaching perfect competition. In this area Syme follows Karl Marx chronologically but predates his influence in Australia. Karl Marx also saw the tendency of capitalism towards monopoly. With this argument Syme generally criticises laissez faire and maintains that state interference is justified in the area of consumer protection. 'The law [against the adulteration of food] has been practically inoperative,' he says, due to 'the vicious doctrines of the English school' taking 'such a firm hold on the public mind'.<sup>33</sup> The deductionists, he said, 'have proceeded on the assumption that there is but one individual in the whole world, and that any act of his affects only himself, and has no relation to anybody else'.<sup>34</sup> With his knowledge and approval it has been said that the argument in *Outlines* is in the direction of State Socialism.<sup>35</sup> In other words Syme was one of the early thinkers in Australia to develop the theme that Professor Hancock called that peculiar Australian socialism: 'collective power at the service of individual rights'.<sup>36</sup> The elements of this particular type of socialism are primarily nationalism, often expressed in Australia negatively as anti-British sentiment. In this way Australian socialism is different from Marxism. For instance, neither Syme nor early Australian socialism advocated the abolition of private property as did Marx.

What had started as a vindication of tariff protection to help the infant industries of Victoria had led to a challenge of orthodox economics of that time and continued to develop into State Socialism, which was the future of Australian economic practice and led to the development of a peculiarly Australian view of economic matters.

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<sup>33</sup> *Outlines* P.80

<sup>34</sup> *Outlines* P. 93

<sup>35</sup> Philip Mennell, *The Dictionary of Australasian Biography..* (London, 1892) Preface P. vii, and S.V. Syme

<sup>36</sup> Hancock W K. *Australia* Australasian Publishing Sydney 1930 P.62

## CHAPTER 7

# THEORY OF THE AUSTRALIAN ECONOMIC MAN

The historical development of the Australian character could be a book in itself, but this section will be brief and as a result is necessarily over-simplified.

The first account of peculiarly Australian behaviour is found in Bigge's report on the 'Currency' lads and lasses. These first Australian-born individuals were especially impressive when one considers the stock from which they were bred:

The class of inhabitants that have been born in the colony affords a remarkable exception to the moral and physical character of their parents: they are generally tall in person, slender in their limbs, of fair complexion, small features. They are capable of undergoing more fatigue, and are less exhausted by labour than native Europeans; they are active in their habits, but remarkably awkward in their movements. In their tempers they are quick and irascible, but not vindictive; and I only repeat the testimony of persons who have had many opportunities of observing them, that they neither inherit the vices nor the failings of their parents. Many of the native youths have evinced a strong disposition for a sea faring life, and are excellent sailors.<sup>37</sup>

As time went by, this independence of spirit seems to have been eroded by the supposed superiority of immigrants, mostly from Britain. A similar attitude is now felt by native-born from other

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<sup>37</sup> Bigge, IT. *Agriculture and Trade*, pp 81 82



ethnic origins. These early Australians rejected the ‘slums of London attitude’ of their parents, and having grown up in the bush, logically and easily regarded it as home. The open spaces, or the communing with nature, or something, turned them against the values (or lack of them) of their parents and apparently converted them into adolescents any parent would be proud of. This love of the bush and its psychological therapy was a cause still being preached in Australian films of the 1930s and later (for example, *The Girl from the Bush*, *Greenhide*, *Tall Timbers* and others). So at this early stage an unusual phenomenon becomes apparent: although Australia has always been one of the most urbanised countries in the world, the stereotype of the typical Australian is one of a bronzed outdoor bushman.

Another development occurred later which was to effect the Australian of the future, especially the emigrant, and especially in the economic area. Around 1835 it was reported:

All are poor, at least in proportion to their views of aggrandizement; for we believe few leave their native land, to settle in another, who either possess a competency, or have no other object in view than to earn a mere subsistence. To make a fortune, therefore or at least to better themselves in a pecuniary point of view is the aim of all.’

However, this money making attitude had a civilised counter-attitude:

There is a great deal of this mutual regard and trust engendered by two men working thus together in the otherwise solitary bush; habits of mutual helpfulness arise, and these elicit gratitude, and that leads on to regard. Men under these circumstances tend stand by one another through thick and thin; in fact it is a universal feeling that a man ought to be able to trust his own mate in anything.<sup>38</sup>

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<sup>38</sup> Anonymous ‘The Australian Character,’ *Van Dieman’s Land Monthly Magazine*, No. 3, November 1835, pp 112-4. quoted in Harris A. *Settlers and Convicts*. 1852. P326

These tendencies, which apparently were evident before the gold rushes, were certainly crystallized by them. The Australian Economic Man has therefore developed a tendency to be materialistic, but this is tempered by mateship and another trait which came later: the belief in giving everyone, including foreigners, a 'fair go'. Where amoral materialism tends to be ruthless, an Australian economic man cannot be ruthless to his mates and must – according to the Australian code – give everyone including foreigners the same fair go. This tends to bring a degree of civilisation and morality into what otherwise would be a very savage physical and economic environment.

It can be argued, as the quote above suggests, that it is the naturally savage physical environment that has led to these stick-together attitudes. Australian society has always been urban, even though its heroes have been bushmen, and there is always the pervading feeling that the minute amount of civilisation that exists in the varied environment could be easily wiped out by floods, bushfires, or cyclones, all of which have at sometime destroyed years of frail human effort in some populated area of the continent. All these factors have tended to increase the amount of collective feeling in Australia, as opposed to that generated by the garden farms of Europe, or the new, vast open rich lands of the United States' Wild West.

The Australian bush has never been regarded as tamed, or full of opportunities for ambitious men to exploit. It has been regarded as savage, forbidding, merciless, and the task of eking a living from it as being thankless. This environment is sufficient to encourage a collective economic system, based on mates working together. It is significant that another country with a savage landscape has attempted to generate a similar mateship concept in a collectivist society. The Russian 'comrade' is virtually synonymous with the Australian 'mate'.

Professor Russell Ward has described the typical Australian in the classic section from his book *The Australian Legend*:

According to the myth, the 'typical Australian' is a practical man, rough and ready in his manners and quick to decry any

appearance of affectation in others. He is a great improviser, ever willing 'to have a go' at anything, but willing too to be content with a task done in a way that is 'near enough'. Though capable of great exertion in an emergency, he normally feels no impulse to work hard without good cause. He swears hard and consistently, gambles heavily and often, and drinks deeply on occasion. Though he is 'the world's best confidence man', he is usually taciturn rather than talkative, one who endures stoically rather than one who acts busily. He is a 'hard case', sceptical about the value of religion and of intellectual and cultural pursuits generally. He believes that Jack is not only as good as his master, but, at least in principle, probably a good deal better, and so he is a great 'knocker' of eminent people, unless, as in the case of his sporting heroes, they are distinguished by physical prowess. He is a fiercely independent person who hates officiousness and authority, especially when these qualities are embodied in military officers and policemen. Yet he is very hospitable and, above all, he will stick to his mates through thick and thin, even if he thinks they may be in the wrong. No epithet in his vocabulary is more completely damning than 'scab' unless it be 'pimp' used in its particularly Australasian slang meaning of 'informer'. He tends to be a rolling stone, highly suspect if he should chance gather much moss ... These characteristics were widely attributed to the bushmen of the last century, not, primarily, to Australians in general or even to country people in general, so much as the outback employees, the semi nomadic drovers, shepherds, shearers, bullock drivers, stockmen, boundary riders, station hands and others of the pastoral industry.<sup>39</sup>

This passage sums up the myths and stereotypes of the Australian character over the years, including some phrases from previously quoted sources.

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<sup>39</sup> Ward RM. *The Australian Legend*. Halstead Press Sydney. 1970. Pl.

If one uncritically accepts Ward's assessment of the Australian character some important points emerge. Firstly, we can see that certain characteristics (most, if not all of which were formed by the middle of the nineteenth century) were caused by influences over which native-born Australians had no control. The application of the theories of E.G. Wakefield led to the maintenance and in some areas creation of an itinerant rural labouring class. It was these labourers together with ex-convicts who developed and dominated the Australian character, and created what is now referred to as the 'ocker'. It is reasonable to deduce that the cause of this character was environmental, both physical and economic: this savage physical environment, which does not give the physically weak an opportunity to live off the work of the physically strong; and the economic environment which was created by overseas governments, notably Britain, and by overseas thinkers, many of whom had never visited the country.

The effect of these influences may be best summarized by another contemporary quote, which explains to some extent this Australian attitude which encouraged the establishment of socialism in Australia. Somewhere between 1858 and 1861 Mr Charles Thatcher wrote the following ditty:

Upset squattordom's dominion  
Give every poor man a home  
Encourage our great population  
and like wanderers no more we'll roam  
Give in mercy a free scope to labour  
Uphold purest bold industry  
Then no one will envy his neighbour  
But content and happy will be.<sup>40</sup>

The Australian hatred of wealth came from historical causes. The wealthy had been ex-prison guards or the officers who, having priority over the convicts, were able to get grants of land. The native-born and poorer settlers, therefore, were not given the same

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<sup>40</sup> Quoted in C.M.H. Clark, *Short History of Australia* Heinemann London 1964. P133

opportunity to achieve economic success and this was naturally resented.

A further element of the Australian economic man which has been implied above but not stated is that he tends towards utilitarianism. It is significant that one of the original proponents of 'utility theory' in political economy was William Stanley Jevons. Jevons spent five of his formative years (between the ages of 19 and 24) in Australia, although he was a member of the English political economy school. The concept of utility still occupies a major place in economic study today. The Australian stereotypes described above fall very closely into what Marshall describes as the 'rational economic man'. This materialistic, utilitarian attitude is a necessary base for the acceptance of socialist arguments and the desire for socialist reforms. The stage was therefore set for the acceptance of socialism, partly – although by no means exclusively – through the attitudes which developed about the middle of the nineteenth century in Australia, and Karl Marx, one of the most famous socialists, would influence and be influenced by this new economy with its peculiar value system.

## CHAPTER 8

# KARL MARX: HIS INFLUENCE FROM AND ON AUSTRALIA

In 1880 the *Bulletin* magazine maintained that Karl Marx's *Capital* was the greatest work on social and political economy then seen. The *Bulletin* was a radical paper and it appears to have welcomed Marx as the saviour they had been waiting for. This alone indicates the influence Marx had on radical thought in Australia.

Marx was partly influenced by the English philanthropist, Robert Owen. Owen presented a labour theory of value which was similar to the one propounded by Marx decades later. He said that human labour, when averaged out, will acquire a natural and intrinsic value. Physical power and the average of human labour forms the essence of all wealth. The idea that labour determined the value of a product was also accepted by Ricardo, to whom Marx refers. This tendency towards a labour theory of value was one of the faiths of political economy of this period.

The classical theory was seen as a justification of *laissez faire*. It stated that in a free market economy where monopoly had been entirely destroyed, the exchange value of commodities was simply the amount of labour embodied in them. In the aggregate, any labour which a man does for others is really labour he does for himself: free exchange allows a man to get commodities for his labour via the medium of exchange – money. The commodities that he produces he sells for money in order to get other men to serve his purposes. His power over other people, therefore, is in direct

proportion to his service to others. This assumes that there is no interference from monopoly of any kind, government-supported or otherwise. Marx saw two problems with this theory, one of them he developed fully the other he did not and it was left for later generations to do so.

The first flaw that Marx saw in this classical theory was that a dynamic model of capitalist society, as opposed to the static models of nineteenth century economists, produced an irreversible tendency to monopoly. He argued that monopoly was not something that capitalism was going to destroy, even though it was destroying the old monarchic or feudal monopolies of the pre-capitalist era. Instead, capitalism tended towards combination, where possible, and takeovers where this was more appropriate. The smaller firms were continually being attacked by larger firms who had better access to funds, markets, and economies of scale, and over a period Marx saw the small businessman driven from his land or business and forced to join the reserve army of workers.

The second flaw Marx identified in classical theory was that it assumed there was no problem with effective demand. Marx saw that because money had entered into the exchange function which had previously been conducted under a barter system, there was the possibility of a lag between purchase and sale:

Nothing can be more absurd than the dogma that because every sale is a purchase, and every purchase a sale, therefore the circulation of commodities necessarily implies a balance between purchases and sales ... what is really implied in the assertion is that every seller brings his buyer to market.<sup>41</sup>

Here Marx sees the fallacy in Say's Law 'that supply creates its own demand'. The introduction of money into the exchange function allows for a lack of effective demand. However, Marx does not follow the argument through to an explanation of economic depressions under capitalism. When this argument was developed by John Maynard Keynes in 1936, and the theory of effective demand

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<sup>41</sup> Marx K. *Capital*. Everyman's Library, Dent, London, 1974. P. 91.

brought an explanation of the depression of the 1930s, Keynes noted his debt to Marx.<sup>42</sup>

This tendency of the capitalist system to monopoly is seen by Marx as an integral and important part of his dynamic model. He sees this tendency as setting the stage for the next phase of development in the evolutionary process. The organisation of labour which capitalism creates is the need which ultimately destroys the capitalist system. This organised force takes over from the capitalists by violence and creates a system where the aggregate product of labour will be enjoyed by all the workers. There will be no more necessity for the existence of capitalists, and they may well assist in the revolution. The fundamental difference between Marx and the other economists of this period was that, where they saw the free play of market forces leading to the abolition of monopoly and the return of the product of labour to the actual producers of it, Marx saw this monopoly problem as increasing and ultimately becoming unbearable. This had the result that a central authority would be set up by the producers (workers) which would dispose of the parasites of the system and return the product of labour to its 'rightful' owners.

To Marx, a free market meant the right of the monopoly capitalists to exploit the weaker citizens.

It is not hard to see why this theory was popular in the Australia of this period. With Syme's attack on free trade and his general attack on English political economy, Marx's *Capital* fitted right into the general themes that were popular at the time. Furthermore, Marx's support of the producers against the idlers appealed to the radical element in Australia who, even before *Capital* was published in English, demanded such reforms as: free homesteads, land tax, restricted emigration, industrial regulation, inheritance tax, an eight-hour day, a national bank, and in some instances tariff protection. Syme had supported all of these moves and had also, like Marx, argued that capitalism tends towards

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<sup>42</sup> Keynes J.M. *General Theory of Interest, Wages and Unemployment*, MacMillan, London, 1942. P. 32.



monopoly. There was also in the radical movement in Australia a tendency towards collectivism. This followed exactly the Marxist doctrine and pre-dated it.

As a comparison to the radical movement's demands listed above, it is relevant to note here the 10 points of the Communist Manifesto – the statement of political aims of the Communist Party by Marx and Engels:

1. Abolition of property in land and application of all rents of land to public purposes.
2. A heavy progressive or graduated income tax.
3. Abolition of all right of inheritance
4. Confiscation of all property of emigrants and rebels.
5. Centralisation of credit in the hands of the state by means of a national bank with state capital and an exclusive monopoly.
6. Centralisation of the means of communication and transport in the hands of the state.
7. Extension of factories and instruments of production owned by the state; the bringing into cultivation of waste lands, and the improvement of the soil generally in accordance with a common plan.
8. Equal obligation of all to work. Establishment of industrial armies especially for agriculture.
9. Combination of agriculture with manufacturing industries; gradual abolition of the distinction between town and country, by a more equitable distribution of the population over the country.
10. Free education for all children in public schools. Abolition of children's factory labour in its present form. Combination of education with industrial production etc.

We can see that most of the above measures could have been proposed by David Syme or almost any other Australian radical. Most of them were already part of the radical platform before *Capital* was translated into English. Others, notably 'centralisation

of communication and transport', became part of the federal constitution. Free education was also a demand during the 1890s.

Australia at this time was therefore fertile ground for the writings of the most influential socialist in history. The main reason for this appeal is that Marx saw the problem of ensuring the just rewards of labour being solved through state interference. This was in total opposition to the accepted English political economy of the time, which maintained that individual freedom was the only possible solution to this same problem. Australian political thinking at this time, on the other hand, was tending to be more collectivist. As we have seen, from the beginning of European settlement in Australia there was a consistent demand for government help (interference) at every economic turn. The Marxist doctrine then could not help being accepted in Australia. Even if not accepted directly, then at least there was acceptance of the principles. Economic thought in Australia was ripe for this doctrine.

Marx's contribution to Australian economic thought was not a 'one way street'. A considerable part of *Capital* is devoted to a criticism of Wakefield's theories, and the early attempts at colonisation of Swan River, which had also been criticised by Wakefield. In this section Marx uses the Australian experience, firstly to demonstrate the inherent problems of capitalism as seen in a new country without the smoke screen of old feudal forms. Secondly, he criticises the principle of colonisation, as he sees it as a 'stop gap' measure used by capitalism to postpone the day of revolution.

The criticism of colonisation expressed in this section of *Capital* formed the basis of Soviet criticism of Western 'colonisation' during the Cold War. Fundamentally Marx's criticism of political economy of that period in general and of Wakefield, whom he elsewhere refers to as 'the most notable political economist of that period',<sup>43</sup> in particular can be found in the closing paragraph of *Capital*:

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<sup>43</sup> Marx K op. cit. P 747

the political economy of the old world has discovered in the new world, and has then proclaimed on the housetops, a great secret: that the capitalist method of production and accumulation, in short capitalist private property, demands as its fundamental condition the annihilation of self earned private property; in other words, the expropriation of the worker.<sup>44</sup>

The above statement is the summary of *Capital*: in order to demonstrate his theory Marx uses the Australian experience. He does not use the United States experience, as there the settlers tended to be mini-capitalists. As is noted above, Marx claims that his theory is based on the principle that capitalism seeds a class of dispossessed workers (the proletariat). Accordingly, the United States experience is not truly capitalist in the Marx definition:<sup>45</sup>

expropriation of the masses of the people from the land forms the basis of the capitalist method of production in America, the cultivation of land is often the secondary pursuit of a blacksmith, a miller, or a shopkeeper. Among such queer customers as these, how can there be any 'field of abstinence' for the capitalists?<sup>46</sup>

Here, partly quoting Wakefield, Marx demonstrates that the American experience is anti-capitalist in the European (Marxist) sense of the term. America really is the land of the free.

Australia, on the other hand, is a land of dominance from Britain, similar to America prior to the revolution, and after Wakefield, a land of 'systematic colonisation' where Marx can see a transplant of European attitudes. Marx's final footnote refers to Duffy, the Victorian minister for public lands referred to in Chapter 6, who asked J.S. Mill what to do when one believes in free trade but cannot vote for it. Duffy was responsible for an Act of Parliament designed to reallocate land to the settlers and reverse some of the actions of Wakefield and the British government.

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<sup>44</sup> Marx K op. cit. p747

<sup>45</sup> Marx K op. cit. P 852

<sup>46</sup> Marx K op. cit. P 850

Marx also notes that the debacle at Swan River, Western Australia, which Wakefield also criticises, was caused by the unfortunate and mysterious Mr. Peel. This Mr Peel, who is quoted in *Capital* but is otherwise unknown, took from England everything that he thought he was going to need, including 3000 persons, except ‘English relations of production’<sup>47</sup>: that is, capitalists as well as dispossessed, dependent workers. It was Peel’s failure to export these relations of production that meant the system was doomed to fail. Wakefield’s system, however, included the export of these European capitalist relations, Marx concludes.

It is not known whether Marx’s theory was influenced by events in Australia, or whether he merely used Australia as proof of a theory that he had worked out independently of Australian experience. One conclusion, however, is unavoidable: that Australia – in complete opposition to the United States – demonstrated to Marx the proof of the argument, that in his dynamic model, capitalism needs a landless proletariat and where this is not readily available. European capitalism, as opposed to American capitalism, cannot exist.

The extension of this theory is that capitalism is a stepping stone to that great future when this working proletariat, organised by the capitalist system, will convert the capitalist system to a communist system. Without this expropriation of land from the masses and the consequent creation of a landless proletariat, capitalism would not exist nor would socialism be able to develop. If we take Marx’s own theory, therefore, Australia, having had European capitalism forced upon it firstly by the British government and secondly by Wakefield, was now capable of developing into a socialist economy, whereas the American example was not. Marx goes further to say that after ‘Australia became her own lawgiver, the colonial government passed laws favourable to the settlers’.<sup>48</sup> In other words, Marx implies that before *Capital* was published Australia was already moving along the road towards a Marxist

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<sup>47</sup> Marx K op. cit. P 858

<sup>48</sup> Marx K op. cit. P 858

socialist utopia, having disposed of the last vestiges of European influence.

Although Marx was able to analyse existing society and categorically state that it would change in a certain way, he was unwilling or unable to describe in any detail the way this future society, this dictatorship of the proletariat, would be organised. It was to later socialists that this problem became an issue. One of these, Henry George, had much influence in Australia and is discussed in Chapter 9.

## CHAPTER 9

# HENRY GEORGE AND THE SINGLE TAX DOCTRINE

Henry George probably had more influence on Australian taxation methods than any thinker before or since. The whole concept of taxing the unimproved capital value of land rather than the improved capital value stems directly from his views, and this method of taxing was practically exclusive to Australia. It is a pity that the concept of taxing land, to the exclusion of other taxes or otherwise, has been relegated in Australia to local government, not state or federal governments, as local councils have less power in the total Australian political scene than the other two tiers. In the 1970s the New South Wales government, for instance, legislated that council rates could only rise by 10% per annum in money terms; this was at a time when state taxes were rising by considerably more.

Henry George was not a socialist, but he was aware that Western society was going to change. That change, he envisaged, would either be towards socialism or towards his own view of what should occur. He saw the basic problem of the so-called capitalist economy as the alienation of land. It is important to note that he also saw the same problems in capitalism that other more socialist thinkers, such as Marx and Bellamy, had reported. However, he saw the answer not in the abolition of capitalism to be replaced by socialism but in the removal of the private ownership of land. This 'alienation of land' had been initiated in the English speaking world by the enclosure acts in Britain, which he criticised strongly.

After the publication of his book, when George had become famous, he was criticised by various economists and thinkers of the

time, notably Arnold Toynbee, and Alfred Marshall. Professor Seligman of Columbia College, New York, who was regarded as an outstanding authority on taxation, complained that George's system did not follow the main index of a just tax, which was ability to pay. He also indicated that the professors of political economy were against George almost to a man. To this George answered:

Let me say a word to you professors of political economy, you men of light and leading, who are fighting the single tax with evasions and quibbles and hair splitting. We single tax men propose something we believe will make the life of the masses easier, that will end the strife between capital and labour, and solve the darkening social problems of our time. If our remedy will not do, what is your remedy? It will not do to propose little goody-goody palliatives, that hurt no one, help no one, and go nowhere. You must choose between the single tax, with its recognition of the rights of the individual, with its recognition of the providence of government, with its recognition of the rights of property, on the one hand, and socialism on the other ... Modern society cannot stand still. All over the world social conditions are becoming intolerable.<sup>49</sup>

The same fundamental difference between George and the traditional political economists emerged. They were concerned with a static model. George, however, was looking at a dynamic model in the same way that Marx did. George makes it quite clear, however, that he is not only not proposing socialism, but that he is proposing an alternative to what he sees as the inevitability of some change to capitalist society. The most likely contender at that stage was socialism. The traditional economists – then as now – were more content to assume that because society was the way it was then, it would always be that way (i.e. the static model syndrome).

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<sup>49</sup> The Single Tax Discussion held at Saratoga September 5, 1880, reported for the *American Social Science Association* (Concord, Mass. October 1890, pp 82, 84 86)

George had numerous contacts with Australia. In 1855 he joined the crew of the sailing ship *Hindod*, which was bound for Australia and India. At this time he was only 15 years old. The crew went on strike in Melbourne with the hope of moving off to the goldfields. However, they were sentenced to one month's gaol for their trouble. Although Henry did not go on strike as the captain was a friend of the George family in Philadelphia and his benefactor, his sympathies were with the crew rather than the authorities. Later in his life when he became a newspaper co-owner, George became effective in prosecuting a captain who had been brutal to his crew. Thereafter he continued to defend seamen's rights.

After various jobs and numerous experiences of being dead broke, George settled in San Francisco, or more correctly he made San Francisco his base. His other important contact with Australia was his wife whom he married early in life. She was an orphan who had been born in Sydney, and was brought up by her guardians in California. In 1890, when George visited Australia as a speaker, following the success of *Progress and Poverty*, his most important and influential work, his wife was welcomed (back) as 'Australia's Daughter'.

George's view of Australia was particularly complimentary according to the generous references he made to Australian democracy during his three-month tour. He praised the Australian (secret) ballot which he said some states in the USA had adopted, and suggested that more ideas on democracy should be sent from Australia to the USA. *Progress and Poverty* and George's ideas in general were not constructed simply as anti-socialist dogma. They were views George arrived at more or less independently. They were his interpretation of a solution to the paradox of increasing poverty amidst opulence, and increasing productive capability. His acceptance that there was something fundamentally wrong with the capitalism that he saw around him, and his conviction that this should be changed, was a similar view to the socialists and Marxists. However, his assessments of the reasons for it were different from those of the socialists and his proposed solution was less radical than the socialist one.



In the 1890s Australia suffered a depression along with the rest of the world and it was at this time that many socialist elements were introduced into Australian society. Henry George was adopted by the more conservative Liberal Protectionists, whereas the more radical Labor Party supported the full Marxist socialist program. The political division in early Federation Australia was between state capitalism on the one hand and state socialism on the other. Both were, in part socialistic, due to their insistence on government intervention in economic affairs but the Labour party tended to be more collectivist. Although Henry George strongly influenced the early Australian Labor party, he was also influential on the so called liberals, notably Max Hirsch who we will discuss later.

George attacked John Stuart Mill and his acceptance of the Malthusian doctrine. He quotes Mill's *Principles of Political Economy* where Mill states: 'A greater number of people cannot, in any given state of civilisation, be collectively so well provided for as a smaller. The niggardliness of nature, not the injustice of society, is the cause of the penalty attached to over population'. George then goes on to say:

All this I deny. I assert that the very reverse of these positions is true. I assert that the injustice of society, not the niggardliness of nature, is the cause of the want and misery which the current theory attributes to overpopulation ... I assert that in a state of equality the natural increase of population would constantly tend to make every individual richer instead of poorer.<sup>50</sup>

This is the starting point of George's doctrine. He sees inequality and injustice as well as economic privation as caused by mankind. It can be changed, and the problem can be solved by mankind. The classical economists were content to accept that capitalism was the highest development of society and that to change it would invite long-term repercussions. Furthermore, because of their static

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<sup>50</sup> *Progress and Poverty*, Dent, London, New York, 1880, reissued 1976, Everyman's Library. pp 102-3.

economic models they could not conceive of a change in the ‘natural order of things’.

George effectively demonstrates the validity of his argument by referring to one of the economist’s favourite models, Robinson Crusoe:

Put him [an unemployed man] on a solitary island, and though cut off from all the enormous advantages which the cooperation, combination, and machinery of civilised community give to the productive powers of man, yet his two hands can fill the mouths and keep warm the backs that depend upon them. Yet where productive power is at its highest development he cannot. Why? Is it not because in the one case he has access to the material and forces of nature, and in the other this access is denied?<sup>51</sup>

He then goes on to state his thesis in total:

When we speak of labour creating wealth, we speak metaphorically. Man creates nothing. The whole human race, were they to labour forever ... could not make this rolling sphere one atom heavier or one atom lighter. In producing wealth, labour, with the aid of natural forces, but works up pre-existing matter, and to produce wealth, must therefore, have access to this matter and to these forces that is to say, land ... and, hence, when labour cannot satisfy its wants, may we not with certainty infer that it can be from no other cause than that labour is denied access to land?<sup>52</sup>

Private ownership of land is the primary cause of the evils of capitalist society according to George.

His thesis continues that where interest and wages will not increase over time in real terms, the cost of land will. In other words, economic rent or quasi-rent takes the lion’s share of the benefits from increased productivity. The capitalist and the worker get no more in real terms. This leads to his sub-thesis: that there is no real conflict between capital and labour as the socialist doctrines had it.

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<sup>51</sup> *ibid* pp. 193

<sup>52</sup> *ibid* pp. 193–194

George attacks socialism as being unworkable in a modern industrial society:

We have passed out of the socialism of the tribal state, and cannot re-enter it again, except by a retrogression that would involve anarchy and perhaps barbarism ... Instead of an intelligent award of duties and earnings, we should have a Roman distribution of Sicilian corn ... All that is necessary to social regeneration is included in the motto of those Russian patriots sometimes called Nihilists: 'Land and Liberty'.<sup>53</sup>

In the same section he attacks the socialist proposal for graduated tax on incomes. The basis of George's concern comes from Ricardo's 'long run' rent theory. This was a theory which used the classical economics, pre-Keynesian obsession with the 'long run' or sometime in the far distant future, when, as Keynes noted, 'we are all dead'. It stated that the share of national income accruing to land owners would grow steadily. George makes short work of the view that rent is the reward for investment. Rent was sometimes regarded as a retirement benefit from previous earnings that had been saved and invested in land. George's answer to this contention was simple:

It is not from the produce of the past that rent is drawn; it is from the produce of the present. It is a toll levied upon labour constantly and continuously ... it claims the just reward of the capitalist and the fruits of the inventor's patient effort.<sup>54</sup>

Unlike Marx, George sees private ownership of land as the sole expropriator of the work and effort of the other economic classes, especially the worker and the capitalist. George's solution to this was that land should be nationalised immediately (1879) and all rents taken by the government as tax, and that this should be the only tax. This was the doctrine of the single tax movement that grew up in Australia as a result of *Progress and Poverty*.

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<sup>53</sup> *ibid* P. 228

<sup>54</sup> *ibid* P. 259

George also had views on the cause of depressions. Again the same problem – private ownership of land – was seen as their cause. He analyses the then current schools of thought on the cause of depressions, which he says are ‘speculation causing over-production’ and ‘speculation leading to over-consumption in which there has been extravagance encouraged by the fictitious prosperity; people living beyond their means, who now have to pay for their over consumption by under-consumption, leading to a cessation of effective demand.’ George, however, sees it differently. He sees the ‘speculation’ part of each of the then current theories as the important factor, especially speculation in land. He searches for:

a check to production, which shows itself in decreased purchasing power ... that obstacle, it is clear, is the speculative advance in rent, or the value of land, which produces the same effects as a lock out of labour and capital by landowners.<sup>55</sup>

He sees the increase in land values eventually reducing the spending power of workers and capitalists alike, and accordingly reducing effective demand. The increased industrial activity which leads to economic expansion forces values to initially steadily rise, ‘culminating in speculation which carried them up in great jumps. This has been invariably followed by a ... cessation of effective demand.’<sup>56</sup>

Land values at the height of a boom increase at a far greater rate than productivity, profits, or wages. When the capitalist or the workers come to pay the rent or buy the property, the price has risen to the extent that it saps their purchasing power. It would have been better if George had made this clear. Unfortunately, he makes some confusing statements about supply and demand. ‘Cessation of supply becom[es] failure of demand ... until the whole machine is thrown out of gear.’<sup>57</sup> Here he seems confused by the old fallacy of Say’s Law which stated that ‘supply creates its own demand.’ As Keynes

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<sup>55</sup> *ibid* P. 192

<sup>56</sup> *ibid* P. 191

<sup>57</sup> *ibid* P. 192

pointed out later, Ricardo had used Say's Law to debunk Malthus' population theory, but when Say's Law was itself later debunked, Ricardo's views still remained standard economic teaching. George relied heavily on Ricardo and here puts cessation of production as the cause of unemployment first, with unemployment then causing the failure of demand. It would be more true to say in support of his thesis that high land prices, out of proportion with the other factors of production, caused a cessation of effective demand, due to the reduction they caused in purchasing power. Further, the high cost of land affects the domestic, industrial and commercial sectors. George's thesis, although not argued very convincingly, can be seen to have some merit in spite of his apparent inability to understand the theory of effective demand. It was left to Keynes to point out the importance of this factor in the cause of depressions.

George's political application of his views was that the natural rights of man, which the American constitution guaranteed, were meaningless forms if there is no corresponding equal right to land: 'Political liberty, when the equal right to land is denied, becomes, as population increases and invention goes on, merely the liberty to compete for employment at starvation wages'.<sup>58</sup> He saw the monopolisation of land as leading ultimately to a regression from civilisation to barbarism, a pattern he observed other civilisations had followed.

George developed this theme of the degeneration of society into barbarism very effectively. As noted above he regarded the trend to socialism as simply the return to a Roman corn dole. Other institutions that he saw deteriorating were the standard of the legislature:

Our legislative bodies are steadily deteriorating in standard; that men of the highest ability and character are compelled to eschew politics, and the arts of the jobber count for more than the reputation of the statesman.<sup>59</sup>

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<sup>58</sup> *ibid* P. 386

<sup>59</sup> *ibid* P. 377

He saw this deterioration as leading to ‘despotism of the basest and most brutal’.<sup>60</sup> Whereas Marx saw capitalism as a phase of development which would ultimately lead to the better world of socialism, George saw capitalism as the first step in the decline of civilisation unless it was radically changed to give equal opportunity in real terms. He saw the existing conditions as ripe for decline as opposed to revolution. He also saw the alternative to his ideas – socialism – as a form of that decline.

George’s influence on the development of Australian socialism was profound. Firstly, he left the legacy of public ownership of land in the Australian Capital Territory. Here land is leased from the Federal government and cannot be alienated (sold freehold) by law; leases are usually for 99 years.

Secondly, thanks to George all Australian land rates and taxes are based on the unimproved capital value of the land, not the improved capital value as is the case in most other countries. These two facts are directly attributable to George’s influence on all political parties.

His more subtle influence is in the area of the development of socialist doctrine in Australia, particularly in the Labor Party. His ideas for political action are that land should be nationalised and that the revenue from land should be the sole (single) tax. The radical socialists felt he did not go far enough. They wanted to take everything they could from the wealthy, who, they said, had gained their wealth through privilege and not hard work. They wanted to take the land, most of the income, all plant and anything that produced wealth.

It is interesting that one of the few, if not the only, non-esoteric or utopian points in the Communist Manifesto that has not been implemented in Australia at some time is the nationalisation of land which Henry George favoured. All the other points (such as graduated income tax etc.) have been implemented for some years. It is interesting to speculate why this number one point in the Communist Manifesto and the main point in the Single Tax Doctrine

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<sup>60</sup> *ibid* P. 375

has never been implemented in Australia except in the Australian Capital Territory. Part of the reason is no doubt that such policies would have to be implemented by the states under the Australian Constitution.

Although George had supporters in the non-Labor camp it was rare that his policy of land nationalisation formed part of their platform. Another possible cause for the failure to implement the Single Tax Doctrine is that politicians are continually on the lookout for short-term solutions. Nationalisation of land would offer only short-term disruption and no short-term gains. No real benefit would be felt until revenue started flowing into the state coffers. The numerous governments in Australia would then and only then be able to reduce or (in keeping with the second part of George's plan) abolish the other taxes. This long-term possibility is of little interest to politicians. It is also reasonable to assume that because of the short-term benefits of other parts of the socialist doctrine their implementation was more attractive, as benefits would be likely to occur more rapidly. From this base, they possibly hoped to pass on to the more long-term policy of land nationalisation. Unfortunately, we are yet to see the benefits of the other elements of socialist policy.

For a long term view, we need to consider an American writer who prophesied what would happen after socialism was implemented and in full operation, around the year 2000. His fantasies are examined in the next chapter.

## CHAPTER 10

# EDWARD BELLAMY: PROPHET OF A SOCIALIST UTOPIA.

*Looking Backward*, Edward Bellamy's major work, was subtitled *If Socialism Comes* and can be classified in a similar mould to Huxley's *Brave New World*. It is the story of a person who goes to sleep in 1887, and wakes up in the year 2000. He finds to his astonishment not only the great technological change one would expect, and which with hindsight Bellamy describes with remarkable accuracy, but also a working socialist state. Bellamy uses the future to describe the way in which society would operate if a socialist system was adopted.

*Looking Backward*, and to a lesser extent its sequel *Equality*, had considerable influence on the founders of the Australian Labor Party, and was studied closely by the Australian Labor Prime Minister John Curtin.<sup>61</sup> J.D. Fitzgerald, a Sydney Trade Unionist, said: 'How many times have I felt at a loss to explain the working of a cooperative commonwealth? Now I have only to say, read *Looking Backward!*'<sup>62</sup> Its quaint nineteenth-century style presents a very good picture of what nineteenth-century socialists expected to achieve through socialism. It is impossible to describe in detail what *Looking Backward* says about applied socialism seen through the eyes of a wealthy nineteenth-century visitor. This can only be achieved by reading the whole book. However, there are some major elements

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<sup>61</sup> Lang, J. T. *The Great Bust*. Angus & Robertson, Sydney, 1962 pp 14 and 284

<sup>62</sup> *Worker* 1 March 1890



which point to the strengths and weaknesses of nineteenth-century socialism which so deeply affected Australian economic thought.

The basic mistake made by Bellamy (as well as by most other socialist thinkers) is the view that those who do not work are being carried by those who do. The early part of *Looking Backward* draws an analogy between a coach being dragged by one group of people with another group (the wealthy) riding on the coach but making no effort to assist the many humans suffering under the strain of the work. The implied message is that if everyone helped to pull the coach there would be no suffering. What he fails to say is that if everyone got off the coach and helped there would very likely be no need for the coach anyway; everyone could walk!

What Bellamy does not seem to appreciate is that the economy of his time was organised efficiently, relative to earlier periods, and that whatever may be wrong with the free enterprise system it has always proved capable of ridding itself of the inefficient, even if the consequences of this may not be particularly charitable. The Soviet Premier Krushchev was reported to have accepted this with some degree of envy. One result of this efficient organisation is that there is a reduction in the amount of labour needed to produce a given output because labour becomes more efficient. Assuming static consumption and increasing efficiency of production there is a reduction in the number of persons in the economy required to work. The discussion therefore is not whether it is moral that some should have a 'free ride' on the coach while others pull the coach; it is about who should ride on the coach and for how long. The free enterprise answer is that those who have worked harder and/or saved harder should, when they see fit, retire to be 'drawn' by others. The socialist answer is that everyone should work for as long as the authorities determine, as this supposedly lightens the load of their fellow human beings. To put it another way: there is no retirement under socialism before the state-determined age. The lump of labour that has to be performed on a daily or yearly basis should be equally distributed among the workforce. This initial analogy of the coach contains the basic

fallacy which permeates the whole work, i.e. ‘the lump of labour fallacy’.

Similar to Henry George, Bellamy expresses the view that the reason for inequality and suffering is the injustice of society, not the niggardliness of nature that J.S. Mill suggested. Remove the unequal distribution of the workload and then society is even wealthier than it was under the free enterprise system. This move has the added advantage that suffering has also been removed because of the more equal distribution of wealth. It ignores the consequent lack of the efficient removal of the inefficient which the free enterprise system provides with vicious regularity. Bellamy outlines the ‘niggardliness of nature’ arguments and Henry George’s fear that socialism simply marked the beginning of decadence, but dismisses them with the use of the socialist fantasy that follows.<sup>63</sup>

The economic theory which Bellamy subscribes to and describes in his futuristic society is basically Marxist. He describes how there ‘was’ a tendency to monopoly, and labour had to organise against it, until the state became the final monopoly.<sup>64</sup> This follows the evolutionary economics of the Marxists. The system that he describes is one where individuals give 24 years of industrial service to the state, with the President having had this as a prerequisite for his office. After retirement at 45, people are able to do as they like.

He also describes a number of factors in the technological area that have since become realities: radio (although this was cable radio), television, credit cards (he actually uses the same term), and large distribution (shopping) centres. It is interesting, however, that most of these advances have come about in so-called capitalist countries and not so much in socialist ones. Further, they have been developed not by governments in those countries where they are found, but by corporations, and in some cases small companies. Under Bellamy’s cashless system, there was no transfer of money between people. Everyone was given an equal share of the Gross

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<sup>63</sup> Bellamy E. *Looking Backward* London, W. Foulsham & Co. Ltd. PP 14-5.

<sup>64</sup> *ibid* P34–6

National Product. If a group decided to employ a person for some other purpose than that which the state determined, then it was necessary for them to pay the state, not the individual, for his labour. The state was therefore the owner of all labour. Clergymen and newspaper proprietors were examples of employment where users of their services paid the state for the services these individuals should have been rendering to the nation. A private group was thus able to secure the services of a particular, willing individual. This is one of the loopholes of the system which Bellamy fails to close. An enterprising individual who did not want to work could encourage a group of people to pay the state for his not working, by offering them some religious system. The gurus and Hare Krishna followers who have emerged in recent times are a more likely occurrence in the system described by Bellamy.

Here is another of the socialist contradictions: ‘we are going to change the world, but of course it will remain the same; we want human nature to change, but we want people doing the same things they are doing now’. So although Bellamy’s system here allows for an accelerated change, he portrays his characters as exhibiting purely nineteenth-century traits and tendencies. Eight hours of hard work per day has not changed the heroine from a mealy mouthed Victorian, for example.

Another situation which Bellamy describes in detail is the way the planners ‘encourage’ volunteers into the less desirable occupations. Supply and demand of workers for the different occupations is equalised by the less attractive trades having shorter hours. In an emergency, however, the government had the right to draft workers to a particular trade. Here we see a foretaste of the dark side of the socialist system, but it is glossed over in Bellamy’s utopia by the maxim that everyone must work in the unskilled area for three years. It is from this area that workers are usually, but not invariably, drafted. A hint of the shape of things to come is contained in his statement: ‘The way it strikes people nowadays (i.e. in the year 2000) is, that a man who can produce twice as much as another with the same effort, instead of being rewarded for doing so,

ought to be punished if he does not do so'.<sup>65</sup> Taken out of context, as this sentence is here, it is hard to appreciate the way that this problem is glossed over in its original context. The reason for the excesses of later socialist societies such as communist Russia in the 1920s and Nazi Germany in the 1930s become clear when one examines the full implications of this statement. It would have taken a very astute and clear-thinking individual to isolate from Bellamy's socialist utopia what was in store under extreme socialism. We examine one such individual in Chapter 13: Max Hirsch, a Member of the Victorian Parliament, who was writing shortly after this book was published in 1900.

Other aspects of the system described in *Looking Backwards* are: the importance of education; civility of public servants under threat of discipline; and worker transfer handled under a very military system, complete with military analogies where 'the officer commands and the private obeys'.<sup>66</sup> Another section describes what could be, except for the tedious military terminology, the situation regarding trade unions in any soviet country of which communist Poland offered a dramatic example. The workers have no union as such because the whole industrial organisation is under the control and discipline of the 'union leaders'.

A further element which reminds us of extreme socialist societies is that continually through *Looking Backward* and *Equality*, in this case for the benefit of his nineteenth-century audience, there is a criticism of things past, especially the 'old' industrial system. This type of propaganda has been used by socialist governments not only against things past, but also against other nations who have not reached the 'high' standard of development that extreme socialist countries 'enjoy'. The characters in *Looking Backward* have the self-satisfied attitude of a highly propagandised people. No doubt the term 'the good old days' only came into vogue as the world faced the horrors of twentieth century socialism in practice.

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<sup>65</sup> *ibid* P. 57

<sup>66</sup> *ibid* P. 119

Fortunately, a more practical economist, the Frenchman Albert Metin, saw in Australia the future of the Socialist world at the time Bellamy was writing his books. Metin documented not a futurist fantasy, but a practical guide to applied socialism based on observation of the Australasian colonies at the end of the nineteenth century.

## CHAPTER 11

# SOCIALISM WITHOUT DOCTRINE: 1860–1900

In 1893 the first Labor Party (note the American Spelling) in the world had its annual conference. This was the Australian Labor Party which was heavily influenced by Edward Bellamy and Henry George. The fighting platform made no mention of socialism per se but confined itself to six points:

1. Crown land to be leased instead of alienated.
2. No royalties to be paid for miner's rights on private property.
3. Abolition of the Upper Houses and introduction of referendum.
4. Local Government by popular vote.
5. An 8-hour day.
6. Establishment of a National Bank to secure state control of the currency and transact all ordinary banking business.<sup>67</sup>

The establishment of the Labor Party and the points made in its fighting platform were the result of their recent experiences and events, especially the 1890s depression. By the end of this decade Albert Metin, the brilliant French economist, was to describe the situation in Australia as 'Socialism without Doctrine', which subsequently became the title of the book in which he described the political and economic system he saw.

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<sup>67</sup> Lang, J. T. *The Great Bust*. Angus and Robertson. 1938. P. 14

Trade unionism had begun in Australia earlier than in the rest of the civilised world. As early as the 1820s the men at W.C. Wentworth's *Australian* newspaper went on strike. By the 1830s and 1840s there were some unions established. After the gold rushes, Australia became more than a dumping ground for Britain's unwanted convicts and paupers. The gold rush and post-gold rush period attracted, among others, English Chartists, Irish and German revolutionaries. It was these people who laid the basis for the Australian Trade Union and labour movements.<sup>68</sup>

The major restriction on the union movement during this early period was its localised character. Accordingly, this period has been ignored by many historians, probably because they feel it unimportant to the labour movement. Most tend to view the period after about 1888 as the starting point for labour movements. This view is somewhat unfair as there were many important events in Australia's social development during the period prior to 1890 which were attributable to working-class pressure. The eight-hour day (achieved in some industries), universal manhood suffrage and the secret (often called the Australian) ballot are some examples of reform operating in Australia long before they were adopted anywhere else in the world. The reforms were a direct result of working-class ideals working through working-class organisations. These organisation were more comprehensive in their structure than were any equivalent organisations anywhere else in the world and all this was achieved before the 1890s depression.

Although by the 1870s there were more union amalgamations than previously, 'unions of more than local scope were by no means the characteristic type'.<sup>69</sup> 1890 is often regarded as the turning point in the history of the Australian labour movement and:

what was done after 1890 was to elaborate and extend what had been done before ... This earlier record (pre-1890)

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<sup>68</sup> Fitzpatrick B. *A. Short History of the Australian Labor Movement*  
MacMillan, Melbourne, 1944, p. 70.

<sup>69</sup> Fitzpatrick, B. *op.cit.* P. 104

included not only industrial arbitration and Labour politics, but also the technique of the general strike of all workers in an industry, or several industries. Bearing this in mind, we may approach the events of 1890 ‘as the culminating point of a trade union movement which had until then advanced from victory to victory.’<sup>70</sup>

After 1890, the momentous advances in union strength and the achievement of concessions compared to the rest of the world stalled. Australia, like the rest of the world, was faced with a depression. The employers were therefore not only unwilling to make any further concessions but were interested in attempting to undo some of the concessions won prior to 1890. The long period of prosperity had ended. During the 1890s there was considerable industrial unrest. This was a result of the calling to a halt labour concessions and the attitude – which surfaces frequently in Australia during times of economic recession – that the time had come to put the unions in their place.

The underlying view was that excessive demands by labour may have caused the depression anyway. In prosperous times it is relatively easy for employers to give in to labour demands, but when fair sailing becomes a thing of the past it becomes harder or even impossible for these demands to be entertained.

A number of major strikes occurred at this time, including the maritime strike of 1890, which involved not only seamen, but also waterside workers, shearers, coal miners, silver lead miners, carters and drivers. There was a major strike in Broken Hill in 1892, and the Queensland and New South Wales shearers were on strike against the Pastoralists’ Union in 1894. The basic cause of all these and most of the other lesser strikes was the same: where the employers wanted ‘freedom of contract’ the unions wanted ‘the principle of unionism’. It was during this unrest that the Australian Labor Party was formed with the platform mentioned above. They were primarily concerned with rebuilding the concessions that had been achieved by the Labour movement prior to 1890, and which

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<sup>70</sup> *ibid* P. 111



had been largely shattered by the employers in their actions during 1890s unrest, and later.

The working-class movement had gained momentum from the pre-1890 achievements, and the post 1890 strikes and conflict. The power of the movement was increased because the idea of unionism had ceased to be a means to an end and became 'a new religion bringing salvation from years of tyranny'.<sup>71</sup> At the Federation ceremony in Centennial Park, Sydney, in 1901 the unionists were cheered in a way later reserved for the ANZACs. They were the cult heroes at that time. Nor was armed conflict very far removed from the possibilities of the 1890s. In writing about the Queensland shearer's strike, *The Sydney Morning Herald* said: 'we have in Queensland the threat of an armed insurrection and there is only one course for the Government to follow, and that is to suppress it firmly and vigorously at any cost'.<sup>72</sup> W.G. Spence, a labour movement leader, says that at this time he thought that civil war was a possibility, but it would have had to have been precipitated by the government.<sup>73</sup> These reports indicate the state of the nation in the 1890s. To suggest the threat of a Marxist revolution is not an over-dramatisation.

In a sense there *was* a revolution, but it was not violent. It became clear to the proletariat by this time that a mere ten percent of the population held the political power and that the only way to win, and then to guarantee, the gains of concessions from the employers was through continued political action in the colonial, later Federal and State, parliaments. The seventh Inter-colonial Trade Union Congress of 1891 decided to organise politically on a national scale,<sup>74</sup> and in the New South Wales election of 1891, 36 Labor-endorsed candidates were elected to office. The government of Sir Henry Parkes was defeated but held 45 seats and the opposition party of Sir George Dibbs held 50 seats.

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<sup>71</sup> Spence, W.G. *Australia's Awakening*, Sydney 1909. P. 78

<sup>72</sup> *Sydney Morning Herald* 18 February 1891

<sup>73</sup> Spence, W.G. op. cit. P 147

<sup>74</sup> *Worker* 16 May 1891

Labor, in its first electoral attempt, held the balance of power. This was indeed a revolution. The sixteen planks of this election campaign, reduced to six in the first Labor Party conference referred to earlier, were mostly borrowed from the writings of Henry George and Edward Bellamy. They were trade union planks but also contained some suggestion of socialism in them, especially the far-reaching implications of the final plank: ‘any measure that will secure for the wage earner a fair and equitable return for his or her labour’. The definition of fair and equitable is open to all sorts of far-reaching consequences, especially when one considers the writings of Marx and others discussed above: that labour creates all the value of production. It was not until 1921 that the Labor Party platform included the socialisation (collectivisation) of all finance, manufacturing, distribution and exchange. Other states followed New South Wales Labor’s success and the first Labor Government was elected in New South Wales in 1910 after having held the balance of power for most of the intervening years.

After Federation in 1901, the first Labor Federal government was instituted in a three-party Federal Parliament where each of the three parties had nearly equal numbers of seats: Deakin with the Protectionist party had 27, Reid leading the Free Trade party had 24, and Watson leading the Labor party had 25. During the upheaval that followed such a close election Watson became the first Labour Prime Minister from April to August in 1904. It is important to remember that even when Labor was not in power, it usually held the balance of power from 1891 onwards. Accordingly, it was able to present and get passed large amounts of legislation that formed part of the Labor Party platform.

During the period 1891 to 1900 one sees a great upsurge in socialist legislation, which brought the Australasian colonies to a stage where they were the most socialist states in the world. During this period they have often been described as being the social (read socialist) laboratory of the world. This was made possible by the revolution that occurred in Australian politics at both colonial (state) and federal levels, where members of a new and radical party were elected to power in large numbers.

There is one other point that should be mentioned concerning the way the Labor party appeared to the other more conservative and traditional parties. The collectivist attitude was not confined to economics; and the methods applied in Australia to gain power by the Labor Party were a foretaste of the methods used by the more extreme socialist movements of communism and fascism. 'The Labor Party shocked members of the older parties less by its program than by its discipline.'<sup>75</sup> This attitude to discipline was formed by the experiences of the strikes and general industrial upheaval of the 1890s. These had caused a belief in the importance of solidarity, sticking together and being able to rely on one's mate. This developed into a tightly organised political machine which was able to bargain more effectively, both within parliament and with the electors. The responsiveness of its politicians was assured through the supremacy of the conference, as well as the weapons of the platform, the caucus and the pledge. All this was something new to Australian political life, not to mention to the rest of the world, except in countries accustomed to dictatorships or monarchic systems. The non-Labor parties believed in the rights of the individual, and a Member of Parliament's responsibility to his electorate. This efficient Labor party machine, which enforced the subservience of the political representatives to the will of the party, was a threat and forced the non-Labor parties to adopt similar methods in order to ensure their political survival.

The reason for the similarities between this and other socialist regimes of later periods in other parts of the world was not so much that Hitler, or Lenin or whoever were copying the Australian example, although this is possible. More likely it reflects the importance of the collectivist attitudes, and how these affect the political methods. Once the idea of individual free enterprise is pushed aside and replaced with the doctrine of collective ownership and control, then the idea of parliament being a cross-section representing the various areas in a country becomes an anachronism. Subservience by the parliamentarians to an ideal replaces it. It is not

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<sup>75</sup> Crawford, R.M. *Australia* London, 1952 P. 164

far in political thinking from this situation to subservience of the whole population to the ideal. It is then that the ideal is either modified, or enforced through violent government intervention. In Australia both of these alternatives occurred to some extent.

The result of this use of the State for the achievement of socialist objectives was new, and by 1900 had achieved a broad measure of socialist reforms. It is also fair to say that it was not simply because Labor held the balance of power that these measures were adopted; the more socially conscious of the liberal middle class were in favour of a number of the Labor reforms and supported them. One important platform not shared by the middle-class liberals was the centralist one. They tended to be more federalist, where Labor was committed to the ultimate abolition of the states and the concentration of power with the central government, similar to the Russian communist model, and similar to the way that Hitler tried to centralise power in Berlin during his reign in Germany.

Towards the end of the colonial period, in 1899, Albert Metin arrived in Australia to study what was then regarded as the most socialistic society in the world. He published his findings in 1901, after a report had been issued by the French government on the statistics Metin had uncovered. Metin had won a scholarship from the Sorbonne University in Paris to travel and study at first hand some area that interested him. He chose Australia and New Zealand and the study of democratic and Labor legislation in this area because it was here that state intervention in social and economic areas was greater than anywhere else in the world. As a result he was converted to the Anglo-Saxon New Socialism as against Continental ideas. 'Marxist collectivism is impossible,' he is reported to have said in 1906 after his visit to the Antipodes.<sup>76</sup> Most of what Metin found has already been discussed but he found that Australasian socialism was not doctrinaire theory but practical reformist measures:

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<sup>76</sup> *Revue du Mois*, 10 December 1919 quoted in 'Socialism without Doctrine, P 14

Democratic and Labor legislation often reflects concern for immediate practical ends rather than for future developments. The people of this country (Australia) have been not in the least interested in theories: they think about export figures and wages, and this preoccupation dominates the history of Australasia from first to last.<sup>77</sup>

He compared what he found to the European socialist movements: 'Socialism as we know it in France scarcely exists in Australasia except for a few small societies'.<sup>78</sup> In Australasia he found that 'they do not worry in the least about debating whether society is evolving towards collectivism or communism, nor try to influence the direction of social change like our French socialists'.<sup>79</sup>

The only way the Labor movement resembled the French socialist movement was 'in their organisation of their own political party'.<sup>80</sup> Attitudes towards socialists within the Labor movement differed in different parts of Australia. 'We have some socialists here', the secretary of the Melbourne Trades Hall told me (Metin), 'but we don't agree with them. They are extremists and we are above all practical men'.<sup>81</sup> However, 'the word 'socialism' was freely bandied about by the Queensland Labor Party in a way that does not happen elsewhere in Australia'.<sup>82</sup> What Metin found, then, was not a pure socialist Utopia, such as the one set up in Paraguay by William Lane and friends, which Metin noted was still going strong in 1899. Lane was a Labor movement member who had grown tired of fighting for democratic legislation in Australia. He saw no hope of setting up a socialist utopia in Australia so he organized a colony in Paraguay, with the help of the Paraguayan government, to be run on

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<sup>77</sup> Metin, A. *Socialism without Doctrine* Translator Prof. Russell Ward. Alternative Publishing Cooperative Ltd., Sydney, 1977. P. 10

<sup>78</sup> *ibid* P. 54

<sup>79</sup> *ibid* Pp. 53 4

<sup>80</sup> *ibid* P. 51

<sup>81</sup> *ibid* P. 54

<sup>82</sup> *ibid* P. 68

pure socialist lines. The colony ultimately collapsed, leaving many of its members and their descendants, stuck in Paraguay to this day.

Metin found, however, that the ‘Australasian colonies have established more public services than European countries’<sup>83</sup> and that this was because there was practically no expenditure on defense in the colonies relative to the European powers. The system that Metin saw was not a completed picture of European Socialism or a society which was going the way of European Socialism but a group of colonies soon to form a Federation where ‘New Zealand ... [was] ... leading all other colonies along the road to democratic state socialism’.<sup>84</sup>

The state had set up Labor departments to police factory legislation. As a result of this, Australia was the first country in the world to attempt to repress the ‘sweating system’.<sup>85</sup> They had provided relief work for the unemployed caused by the depression. They had set up Labor colonies and communes to move the unusually high proportion of city dwellers who were unemployed out of the cities and in the process give them useful work. There were pension funds starting in the larger colonies, and moves through land taxes to break up the large estates. All these initiatives were of a practical rather than a theoretical nature. They did not include any doctrinaire socialism but were leading in that direction:

Democratic institutions and Labor legislation ... have been fully developed only in Australasia. The first give rise to independent attitudes and egalitarian feelings, the second ensures to the worker leisure time and resources for his mental and moral development.<sup>86</sup>

During the 1890s the basis of the Australian socialist system was formed. This was the ‘collective power at the service of individual rights’ of Professor Hancock. It was not doctrinaire socialism but the

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<sup>83</sup> *ibid* P. 54

<sup>84</sup> *ibid* P. 174

<sup>85</sup> *ibid* P. 10 1

<sup>86</sup> *ibid* P. 191

institution of practical reformist measures. Australian socialism grew but not through a violent class war of the Marxist variety. As we have seen, during the 1880s the trade unions started to amalgamate; where there had been local un-organised unions with no real political power, the various amalgamations and the trade union conferences led to the establishment of a national movement (even though Federation had not yet become a reality). Here was the first of the two classes in the struggle. The other one was the property-owning minority who had the political as well as social and economic power.

The breakdown of the population of Australia in 1891 was: 76% employees, 14% engaged on their own account, that is self-employed, and only 10% employers.<sup>87</sup> The vast majority, about three-quarters of the population, were therefore proletariat, while the 14% who were self employed cannot really be classed as substantially different from the proletariat. They had similar economic standing to the workers: they did not have the standing, in the property-oriented society of the 1890s, of the large landowners. They were typically small-scale farmers, shopkeepers and small manufacturers. They supported the same governments as the workers. In other words, the situation had arranged itself into a true two-class struggle, a quarter of a century before the Russian experience.

Metin also noted these phenomena: ‘Contemporary Australia (1899) is a scene of the struggle between these two classes for ownership of the soil and control of the working conditions.’ The two classes, which form part of the requirement for a socialist revolution, were ‘capitalists who came to enrich themselves by speculation in land, sheep raising or gold mining, and unemployed British workmen brought out under the Wakefield scheme or attracted by the goldfields and public works.’ The ‘small farmers and working men have agreed to support governments hostile to land and industrial capital’.<sup>88</sup> So Metin also saw, as other observers had, that

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<sup>87</sup> Coghlan, T.A. *A Statistical Account of the Seven Colonies of Australasia*, Sydney, 1894, pp247-8

<sup>88</sup> *ibid* P. 41

there was a two-class system, with the 14% who were self-employed joining with the workers, and the other 10% forming the second, capitalist class. He saw also that there was a class struggle for political power. The effect of this was the initiation of socialist legislation, if for purely practical reasons, and the takeover of power by the working class movement and its ideas in a partly Marxist way. The main differences between what happened in Australia and the Marxist model were that the Australian revolution was not ultimately violent, and that the resulting system was never as Marxist as later European experiments, but Australia was now on the road to socialism and there was no turning back.





## CHAPTER 12

# THE ROAD TO SOCIALISM: 1900–1914

During the period from 1900 until just after the outbreak of World War I, the Labor Party held the balance of power and in some instances the government in both the Federal and most State Governments. The opposition parties, who were divided between free trade and protection, were not averse to most of the Labor platform. Accordingly, many elements of this platform were initiated. It must be remembered that the Labor Party at this time was not doctrinaire socialist, with the possible exception of the Queensland Labor Party (as was pointed out by Metin). Labor wanted to achieve a higher standard of living for workers, via welfare legislation such as old age pensions. These were introduced at Federal level in 1908, following the examples of the State legislation of New South Wales and Victoria. Labor also instituted the basic wage concept which was developed along with the arbitration court system during this period. The socialist pledge was not introduced into the Labor Party during this period although it was discussed at great length.

It was also during the early years of this century that the Federal Government was finding its feet and setting the scene for what was going to be the future direction of Australian politics. These years saw a movement towards a welfare state which was then one of the most advanced in the world. This continued right up to 1914 when other problems faced Australia. Another indicative attitude of this period was the so-called 'New Protection'. This was a system whereby the industries receiving protection had to pay 'fair

and reasonable' wages to their employees or run the risk of having the tariff on overseas goods removed, for a period determined by the Governor-General, the issue having been addressed by the House of Representatives and the Senate. It was argued that American efficiency had been obtained by 'the terrible sacrifice of the constitutions and lives of men', and Australian workers should never be 'reduced to such a helpless and hopeless condition'.<sup>89</sup>

This view did not accept the American economic philosophy of 'pulling oneself up by one's boot straps'. Instead, it preached the protection of the worker's standard of living through government intervention. It is also indicative that it is the worker's rather than the entrepreneur's interests that are more important to the proponents of this legislation. This system was called 'State Socialism'. As J.C. Watson, Labor Prime Minister said in Parliament: 'I am a State Socialist; that is; I believe that the whole community should manage whatever industries they take over.'<sup>90</sup>

There are two important aspects to this 'State Socialist' concept. Firstly, that the state, or as the euphemism goes, the community, should control industry rather than anyone involved in that industry, including the workers. Secondly, it involved the takeover in the first instance of monopolies, as these were ripe for expropriation, and through progressive reform the eventual extension of the economic functions of the state. The more Marxist members of the Australian Labor Party no doubt saw the ultimate goal as the acquisition by the state of all production, distribution and exchange. However, this was not included in the platform at this time and was not a view held by all Labor Party members either.

Monopolies and trusts were at this time great sport for American politicians who were otherwise very anti-socialist, and so generally no one saw any 'Socialist Tiger' in such an approach to these problems. It is important to note the difference, however: the concern about monopolies in Australia was the exploitation of the

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<sup>89</sup> Chairman's Report, *Royal Commission on Customs and Excise Tariffs*, 1906. Vol. 4. P.120.

<sup>90</sup> *Commonwealth Parliamentary Debates*, 28 June 1904, Vol. XXV. PP. 34-5.

worker, not so much the exploitation of the consumer, as was the view in the USA. The principle of 'collective ownership of monopolies and the extension of the industrial and economic functions of the state' was accepted as part of the broad Federal Objective by the Labor Party Conference of 1905.

The other objective of the Labor Party at this time, which was accepted by many non-Labor supporters as well, was the so-called 'White Australia Policy'. This part of the Federal Objective was referred to as 'the cultivation of an Australian sentiment based upon the maintenance of racial purity'.<sup>91</sup> It is interesting to say the least to compare this objective with later socialist experiments in Nazi Germany and Russia. The fear behind this view is that some other races are prepared to live at a considerably lower level of consumption because that level is higher than what they were used to. If they are allowed into Australia they would therefore be prepared to accept lower wages which would lower the standard of living of all workers. There may not have been any suggestion of intrinsic inferiority, as was the case in Nazi Germany; simply the fear of a lower economic standard of living in the country from which the aliens come. The motive behind this policy was, as with the others, the maintenance of Australian standards of living, especially of the workers.

In 1910 Labor gained control of the Federal Government for nearly a full term of three years, and after that was in power from 1914 until the conscription split of 1916–7. It was in this latter period that most of the real legislation was enacted. Much of it was social welfare legislation: adding invalid to old age pensions, maternity allowances, etc. However, some of this legislation was leading Australia, unknowingly or otherwise, down the road to a greater degree of socialism.

The most important piece of socialist legislation at this time was the establishment of the Commonwealth Bank. In terms of pure welfare there was no need for it. It was important to the Labor

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<sup>91</sup> For both of these objectives see Federal Conference of the Australian Labor Party, 1905, P.10.

Government because one of the necessary pre-requisites of any socialist government is control – preferably absolute control – of the money supply and finance, as Jack Lang one of Labor’s greater depression politicians has indicated.<sup>92</sup> The colonial Labor platform of 1893 even had provision for the establishment of a National Bank to control currency and transact all ordinary banking business.<sup>93</sup>

The politician who put his weight behind this proposal and was largely responsible for pushing the legislation through the Federal Parliament was King O’Malley. The final legislation was not what O’Malley had originally envisaged, but it contained all that was needed for the ultimate socialist takeover of this sector of the economy. O’Malley, an American, had worked for his uncle in the USA. His uncle was one of the myriad of bankers in that country. He was intrigued by how bankers were able to create money by simply creating a client’s account and then immediately creating the debit on the books to offset it. The Commonwealth Bank Act was gazetted in 1911 and Denison Miller became its first Governor. Denison Miller had been chief inspector of the Bank of New South Wales, now part of the Westpac Banking Group, and became virtually a financial dictator to the Commonwealth Government thanks to World War I.<sup>94</sup> He adopted this stance because he considered he had the entire resources of the Commonwealth behind him. Miller was the first of many such public servants who, realising the power they held, were able to capitalise on it; not for their own aggrandisement, nor for that of the enterprise they are controlling, but for the benefit of the community.

The other area in which the Commonwealth Bank acted was the savings bank area. Here it competed with, and eventually took over, most of the state savings banks. The new Commonwealth currency was issued by the Commonwealth treasury on the basis that only 25% of the notes on issue were backed by gold. At this early period, therefore, Australia accepted a debased currency. Notes

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<sup>92</sup> *ibid* P.14.

<sup>93</sup> *ibid* P.14.

<sup>94</sup> *ibid* P23.

issued by private banks were driven out of existence at this time by the imposition of a tax on them.

Another important piece of legislation of the early Commonwealth Labor Parliament was the establishment of Canberra as the nation's capital. This was also thanks to the efforts of King O'Malley. In deference to the teachings of Henry George, discussed in detail above, land in the Australian Capital Territory was not to be alienated but instead was to be and still is 'sold' on 99 year leases, passing back to the Federal Government after that period.

Another anti-democratic motion that was implemented by the Labor Federal Government was compulsory military service. Australia had become very aware of its vulnerable position, especially with the Japanese defeat of Russia in 1905. Although Japan was a British ally, Australians saw this as a bad portent. They were more concerned with the yellow peril than whether European Russia was neutralised to Britain's benefit. Among other things, this encouraged the implementation of compulsory military service. This was another departure from the free enterprise standards of the English-speaking world. Australia became the first country in the English-speaking or Socialist world to enforce compulsory military service in peace time. Part of the reason for this was that in the great strikes of the 1890s the military and the police had been used to quell the rioting workers. Labor felt that a universal army containing all citizens would not fire on fellow citizens.<sup>95</sup>

In the midst of this socialist euphoria, at least one dissenting voice could be heard. The insightful analysis of where Australia in particular was going under this new socialism, and where socialism would lead in a general case was published at this time. This was one of the first anti-socialist publications ever, and predated Friedrich Von Hayek by over thirty years.

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<sup>95</sup> See Ward R. M. *A Nation for a Continent*. Heinemann Educational Australia, Richmond, Vic. P.61 and pp 83-7.



## CHAPTER 13

# MAX HIRSCH: THE WORLD'S FIRST ANTI-SOCIALIST ECONOMIST

It is completely logical that the first scholarly attack on socialism in the world should come from the most socialistic country in the world at that time – Australia. In 1901, Max Hirsch, a German-born Jew, who became a member of the Victoria Legislative Assembly and one of Australia's foremost economists at the time of Federation, wrote this attack. He was most probably interviewed at length by Albert Metin and quoted in *Socialism without Doctrine* as an authority from the state of Victoria on the Single Tax Movement.<sup>96</sup>

To say that Hirsch was simply a disciple of Henry George is to understate the intellect of the man. He was certainly a disciple of George, and dedicates his major work, *Democracy versus Socialism*, to George. His analysis of the pitfalls of socialism in this major economic work is brilliant. It compares more than favourably with the much later and more famous *Road to Serfdom* by Professor Freidrick Von Hayek, but follows much the same reasoning. It is more impressive because of Hirsch's superior grasp of socialist theory and the fact that at the time of writing there was no advanced socialist state in the world on which to test his ideas. His hypotheses on the potential outcome of socialism are totally speculative. When tested against the actuality of what occurred, considerably after his death, Hirsch has proved amazingly accurate. Von Hayek, on the

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<sup>96</sup> See P. 23 of *Socialism Without Doctrine* referred to in chapter 11.



other hand, wrote about the actualities he saw in Austria and Germany, and how socialist doctrines led to totalitarianism. His thesis was the outcome of observation, followed by further observation in his adopted countries, leading to the conclusion that there were certain tendencies in the USA and Britain which were leading those countries along the same path as Fascist Europe. Hayek's thesis has been largely proved correct with hindsight. However, to announce it in 1943 is not as impressive as the Australian, Hirsch, who announced virtually the same findings in 1901, before even Australia had enacted the anti-democratic platforms of socialism.

As we have seen above, Australian socialism at this time was not European, or doctrinaire, socialism; it had a more practical nature. For Hirsch to see through this practicality and to be able to come to conclusions which have proved correct as the degree of socialism has advanced in Australia and overseas is a great credit to his ability as an economist. In the preface to the fourth edition, one of his disciples, who had known him personally before his death in 1909, explains that the influences that were at work in Britain and the USA immediately prior to World War II and which were potential threats to their system of government, would have been unlikely to occur if everyone had read Hirsch's book

Unfortunately, although Hirsch received some recognition in Europe, very few read his book. The theories of Henry George have also been completely ignored everywhere except in Australia, where they have been almost completely ignored. Hirsch was not a voice crying in the wilderness at the time of publication of *Democracy versus Socialism*; he was attacking a system which he may well have thought unlikely to gain any momentum in the world. Marxist socialism, however, took over the world, and so Hirsch's ideas became more important. This is probably why *Democracy versus Socialism* was reprinted forty years after his death.

Max Hirsch's own life story tells much about the man. Born in Prussia in 1853, his father was a writer on economic subjects and a leader of the Reichstag. He was influenced by the revolution of 1848 and as a result his estates were confiscated. He only escaped

prison by fleeing Germany. He was banished. At age 19 his son, Max, who had been brought up in this exciting environment started his career as a salesman, or commercial traveler as they were then called. As a result he traveled to many countries always taking the time to observe how they lived and did business. He was an extremely successful salesman and after visiting Sydney and Melbourne in 1870 and 1871 respectively, he moved to Ceylon where he occupied a position in the Civil Service. His reforming zeal was evidenced by his agitation to have the ‘paddy tax’ removed from the Ceylonese tax structure. As a result of his agitations it was abolished by the House of Commons.

In 1890 he settled in Victoria. He found it amazing that Australia then, as now, was completely dominated by the economic views of newspaper proprietors, notably David Syme. He was also surprised to find that Australia had adopted, in contrast to most of the world of that time, protection rather than free trade. In his support of free trade, which had been accepted in NSW but not in Victoria, he was greeted with the usual intellectual gems that one expects from the Australian press. He was a Jew, a German, and a bachelor and this gave them sufficient ammunition to dismiss his superior intellect. Max Hirsch did, however, manage to create a revolution in Australia with his adoption of the ‘Single Tax Movement’. In 1909 Hirsch died in Vladivostok while on a mission to Siberia for the Oriental Timber Company.

Max Hirsch approached the capitalist system in the same way as his socialist adversaries. He admitted that the conditions of society at the time of his writing – 1901 – were intolerable:

Wealth was gradually concentrating in fewer and fewer hands, a process which, if unchecked, must ultimately lead to the division of the population into two warring classes with no interest in common.<sup>97</sup>

This view of capitalism is totally Marxist and demonstrates one of Hirsch’s great strengths: the ability to accept opposing arguments,

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<sup>97</sup> Hirsch, M. *Democracy versus Socialism* 4th Edition, Robert Schalkenbach Foundation, New York, 1948 P. xliv.

analyse them objectively, then destroy those parts of them with which he disagreed.

In his attack on the Marxist socialist principles, Hirsch had the ulterior motive of converting his readers to the 'single tax' ideas of Henry George. These ideas were largely defeated in Australia by the move towards a more doctrinaire socialism.

Hirsch's major work, *Democracy versus Socialism*, is divided into five sections:

1. An analysis of Socialism
2. Economics
3. Ethics
4. The projected outcome of Socialism
5. An analysis of the single tax movement.

The first section concludes with the summary of a comprehensive definition of socialism, which is précised in the introduction of this book. His second section is a very clear exposition of Marxist economics and other economic theories that were published at the time. This will form the basis of study in this chapter. Part three is an examination of natural rights and how socialism denies these. Part Five is a largely uncharacteristic Utopian restatement of Henry George's 'Progress and Poverty'.

As is very often the case it is easier to destroy the arguments of an opponent than to present an alternative view effectively. Hirsch's understanding of Marxism and its shortcomings is extremely scholarly. Unfortunately, in his presentation of the single tax argument, he leaves one with the impression that his conclusions concerning the outcome of the implementation of the single tax doctrine are totally unrealistic and fanciful. For example he claims that the implementation of a single tax on the occupation of land and the abolition of all other taxes will ultimately lower rent, increase demand for labour, and raise wages. It will lead to the disappearance of large fortunes, the almost disappearance of the capitalist class, and the rise of co-operative industry. There will tend to be a dispersion of population and everyone will have a garden home.

The basis of the single tax doctrine was that a monopoly in land, like all monopolies, leads to injustices and an unequal

distribution of wealth. The reforms suggested were that the rent of land should be gradually appropriated, along with the proceeds of other natural monopolies, accompanied by a simultaneous reduction in other forms of taxation. By doing this, the inequalities caused by monopoly would be reduced.<sup>98</sup>

The two major elements of Hirsch's anti-Marxist arguments are his refutation of Marx's theory of value; and his analysis of the socialist definition of capital. In their definition of capital, Hirsch says socialists confuse the problems created by private ownership of land with those created by private ownership of capital. A third area analysed is the socialist attitude to competition.

His refutation of Marx's labour theory of value can be summarised very simply. Hirsch concludes that if the average labour time across all industries determines value, then the value of products of equal quality must be equal. That is, a pound of iron must be equal in value to a pound of silver. This ridiculous situation can only be justified by Marx's clever maneuvering around the concept of value created by the average labour time in an industry. Marx contradicts himself, as Hirsch points out, by saying firstly that value is determined by the 'socially necessary labour time'. However, if the market cannot take up the entire product at that price, then this proves that 'too great a portion of the total labour of the community has been expended in the form of weaving' (weaving is the industry used as an example). Hirsch points out that it is impossible for all weavers to expend more than the average labour prevalent at the time: the definition, given earlier by Marx, of 'socially necessary labour time'. He then goes on to say that, if one objects that Marx's 'socially desirable labour' covers all industries and not just one, then we arrive back at the situation just stated. The average labour time across all industries would as a necessary consequence mean that the product of all industries must be of the same magnitude; for example, that a pound of silver must be equal in value to a pound of iron. A very cursory overview of Marx's version of the labour theory of value would lead one subjectively to this

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<sup>98</sup> *ibid* P.379.

conclusion, simply because as much labour is expended on extracting iron as on extracting silver. Hirsch then highlights the fact that there are other factors which produce value: monopolies, including land, and items of limited reproduction. Here Hirsch is preparing his reader for the single tax argument which claims that the produce of labour is being appropriated because land is a monopoly.<sup>99</sup> Hirsch then makes one final and valuable point: that although many socialists, Marxists and Fabians, reject Marx's version of the labour theory of value they accept the deductions from it. Some even tried to claim that the later utility theory of Jevons sustained the Marxist deductions.

The second area of socialist thought which Hirsch attacks is the socialist confusion of land with capital. This is summarised in his chapter 'Confirmation (of the Single Tax Doctrine) by Socialists'.<sup>100</sup> Hirsch refers to the attack which Marx made on the ideas of E.G. Wakefield. It is this attack which confirms, according to Hirsch, socialists' belief by default that monopolisation of land and its alienation lead to all the evils that were evident in the capitalist system at that time. As we have seen, Wakefield saw public ownership of land impeding the development of a capitalist class based on the labour of others. Marx, as we have also seen, agreed. So did Hirsch. However, Marx then assumes that because there are problems caused by alienation of the land, it automatically follows that there are equivalent problems caused by the concentration of capital. It is Marx's attack on Wakefield which Hirsch uses to demonstrate that when a man has capital, but no access to land, he has no power over labourers. This is because where labourers have access to land, they enjoy all the fruits of their labour. There is no one to expropriate their labour. Hirsch then goes on to quote Sidney Webb who, like Marx, also supports the Single Tax Doctrine by default: 'What the achievement of Socialism

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<sup>99</sup> *ibid* P.68.

<sup>100</sup> *ibid* PP.452 to 463.

involves economically, is the transfer of rent from the class which now appropriates it to the whole people'.<sup>101</sup>

Hirsch also quotes Edward Bellamy from his book *Equality*, the sequel to *Looking Backwards*:

in the chronicles of royal misdoings there have been many dark chapters recording how bestowed or imbecile monarchs have sold their people into bondage and sapped the welfare of their realms to enrich licentious favourites; but the darkest of those chapters is bright beside that which records the sale of the heritage and hopes of the American people to the highest bidder by the so called democratic State, national and local governments during the period of which we are speaking.<sup>102</sup>

Having quoted socialists at length and shown that they give de facto support to the Single Tax Movement, Hirsch then concludes:

Why do they insist upon the necessity of measures which they themselves thus declare to be unnecessary, and which, as has been shown here, are fraught with the utmost danger to society? Is it that the Single Tax doctrine is too simple to satisfy for long the craving for extended action which possesses so many men? Can it be that the truth, the light of which occasionally illuminates their thoughts, cannot be retained by minds enamoured by the fascinating occupation of devising vast projects for the regeneration of mankind? Whether this is the true explanation or not, this much is certain – that these socialists themselves bear witness to the sufficiency of the Single Tax system for the attainment of the ultimate objects at which socialists aim, and which Socialism cannot attain.<sup>103</sup>

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<sup>101</sup> Sidney Webb, *Socialism in England*, P. 20 quoted in Hirsch op. cit P. 459.

<sup>102</sup> Edward Bellamy, *Equality* pp. 282–3, quoted in Hirsch op. cit. p. 461.

<sup>103</sup> *ibid* P. 462

Socialism can never attain the goals that it promises, he explains, due to the socialists' attitude to competition. Firstly, there are no winners or losers under competition as socialists then and now would have us believe. There are only degrees of winners. There are various prizes which are available to those entrepreneurs who compete; although not all win, no one should lose everything. Secondly, monopoly is caused by government interference in the economy, in the handing out to selected persons tariff protection, patents, and state-supported monopolies. More interference is not going to solve the problem; but make it worse.<sup>104</sup>

Hirsch did not disagree with the socialists' assessment of the problems facing the society in which they found themselves. Nor did he disagree with the results of social reform that the socialists hoped would result from the application of their theories. He disagreed with their methods of achieving that new society.

The state had its place in Hirsch's theory:

equal rights and equal opportunities, these the state can secure. Beyond this, not only can it do nothing, but every step beyond involves a curtailment of opportunities for the happiness of all and infringement of the equal rights of some. This truth, so clear, so simple, so obvious, must guide all attempts at social reforms. To have overlooked it is the central error of Socialism.<sup>105</sup>

Hirsch's fears were about to become reality in his adopted country.

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<sup>104</sup> *ibid* P. 255.

<sup>105</sup> *ibid* P.463.

## CHAPTER 14

# THE CONSOLIDATION OF SOCIALISM AND THE DESTRUCTION OF DEMOCRACY: 1914–1929

Exactly why Hirsch's warnings went unheeded and his policies were ignored is unclear. It may have been because he did not have access to a sympathetic press. It may have been that his ideas did not offer the short-term solutions to which politicians are addicted. It could also have had something to do with the fact that soon after his death, Britain declared war on Germany and all things German were immediately despised. In World War I (and II), German-born Australians were herded into concentration camps. These had been first developed by the British in South Africa during the Boer War. In the generally irrational atmosphere which typified World War I and its aftermath, it would be easy for Australia to label Hirsch's ideas as merely German, conveniently forgetting that he had escaped from the same militaristic oppression that British propaganda claimed the allies were fighting against. This happened at a time when it was imperative that Hirsch's ideas be discussed at length, or they would be lost forever. To all intents and purposes they were.

It is during this period, very soon after he had written, that the truth of Hirsch's prophecies as to the outcome of socialism became evident. It is fair to concede that the extremities to which socialism extends were only made possible in Australia because of the convenient arrival of the World War I. Due to the war and its inevitable, although unwanted, aftermath many results of socialism were evident earlier than they would have been, if they would have



occurred at all. That great socialist of the twentieth century – Adolf Hitler – knew the advantage of having a war to allow the introduction the more extreme socialist measures; and where a war did not exist, he was prepared to manufacture one. In Australia this was not necessary as Britain provided that vehicle for the second generation of socialists who floated to the top before 1920.

The scene was set at the outbreak of World War I, when there was also a Federal election. It was the electioneering at this particular election that set the tone for future politics in general and socialism in particular in Australia. During the election the Labor leader, Mr. Andrew Fisher, made the commitment, that Australia would back the British support of its continental allies ‘to the last man and the last shilling’. He won the election, thereby showing the future direction to all Australian politicians who were interested in winning elections. That is, kowtowing to overseas interests and promising anything, regardless of how much of the country’s resources those promises entail. The last man and the last shilling entail the total resources of Australia. The people, however, said yes. In future, it appeared, any politician who promised to commit the total or at least a large part, of the country’s resources to some goal could be assured of election. This was the first and most fundamental change: election of a party whose stated policy was complete control and, if it decided, usage of all of Australia’s manpower, foreign exchange and other current and probably future resources, and for a reason which had no direct benefit to the electorate. The first of Hirsch’s prophecies was already coming true: that control of resources would ultimately be totally concentrated in the hands of the central power.

No self-respecting, socialist state is complete without some form of concentration camps. Australia was no different and again a world leader. Concentration camps were set up in Australia for all aliens who were considered not fully committed to the cause. It is interesting to speculate whether Max Hirsch himself, having been born in Prussia, and no doubt calling in his characteristic way for some modicum of common sense, would have been interned had he been alive at this time.

A corollary to this concentration camp doctrine is the instance of anti-labour or anti-union legislation, and this period had plenty. After the close of the First World War, the Bruce-Page government introduced a series of anti-union regulations. These were subsequently increased in intensity as it was claimed by that government that the unions were the cause of all the problems that Australia was experiencing at that time.

No socialist government can carry out its grandiose schemes without control of the money supply. The money merchants will always have a certain amount of power over the economy if they are allowed to conduct financial business according to strict terms. It is socialist governments who require less strict terms. World War I gave the Governor of the Commonwealth Bank, Denison Miller, the opportunity to set the rules about banking in a socialist country. It was he who organised the Commonwealth Bank in the way that most socialist enterprises, especially Banks, have been organised since.

Firstly, he publicly stated the typical socialist claim, that although the Bank had no capital, none was required as it was backed by the entire wealth and credit of the whole of Australia.<sup>106</sup> So, a protégé of Labor Prime Minister Andrew Fisher, spoke in the same generous terms that Fisher used at the start of World War I. ‘The People’s Bank’ as Miller described it meant that the people of Australia were to pay for it but not necessarily to gain any benefit from it. In financing the war, Australia first went off the gold standard. Gold sovereigns were then recalled and the government promised that the bank notes which were in circulation in lieu of the gold would be redeemable in gold after the war. The note issue then expanded. The war was to be paid for firstly by borrowing and then by inflation. By the time the war ended the Federal Government was levying income tax, entertainment tax, wartime profits tax, and special levies on bachelors and widowers who had not enlisted for service. An unprecedented rate of inflation was also created. The initiatives were introduced by the Labor Government which had pledged the last man and the last shilling. All this was achieved

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<sup>106</sup> Lang IT. *The Great Bust*. Angus & Robertson, Sydney 1962 P.21

through a new component of socialism that had been created: the government bank.

Miller had made an attempt to get all government business that he could for the Commonwealth Bank, both federal and state, and by 1929 he had largely succeeded. One of the more important moves that demonstrated the power of the new Commonwealth Bank was its ability to provide money for government enterprises at very short notice. This was demonstrated when the Federal Treasurer, later Prime Minister, W.M. Hughes, was in London attempting to get the London shipping magnates to carry Australian produce at reasonable rates. He was having trouble with the negotiations, so he secretly obtained an option on 30 ships but had to clinch the deal within the 24 hours. The Commonwealth Bank provided, in London, with no questions asked either inside or outside parliament, three million pounds in 1916 value.<sup>107</sup> The socialist government in Australia was now using the resources of the country for whatever ends it saw fit through the financial abilities of their new Bank with no reference to parliament or people. Over the next 20 years most of the state government banks were taken over by this conglomerate and by the early 1960s the Commonwealth Savings Bank was the largest Savings Bank in the world.

This size was achieved because of the fear of a rush on the private banks, and the excessive needs of the Commonwealth Government caused by World War I. Denison Miller is a good example of what a senior public servant with sufficient ambition can achieve in a socialist country. Power is originally given by the Government for public purposes, but before long the public servant possesses the real power.

Another standard feature of a socialist state which was reported by Hayek in his book *The Road to Serfdom* is that the worst tend to get to the top. This happened to Australia during and immediately following the First World War. It could have happened without the assistance of the war as the worst had already moved to second level positions in government by this time anyway. The best

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<sup>107</sup> *ibid* P.27

example of the worst is W.M. Hughes. Hughes figures prominently in censorship and human rights violations, production of propaganda still believed by many Australians, and general Machiavellian politics. By 1920 all the visionary pragmatists of pre-1914 were out of politics, mostly dead. Accordingly, one commentator sees 1916 as the starting point of democratic decay in Australia, especially for the workers.<sup>108</sup>

Another common feature of socialist countries implied by Hirsch was the fact that militarism must take some part in a socialist community. This is partly because socialist systems are analogous to the military model. This was explained in detail in Bellamy's *Looking Backward*. Here, in one of the main works to influence the socialist movement in Australia, the similarities between the army and the organisation of a socialist state are explained.<sup>109</sup> On the first of January 1901 the Sydney procession commemorating the new century and the founding of the Commonwealth was cheered by the onlookers. However, one historian has noted that the trade union section of the procession received louder cheers than any other section, including a contingent of volunteers who had recently returned from South Africa. In 1901 the symbolic exemplar of the national character was apparently still the bushman rather than the soldier or 'old digger' who took over the role after the Great War of 1914.<sup>110</sup> After the War there was a move towards right-wing socialism as opposed to the more left-wing socialism that had been the pre-1914 norm. The veneration given to returned soldiers was partly an expression of this.

It was this move towards the right wing that gave Hughes and those who followed him the electoral power to bring in their repressive legislation. The war was part of this, but the repression

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<sup>108</sup> Fitzpatrick B. *A Short History of the Australian Movement*. MacMillan, Melbourne 1968 P. 176.

<sup>109</sup> Bellamy, E. *Looking Backward* P. 119.

<sup>110</sup> Ward R.B. *A Nation for a Continent*. Heinemann, Richmond, Vic. 1977.

continued after the war, although to a slightly lesser degree. The legislation which allowed the government to commence human rights violations were the 'Trading with the Enemy Act' and the 'War Precautions Act.' Both were introduced by Hughes when he was Attorney-General. He assured the House that these regulations were necessary given the unprecedented wartime situation. Under these acts, or specifically the War Precautions Act, a range of powers were established, notably strict censorship of newspapers and all other forms of communication including letters. In addition, nebulous rules were enacted under this legislation such as 'spreading rumours likely to cause alarm', or 'showing disloyalty to the British Empire'.

There are a few known examples of the way these regulations were used for the personal purposes of the political leaders. There would probably be many more examples available if one were to dig deeply enough. A few gems will suffice. During the second conscription campaign, the first having been defeated at a referendum, the Labor Premier of Queensland, T.J. Ryan, spoke in the Queensland State Parliament against conscription. Hughes, now Prime Minister, instructed the Post Office not to handle the issue of Hansard in which the remarks were recorded. Ryan repeated the statements outside parliament and was charged under the War Precautions Act. He was acquitted with costs being awarded against the Commonwealth. This was a barefaced attempt to muzzle a political comrade who expressed ideas which were contrary to those of Hughes. It was under this act that the Industrial Workers of the World (IWW) group was suppressed. During the closing months of the first conscription campaign twelve IWW members were found guilty of trying to burn down Sydney, and were sentenced to prison terms ranging from 5 to 15 years. In 1920 a Royal Commission appointed by a New South Wales Labor government found that they had been framed and they were released from jail.

In the first referendum on conscription, voting was made compulsory in Federal elections for the first time. This peculiarly undemocratic legislation which has no equivalent anywhere in the world was originally introduced under the War Precautions Act and

has never been repealed. The IWW was outlawed later that Year (1916) by the Unlawful Associations Act, which was greatly strengthened the following year, all this by the amazing Mr. Hughes. The anti-labour legislation which followed the war was a direct result of these repressive acts and will be discussed later.

One of the most important elements of a socialist state – the one that above all others heralds the death of democracy – is the establishment of a secret police organisation. Australia, as usual, was first again with this socialist necessity. However, Australia did not precede the secret police organizations in aristocratic feudal systems in places such as Russia, where there had been secret police for some time. The Australian experience is one of democratic erosion by socialist leaders who in the general socialist model are second or later generation leaders. The incident which precipitated the establishment of this force occurred during the second conscription referendum campaign and immediately followed the incident with Queensland Premier Ryan, described above. Hughes was speaking at Warwick in Queensland when a rotten egg hit him in the face. The Queensland police present refused to arrest the culprit who was of Irish extraction. He was arrested later and fined 10 shillings and costs. As a direct result of this Hughes gave orders to establish immediately a Commonwealth (Federal) Police Force which was the first in a long tradition of secret police organisations in Australia. One such current organisation is the Australian Security Intelligence Organisation (ASIO), whose existence traces a direct line from the Hughes' Warwick egg incident. Like the KGB and CIA and other socialist secret police organisations, ASIO has spent most of its time gathering information on citizens to be used in a threatening rather than protective mode. At this inevitable development in the socialist state, freedom of speech thereafter retreats to the realm of theory.

One item which has passed into Australian legend is the place which Hughes enjoyed at the Versailles Peace Conference. The Australian Press, which has often been found to have a creative approach to the truth, especially where parochial self-interest is concerned, claimed in both cartoon and print that Hughes fought for

and got a number of concessions from the big four, that he was listened to, his points noted, and that he disrupted the meeting frequently and endeared himself to that grand old man M. Clemenceau, President of France. The truth of the matter is sadly far from the myth. Hughes' place in the conference can be seen by referring to the greatest economist of the twentieth century, John Maynard Keynes. Keynes was official representative of the British Treasury, and also sat as deputy for the British Chancellor of the Exchequer on the Supreme Economic Council.

A quote from an established history book will show the depth to which this myth has been ingrained into the Australian consciousness. It is always nice to imagine that our politicians are actually listened to by overseas leaders:

By sheer force of personality the tiny abrasive little man often elbowed aside Lloyd George or the great President Wilson of the United States, to occupy the centre of the world stage. His hard headed approach to defeated Germany endeared him to the French Prime Minister Clemenceau ... The latter wrote later of Hughes as 'the noble delegate from Australia, with whom we had to talk through an electrophone, getting in return symphonies of good sense'<sup>111</sup> .... Wilson [of the United States] found it difficult to believe that such a diminutive man, from such a sparsely populated, remote and unimportant country, could be so troublesome and influential as in fact he was. Wilson felt constrained to remind Hughes that he spoke for a nation of 120 million people, the population of the United States at the time. Instantly Hughes replied in his rasping voice that he spoke for a country which had contributed 60,000 dead to the allied cause, more men killed in action in fact, as he did not need to remind Wilson, than the United States had suffered in the whole war.<sup>112</sup>

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<sup>111</sup> *Australian Encyclopedia* Vol. 5 P26

<sup>112</sup> Ward R.B. *A Nation for a Continent* op cit. P. 12 4

This account gives all the elements that are contained in the myth of Hughes' position at the Versailles Peace Conference. Now let us examine a source other than Australian newspapers, one which is more informed, more prophetic, and more intelligent, and one for which the author was actually present at the conference.

Keynes describes the First World War as a European civil war. He meant by this continental Europe, where Britain, and her ex-colonies, including the United States, were outsiders. European nations, he said, had and would continue to flourish together or fall together.<sup>113</sup> He was against extracting short-term gains out of a defeated Germany as this would in the long run lead to revolution across Europe and the possible establishment of another militaristic system in Germany, threatening the future security of Europe.<sup>114</sup> Prophetic words that led to Keynes' ideas being used in re-establishing Europe after World War II. In 1945, the world did not want a repeat of the mess that was created by the decisions of the Versailles Peace Conference. How was this mess created? Keynes tells us very clearly: President Wilson had offered his 14 points as the basis for peace, Germany had accepted them.

These fourteen points would have led to a just and lasting peace. As Keynes points out the actual Peace was not just, and as a direct result of its injustice it was not lasting.<sup>115</sup> Hughes was on the side of injustice, he sided with Clemenceau, of whom Keynes writes:

He had one illusion, France; and one disillusion, mankind. Prudence required some measure of lip service to the 'ideals' of foolish Americans and hypocritical Englishmen; but it would be stupid to believe there is much room in the world, as it really is, for such affairs as the League of Nations, or any sense in the principle of self determination except as an ingenious formula for rearranging the balance

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<sup>113</sup> Keynes, J.M. *The Economic Consequences of the Peace*, MacMillan, London 1920 P.3

<sup>114</sup> *ibid* P. 271

<sup>115</sup> *ibid* PP.29 to 33



of power in one's own interests. If France could seize, even in part, what Germany was compelled to drop, the inequality of strength between the two rivals for European hegemony (i.e. France and Germany, who had also fought a war in 1870 which France had lost) might be remedied for many generations ... This is the policy of an old man whose most vivid impressions and most lively imagination are of the past and not of the future. He sees the issue in terms of France and Germany, not of humanity and of European civilisation struggling forwards to a new order.<sup>116</sup>

This was the man that Hughes, we are told, impressed. The quote from Clemenceau reported in the myth above now seems more of an insult than a compliment. Here is a tired old man with no concern for humanity or the future of the world, who finds in Hughes a like mind.

US President Wilson was not speaking about 60,000 dead or any other figure; he was speaking about the future of the world, an attempt to end war through the League of Nations. Hughes was attempting, like his admirer Clemenceau, to grab what he could for short-term gain. The world learnt the hard way that the future of Europe lay with Europe, not with one nation in Europe. Hughes and his friend Clemenceau were incapable or uninterested in seeing that far into the future. So much for the quality of the man who respected (or possibly used) Hughes.

What about Hughes' supposedly vast impact on the conference? Sadly, Keynes does not share the enthusiasm of the Australian press. In fact he does not mention Hughes at all. This 'diminutive little man' who 'could be so troublesome and influential' does not rate one mention in the whole 280 pages of Keynes' book. Keynes also makes it clear that although there were many delegates to the conference the real damage to the President's fourteen points was done partly at the Council of Ten, but mainly at the Council of Four (i.e. France, Britain, USA and Italy). The effects

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<sup>116</sup> *ibid* PP.29 to 33

of this damage were the President's inability to secure the just peace that he and many others desired:

The Old World was tough in wickedness anyhow; the Old World's heart of stone might blunt the sharpest blade of the bravest knight errant; but this blind and deaf Don Quixote was entering a cavern where the swift and glittering blade was in the hands of the adversary.<sup>117</sup>

Here Keynes is describing in very florid language how the leaders of Europe were about to completely bamboozle the President who was not experienced in the intrigues of European politics.

It is worthwhile taking the time to tediously destroy the myth of Hughes' influence at Versailles. Most of the work was done by the Council of Four and the rest was done by the Council of Ten; Australia was not a member of either. One can see from the destruction of this myth just where Australia, the socialist hope from the south, the one which another Frenchman Albert Metin had described so favourably, had sunk in the five years since 1914. Where earlier Prime Ministers had been frightened of no one and were prepared to try social experiments, this one is found in the same boat as an old, worn-out politician from a nation which had been declining for 50 years then and in little more than 20 years was to be overrun in six weeks by the nation it insulted. Where Australia should have been standing with the United States in trying to solve problems in Europe which Australia had previously solved, it was siding with the most degenerate of the nations present.

In consolidating its position, socialism managed, during the First World War, to destroy all non-labour Parties. In 1917 Hughes led his followers out of the Labor Conference over the conscription issue, and ultimately formed an alliance with the Liberals to form the National Party. Hughes then became the Prime Minister in a different party, but one which had started in the Labor Party. Thereafter all political parties in Australia were offshoots of the Labor Party or offshoots of the offshoots. There is one notable exception: the Country Party, later called the National Party. The

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<sup>117</sup> *ibid* P.38

Country/National Party has never held office on its own anywhere, and in Federal politics has always been second to the party which it supports, never holding primary power. The policies of the Country Party are largely sectional, ensuring that rural people receive their fair share, or if possible more than their fair share, of the handouts that are part of the socialist state. The Country/National Party has accordingly been described as a rural socialist party, a most succinct description. There is no concept within the Country Party of free enterprise or perfectly competitive markets determining prices. It wants for the rural producer similar privileges that are offered to the urban worker by the Labor Party. Socialism normally tends to be urban rather than the rural oriented. The Country/National Party was able to change all that and to ensure that socialism was not restricted to the cities but was extended to country areas as well. Accordingly, the Country Party has achieved levels of government support for rural interests that have not been possible for Labor governments to achieve for their urban counterparts.

During the twenties, there was a consolidation of the repressive socialist legislation which had started during the war. There was also the extension of the marketing boards which had been set up during the war for rural producers. This situation came about when the National Party needed the support of the Country Party to form a government. Hughes had led the Nationals to their victory but had fallen foul of the Country Party. Earle Page, the Country Party leader, refused to form a government led by Hughes. The second-in-line for the throne was a gentleman named Stanley Melbourne Bruce. He was acceptable. He had been Hughes' protégé, and, as one would expect from Hughes' alliances at Versailles, was a man of refined European culture, who even wore spats in cold weather. He dressed immaculately, spoke cultured English, had an aristocratic bearing and an aloof air, but he had one drawback: he had been born in Australia and his father was a shopkeeper from Melbourne. This pseudo-Englishman was exactly what the electorate deserved even though they had not voted for him. The Bruce/Page government lasted until the elections of 1929 when they suffered a crushing defeat, Bruce losing his seat in the landslide victory for

Labor. Australia in the early 1920s had reverted to a quasi-colonial status, which meant that for many years Australian politicians were ashamed of their country, its achievements and its position in world affairs.

It was during this government that the position of Labor moved towards the militaristic organisation that is the ultimate result of socialist government. This was achieved because the electorate was ready to accept that attitude. They were obviously happy with Bruce's pseudo-English manner. The war had led them to consider that military organisation was to be admired, especially after a practically religious observance of the anniversary of the landing at Gallipoli was instituted.

There were various acts against trade unionism and against organised labour introduced during this decade. In 1920, the War Precautions Repeal Act laid the foundations for the later Crimes Act. An Arbitration Amendment Act deprived unions of the right to strike, by instituting a penalty of one thousand pounds for doing so. Under the Customs Act, a system of departmental censorship of political literature was made law. In 1926, nine further acts were introduced which offered the unions a bribe by reducing the strike penalty from one thousand to one hundred pounds if they expelled the elected officers of whom the government disapproved.<sup>118</sup> The Bruce/Page Government continued this harassment of the unions until 1929. It was a vicious circle of attempting to increase exports by decreasing prices, which meant decreasing costs, which meant decreasing wages. Over this period the government continually attacked the unions as the cause of all their problems. The unions were always demanding higher wages!

The problems, however, were not of the unions' making but, as one expects in a socialist country, of the government's making. From 1914 to 1929 there were minimal advances in social services, especially compared to the pre-1914 level of activity. Government had obviously ceased to think of itself as the servant of the people and responsible for increasing the welfare of the people. Instead it

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<sup>118</sup> Fitzpatrick B op. cit P. 178

had degenerated into an arena for the self-aggrandisement of power-hungry leaders. Only in some of the Labor-controlled states (especially Queensland) was there any advance in social services.

The economic problems were caused by the intervention of the government, under the influence of the Country Party, into the area of marketing of primary products. Interference by a government in this sector is the ultimate in government interference. On this point alone Australia can be seen to have progressed further down the socialist track than may at first be apparent. The Central Wool Committee was set up in 1916 to handle the wool clip, and the Wheat Board was set up 1917 to handle the overseas sale of wheat.

These boards were extended to cover other primary industries as this development continued. The extension of government aid to primary industry during this period soon created a situation where a large percentage of the Australian economy was being propped up by government assistance.<sup>119</sup> It was the export sector in particular that was being propped up. Export prices were kept low because of the rather odd theory that it is beneficial to Australia if it pays foreigners to consume its goods. This illogical position was only made possible by the existence of the neo-colonial boys who were running the country.

A typical example of this ridiculous situation was the dried fruits market, as one report pointed out:

The effect on Australian growers of the low overseas prices for fruit has been accentuated by the increasing product in Australia, which has necessitated the export of eighty per cent and more of the Australian production. The position is relieved slightly by the higher prices on the Australian market, but the percentage exported is so great that Australian prices would have to be increased considerably to offset the loss on export.<sup>120</sup>

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<sup>119</sup> Greenwood G. *Australia, A Social and Political History* Angus & Robertson, Sydney 1974 P. 322

<sup>120</sup> Report by the Hon B. Gunn (Director of Development) on the Stabilisation Scheme for Currants and Sultanas, submitted by the Australian

In short, the government, pushed by the Country Party, had achieved a vicious circle which had to be paid for by somebody, somewhere. Foreigners were consuming Australian primary goods at less than their cost of production; the 'somewhere' was Australia. The 'somebody', was the Australian consumer, and as the above quotation implies, when that failed, the Australian taxpayer. These costs fell on the urban worker. Add to this the costs to the community of such grandiose schemes as the extension and maintenance of country railways to areas where they were not profitable; the Murrumbidgee Irrigation Scheme which later became a major centre for growing marijuana; and the establishment of the Council for Scientific and Industrial Research which concentrated almost exclusively on rural problems. The bill for Federal government extravagance had to be met from somewhere. Only with low standards of living in Australia and the sale of goods at whatever price they could to earn export earnings could the system survive. This was unacceptable to those who had to pay for it and so unrest occurred.

The system did not survive anyway. After the depression, prices of Australian goods overseas fell to such a level that they could no longer be maintained by any government. The excessive borrowing by this socialist government had created the need for export earnings. So what had started as a system to help the workers towards better living standards became a system which raised government expenditure to a level which was unrealistic, given Australia's population and ability to pay.

This is another situation which invariably occurs in the dynamic socialist model. As the system develops, there is nothing that the all-powerful government cannot do. So any situation or problem faced by the government is solved taking into account short-term considerations only. The long-term results are somewhat inevitable: more social unrest than if the government had left things alone.

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Dried Fruit Association. *Commonwealth Parliamentary Papers*. 1929. Electoral 9, 31 Vol. 2. pp 1377-8

This disillusionment with Labor, and ex-Labor, governments is best expressed by the adoption of the socialisation objective by the Commonwealth Conference of the Labor Party in 1921. This was probably adopted because of disillusionment with developments after 1914. Inflation had lowered the living standards of the average person and at the same time given large profits to those who were able to exploit the situation. As the decade continued the problems worsened. It would be quite understandable for the Labor movement to see the solution in more direct controls. It was also at this time that the Australian Communist Party was formed and this started to have great influence on the trade union movement.

On 2<sup>nd</sup> November 1928, two weeks before the general election which brought the Labor Party victory for the first time, an event occurred which demonstrated the advance of repressive socialism in Australia. During industrial trouble on the wharves, a unionist demonstrator was shot dead by police. The next phase of Australian socialism had begun. The police were no longer responsible for protection of citizens but were now able to be used to force government policies on an unwilling public.

The next phase of Australia's socialist story was about to begin with the first Keynesian Treasurer in the world.

## *CHAPTER 15*

# **THEODORE: THE WORLD'S FIRST KEYNSIAN TREASURER**

Edward Granville Theodore became famous as Australian Federal Treasurer during the 1930s depression. He had spent most of his life in politics and had previously been Premier of Queensland. He had moved into Federal politics in 1927 representing the seat of Dalley in New South Wales.

Theodore's grandfather had been a priest in the Greek Orthodox Church. According to legend his father had been a bishop, but as bishops in the Orthodox Church are not allowed to marry, this is unlikely. The Theodores, or Theodorescu as they were known in their native land, came from Romania. Hence it is again more likely that Theodore's grandfather was a priest in the Romanian Orthodox Church. Theodore's father immigrated to Australia and was naturalised in 1886. E G. was born in 1884, one of six children. Theodore's family in Romania had been members of the ruling aristocracy. Up until 1939 when the Nazis took over, members of this class filled many positions in the church, professions and government departments. According to his biographer the Theodore family held considerable estates in Romania up to World War II and enjoyed considerable means. Theodore's father, Basil, lived simply and had few material possessions through choice; he could have taken his place in the Romanian upper class had he wished. Theodore was brought up a Catholic, which his critics often used as evidence that he was an Irish Catholic. However, it appears he had



strong feelings for his Orthodox background, and he was not of Irish extraction.<sup>121</sup>

Theodore's early life, after he left home at 16, was spent at the gold rushes in Western Australia, mining at Broken Hill, where he nearly died, and finally mining in Queensland. It was in Queensland that he was elected by the miners to represent Woothakata in the Queensland state parliament in 1909. Theodore later became Treasurer and from 1919 to 1926 was Queensland Premier. During his time in Queensland politics he introduced a number of bills which could be seen to continue the practical socialist theme of the Federal sphere up to 1914. Some notables were the Land Act Amendment, which allowed the Land Court to fix fair rentals for pastoral leases. This was a direct attack on overseas moneyed interest and caused a considerable stir. Monopoly control of the best leases at favourable prices was being threatened. Other acts which pointed to a his practical socialism were the Worker's Homes Bill which permitted purchase of homes on easier terms, and the Unemployed Worker's Bill which was designed to give every citizen the right to obtain work and earn a livelihood within Queensland. It was also his intention to set up an Unemployment Council to make a scientific study and act on behalf of the government. On advice from the Council the government, working through local bodies, would start public works in slack periods. If the resources of government became overtaxed, then private companies would be called to provide work where they exhibited funds to do so. It was also intended to organise labour (collective) farms for the physically and mentally handicapped and those unwilling to work.

Theodore was also involved with Ryan, then Queensland Premier, in the Queensland Hansard case which was described in the previous chapter. Both of these Queensland politicians defeated Hughes in his attempts to pursue the War Precautions Act to its end.

Theodore represents an anachronism, or more correctly two anachronisms. On the one hand he is an anarchist because he is

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<sup>121</sup> Young I. *Theodore - His life and Times*. P 1 8

typical of the Federal Parliamentarians. He is honest in his politics, not exhibiting the Machiavellian tendencies of Hughes; this was demonstrated in his attack on the censorship regulations under the War Precautions Act. Above all he was practical, trying to develop his socialist state for the benefit of all people, not for a particular pressure group and not for the glory of big government.

On the other hand he was an anachronism because he was ahead of his time. His ideas were ridiculed as one would expect because of this, but they formed the basis of post-World War II legislation, using full employment as a definite policy aim. They also formed the basis of the 1959 Banking and Finance Act, when the central bank powers previously held by the Commonwealth Bank were stripped from it and given to the newly created Reserve Bank of Australia. Theodore was a practical economist who also had a firm grasp of economic theory. He is particularly interesting because he was the world's first Keynesian politician, even pre-empting Keynes himself. He was a student of Keynes. However, the ideas that he practiced were logical extensions of Keynes' *Treatise on Money* which he recommended members of Parliament read. In this way he was actually applying the doctrines of Keynes' *General Theory of Employment, Interest, and Money*. This later, major work of Keynes appeared in 1936. Theodore was recommending what it recommended as policy in 1931.

To understand the impact that Keynes and his disciple Theodore had on Australian policy, it is necessary to understand how Keynes' thoughts changed over the period that we are looking at. They fitted more into the theme of Australian socialist development than the more conservative economic thought which was personified in Australia by Professor Copland and in Britain by Professor Pigou.

As we saw in the previous chapter Keynes was dismayed at the action of the allies and especially Hughes' hero Clemenceau at the Versailles Peace Conference. He saw the results of the Conference as short-sighted, likely to create more problems than they were trying to solve. The publication of this book - *The Economic Consequences of the Peace* - led to Keynes being

dismissed by many major thinkers at the time and in some cases ‘sent to Coventry’. A 1925 pamphlet, authored by Keynes, entitled *The Economic Consequences of Mr. Churchill* explained why Britain should not go back on the gold standard at pre-World War I parity. This argument was repeated in the work which influenced Theodore: *A Treatise on Money*. Keynes describes the results of Britain’s return to the gold standard as ‘Cold Blooded Income Deflation’.<sup>122</sup>

This controversy, which raged from the mid 1920s onwards, was fought between the supporters of industrial entrepreneurs on the one hand and rentier capitalists, especially English international finance, on the other. Keynes sided with the industrial entrepreneurs at the outset. The Cold Blooded Deflation increased the real income of the rentiers at the expense of the industrial entrepreneurs. The immediate effect of the return to pre-war parity and the gold standard was that entrepreneurs were forced to bear the brunt of the Bank of England’s desire to return to equilibrium. Keynes argued:

The flow of money incomes and the rate of money earnings per unit of output should be approximately reduced. But in the first instance the fall of prices reduced, not costs and rates of earnings, but profits ...The entrepreneur, faced with prices falling faster than costs, had three alternatives open to him: to put up with his losses as best he could; to withdraw from his less profitable activities, thus reducing output and employment; to embark on a struggle with his employees to reduce their money earnings per unit of output of which only the last was capable of restoring real equilibrium from the national point of view.<sup>123</sup>

The aim of the Bank of England in this period was to return financial and monetary power from New York to its ‘rightful’ place in London, hence the reason to go back to the gold standard. Keynes did not deny that this policy would increase the financial power of Britain; however, he was concerned that it was at the expense of

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<sup>122</sup> Keynes J.M. *A Treatise on Money*. Vol. 2 MacMillan. London, 1930. P. 18 2

<sup>123</sup> *ibid* pp. 182-3

industrial enterprise. Australia also went back on the gold standard in 1925 like a British financial colony, even though there was no particular advantage to Australia to do so.

Theodore's attempt to borrow money in London in 1921 had been unsuccessful so he went on to New York where he was able to borrow the funds he needed. This act itself underlined the vulnerable position of the English financiers. Economic policy at this time was torn between re-establishing financial power and the more realistic approach of ensuring maximum output from the resources available.

Because of his practical approach to economics, Theodore was able to see a way of moving Australia out of the depression, which at this time was not thought to be as desperate as it was. His idea was to use the hitherto unknown method of a fiduciary issue. The Fiduciary Notes Bill was presented to parliament in 1931 but never became law. If it had it is unlikely that Australia with its reliance on overseas primary produce markets, which at this time were extremely depressed, would have been much better off. However, as a policy mechanism it was revolutionary, and in the style of the pre-1914 policies. It was used extensively throughout the world after World War II.

The principle of the Bill was that the Federal Government was to print 18 million pounds in Treasury Notes. These were to be used for the relief of wheat farmers, and on infrastructure works for the relief of the unemployed. Theodore based his case on the fact that Australia's currency had always been to some extent fiduciary, in that only one third of the notes in circulation in 1931 were backed by gold. This had started when Andrew Fisher had replaced gold sovereigns with paper notes just prior to the First World War.

Theodore saw the failure of Australian and other economic systems as the reason for the current problems. The bankers, he said, were responsible. They had restricted credit when it was most needed. Here was Keynesianism to the letter. The Australian banks had blindly followed the Bank of England line and that of the English financiers.<sup>124</sup> Australia was in the same position that Britain

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<sup>124</sup> Lang IT. *The Great Bust*. Angus & Robertson, Sydney, 1962. P. 327

had sunk to over the period 1925 to 1930 and onwards, and this was solely because Australia had followed Britain so closely, and relied on Britain heavily for the purchasing of primary produce.

Keynes could not isolate the problem with the theory that he had been brought up with by his father, John Neville Keynes, and by his mentor Alfred Marshall. At this time Marshall's *Principles of Economics* was the basis of all economic teaching. Keynes' experiences in business and at the Versailles Peace Conference had gradually led him to a position of opposition to his former teachers and academic peer group. This included Keynes' rival in England, Pigou, and his Australian disciple, Professor Copland, who advised the Federal Government against Theodore's fiduciary plan. Keynes could see that something was wrong, and his *Treatise* represents a transitional phase in his work between his writings against the return to the gold standard and his final break with the classical tradition which he made in *General Theory*. This latter work, as the name implies, presented a new theory of economics which had at its head the assumption that industrial output was the most important policy aim, and not returns to old wealth and rentiers, as had been the tradition since World War I. Keynes had started to have doubts earlier as to whether capitalism could survive in its previous form. *General Theory* stated that it could not.

The major attack on traditional teaching that Keynes made in *General Theory* was in relation to the free enterprise system's ability to return to equilibrium at full employment. Classical theory, as interpreted by Marshall et al., had stated that if the economy was left to itself, it would automatically reach full employment of labour and other resources. If there was unemployment, the classical theory stated that this was the result of previous interference or disequilibrium. Further interference would only aggravate the problem, whereas leaving things alone, or 'laissez faire', was the best course and things would return to 'normal', meaning full employment. In *General Theory* Keynes stated that full employment was not a 'normal' but a special case. He argued that to assume full

employment as normal was to assume the troubles away.<sup>125</sup> It was possible for the free enterprise economy to reach a state of equilibrium at less than full employment, and more importantly, to stay there.

For an economy to return to full employment it needed to have what Keynes referred to as 'effective demand'. Effective demand was more likely to occur in a society where there was a more equal distribution of wealth, as those on lower incomes tend to spend a larger proportion of their income. Where income tends to be concentrated into large portions, the recipients tend to save a greater proportion of their income. The result is that in aggregate there is a drop in effective demand for goods and services. This was completely in opposition to classical theory which stated the requirement for wealthy persons who then created employment by spending their excess wealth. This change led Keynes straight into the Marxist camp and the company of disciples of Henry George, notably Gesell and Major Douglas, as he acknowledged.<sup>126</sup>

The concept of effective demand, first presented by Malthus in the 1820s, had suffered decline after being supposedly demolished by Ricardo. Ricardo, however, relied heavily on Say's Law which stated that 'supply created its own demand'. Say's Law was later debunked, but Ricardo's and later classical theory's heavy reliance on it was not pointed out until Keynes' 1936 work. Marx had seen that there was a discrepancy between the assumption of full employment and the facts of unemployment, but did not carry his argument through to a theory of effective demand.

The practical Australian socialist politicians had seen that unemployment could be relieved by fiscal policy. Theodore intended to bring relief through monetary policy. With this proposed legislation to extend central banking in Australia, Theodore was following in the tradition of King O'Malley, who had also been intrigued with banking and finance. Because of the Marxist

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<sup>125</sup> Keynes J.M. *General Theory of Employment Interest and Money*  
London, MacMillan and Co. 1942. PP. 33-4

<sup>126</sup> *ibid* p 32 and 355

influences in Australian socialism, Theodore was well placed to apply Keynesianism even before the master himself had forged the theoretical base on which Theodore's policy was formed. This was logical, as Theodore was not restricted by the conservative upbringing of Keynes. He had been brought up to believe that government initiatives and assistance may be necessary or even desirable. Keynes on the other hand had been brought up on 'laissez faire' and the self-righting ability of a free enterprise economy. When Keynes shook off this straight jacket he came to the same view as his student Theodore, and, as his student had done earlier, acknowledged the element of truth in Marxist theory. In practice, however, both Keynes and Theodore rejected Marxist policy. This was evidenced in Theodore's case by his opposition to the socialist pledge being included in the Labor Party platform in 1921. He did not succeed in throwing it out, but he did succeed in watering it down considerably. Theodore's later life indicated a far remove from any socialist leanings. He became involved in a number of business ventures with other business leaders. Most if not all of these could be regarded as successful, some very successful.

In Australia, as in Britain, the war of ideas was between the supporters of the productive classes and the financiers, or capitalist rentiers. Neimeyer in Australia presented the Bank of England view, and Montagu Norman presented the same view in Britain. In both cases the rentiers won in the short-term, but after World War II Keynes' and Theodore's ideas were applied across the world. Australia again led the world with a full employment oriented policy drafted in 1945.

An interesting aside is that in the 1934 Federal elections the Social Credit party supporting Major Douglas' themes (to which Keynes acknowledged his debt in *General Theory*) polled 5% of the vote, five times more than the Communists.

The period from about 1924 to 1949 is impressive for the Australian contribution to economic theory via the practical intellect of Theodore. Yet in another sense it is totally depressing. None of Theodore's ideas were adopted and Theodore for all practical purposes resigned in disgrace, expressing a desire never to become

involved in politics again. When he was requested by the Labor Government to head the Allied Works Council, he later complained about political interference impeding him in doing his job. He did not have the same interest for political fights as his rival Jack Lang, Premier of New South Wales at the time Theodore held the Federal Treasury portfolio.

This period also represents not the Australian equivalent to the British economic situation as may be supposed, but a development as depressing as the destruction of a great Australian intellect by the status quo. The 1920s started the development of a myriad of boards as we have seen. These continued to throw the Australian economy out of alignment for many years by encouraging the movement of resources from areas that may have been profitable to areas that were not. The continual proliferation of these boards and statutory authorities soon meant that the economy of Australia was strangled in two directions: firstly by forcing private enterprise to rely on this bureaucratic assistance, and secondly by restricting government ministers' actions. It became necessary for government ministers to continually refer to their departments for information, advice and action, moving real authority from parliament to the government bureaucracy. Jack Lang gives the view from the inside of this strange undemocratic situation in *The Great Bust* quoted above:

The essential difference between democracy and dictatorship is that under democracy the people rule through their elected representatives, while under a dictatorship there is government by the non elected individual responsible to no one.

If we apply this test, Australia passed into a period of dictatorship early in 1931. The elected governments of Australia abdicated. Sir Robert Gibson, Chairman of the Commonwealth Bank Board, started issuing orders, and the governments jumped through the hoops. Lang describes the situation:

I had objected to Theodore going to Sydney. To me the idea of the Commonwealth Treasurer rushing to Martin Place to wait on His Serene Eminence, the Chairman of the



Commonwealth Bank, placed the governments in the role of suppliants.<sup>127</sup>

Here we see more of Hirsch's prophecies coming true. The elected ministers were being dictated to by the officials of the bureaucracy:

The tendency of all such (government) agencies to thus enlarge their functions and escape from popular control, to convert derivative authority into absolute authority, is universally visible. The organisation created for one end has achieved another and contrary end; the servants of the people have become the masters of the people.<sup>128</sup>

The Second World War allowed this bureaucratic control and government interference to reach extremes. After the war, two major government initiatives were instituted. The first was the Snowy Mountains Authority, which was responsible for building a number of dams in the Snowy Mountains area for the purpose of generating hydro-electricity for New South Wales and Victoria. The second initiative was the great post-war immigration scheme. Here the Federal Government took responsibility for transporting and settling in Australia a large number of immigrants from Europe. These were in a sense the last of the major government initiatives in Australia. Thereafter, there was a decline in the degree of socialism. It was replaced in part by the use of so-called private enterprise to develop projects where previously these would have been established by government authority.

During the Second World War a situation which encouraged this change occurred. Between 1942 and 1945 three million American servicemen and women passed through Australia. It was here that Australian traditions took a severe beating. The Americans had an enormous capacity for getting things done, cutting through red tape when this became a problem. The bureaucratic system that had been built up in Australia under ever-expanding socialism looked cumbersome and inefficient compared to the speed and

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<sup>127</sup> Lang IT. *The Great Bust* op cit. p. 364

<sup>128</sup> Hirsch, M. *Democracy versus Socialism*. Robert Schalkenbach Foundation, New York, 1948. P 301.

efficiency of American productive activity. This was especially true with regard to roads. The Americans proved to be excellent road builders, and this only heightened the awareness in Australia of government inefficiency. After the war no doubt both government and people alike looked to greater efficiency as more important than concerning themselves with minor injustices which may occur in the drive for efficiency.<sup>129</sup>

It was time to apply the policies of Theodore. It was time for 'Applied Keynesianism'.

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<sup>129</sup> Moore, B.H. *Oversexed, Overpaid and Over Here*. University of Queensland Press. St. Lucia. Qld. 1981. Cover Summary



## CHAPTER 16

# ANOTHER WORLD FIRST: APPLIED KEYNSIANISM, 1945–1972

Between 1949 and 1972 Australian economic policy became similar to the policies of other Western world economics of that period. This similarity was caused by Australia moving towards a Keynesian system under the ‘pig iron’ rule of Bob Menzies. At the same time other Western countries, notably the USA and Great Britain, were also adopting Keynesian economic practice. Other countries, however, were coming to Keynesianism from more traditional entrepreneurial economic systems. Australia on the other hand was coming to Keynesianism from a state socialist system and to a regrettably small extent as a result of the ideas of Theodore. Through Keynes, therefore, Australian socialism and Western capitalism moved closer together. The socialism of Australasia and the so-called capitalism of Europe and North America now had common ground: Keynes. Keynes had come from the classical school and through deduction had come to the conclusion that a degree of State Socialism was necessary, although not too much.<sup>130</sup> From this, capitalism moved closer towards socialism and socialism as it existed in Australia moved closer towards capitalism, due mostly to the efforts of Bob Menzies and his disciples.

Menzies was a later version of Stanley Bruce. He was an Englishman who had the misfortune to be born in Australia.

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<sup>130</sup> Keynes J.M. *General Theory of Employment Interest and Money* MacMillan & Co. London, 1942. P378.

Whereas Bruce had tried valiantly to be an Englishman of the 1920s, Menzies tried just as hard to be an Englishman of the 1950s.

Like Bruce, Menzies was a Victorian. His father was a country store keeper in Japarit, which is about 400 kilometres north-west of Melbourne. The family later moved to Melbourne when Menzies' father won a seat in the Victorian Parliament.

Menzies owed his success, which was considerable in many fields, to hard work. He worked long hours as Prime Minister and at his study as a child. He topped the state at 13; graduated from Melbourne University with first class honours in law; and embarked on a career as a brilliant barrister. He moved into politics firstly as a minister in the Victorian State government, and later into Federal politics. He was Prime Minister from 1939 to 1941 when he resigned.

His party, the United Australia Party, like the National Party which had been set up by Hughes in 1917, was a Labor Party breakaway. It was established by Lyons during the ill-fated Scullin Federal Government during which the National Party was formally dissolved. The right-wing Labor members led by Lyons joined the opposition Nationals, and formed the new U.A.P. party, with Lyons as its leader. He was elected Prime Minister in 1931 over the dead body of the Scullin government. Menzies joined this ex-Labor party and rose to Prime Minister. After his battles with the Country Party who were still part of the Coalition government he resigned on 29th August 1941. The government was subsequently defeated when the two independents members who held the balance of power crossed the floor and a new Labor government was sworn in on 7th October. After the U.A.P. was defeated at the elections of 1943, Menzies set about building a new party from the shambles of the opposition parties that remained. The result was the Liberal Country Party Coalition which contested the elections in 1946 and 1949. It was the first effective anti-Labor party since 1917 that had not been a breakaway from the Labor Party. This point alone is sufficient to demonstrate the decline in the electoral attraction of socialism that occurred immediately after World War II.

It is hard to imagine the state of the Australian nation in 1948 after the war. During the war, Australians had been subjected to more rationing, censorship and regimentation than they had since the early convict days.<sup>131</sup> After the war governments were not particularly interested in removing the restrictions in Australia and elsewhere. As a direct result of the Second World War, socialism in Australia reached its peak. It was at this time that government, especially the federal government, gained more control of the country's resources than at any other period. The Allied Works Council headed by Theodore had control of tens of thousands of civilian workers who were engaged in building airfields, roads etc. After the war many socialist schemes were introduced. Two of the most important of these have been mentioned in the previous chapter: the Snowy Mountains scheme, which was to provide hydro-electricity and as a secondary measure to provide water for the Murrumbidgee area; and the immigration scheme to fill Australia with future defenders, as well to assist displaced persons from Europe.

But there were others, including the Banking Nationalisation Act, to nationalise all banks, and the free medicine proposal, which was designed to make medical treatment paid for by taxpayers. Menzies made socialism the central issue of the 1949 election, with specific reference to the banking nationalisation legislation which was dismissed by the Privy Council as unconstitutional just prior to the election. Australians were sick of rationing, especially petrol rationing, and many other restrictions to individual freedoms most of which had not been removed after the cessation of hostilities in 1945. These would be removed if a Liberal government were elected, promised Menzies.

After he had won the 1949 election, Menzies proceeded with two distinct and deliberate policies. The first was to ensure that he had no rivals in parliament for his leadership. He had already gone some way to realising this by sending Liberal, or earlier, U.A.P.

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<sup>131</sup> Ward R.B. *A Nation for a Continent* Heinemann, Richmond, Victoria. 1977 P.252

members to overseas postings. He continued this policy during his uninterrupted reign. The second was to establish an economic system which was as close to the British model as he could make it. At this time and more evidently later in his reign 'current British model' meant 'Keynesian model'. So Australia under a non-Labor government started to implement what Theodore had fought for in the 1930s. Menzies' policies were lifted straight from Keynes' *General Theory*.

The basis of Keynes policy as described in *General Theory* was a change from the passive acceptance of the economic situation (whatever that may be at a particular time) to a more aggressive policy of determining, firstly, what the basic economic objectives were. The government was then charged with the responsibility of creating a climate where these objectives could be realised. In the 1930s the most obvious aim of economic policy should be, according to Keynes, the maintenance of near full employment, but not by eliminating the freedom or the efficiency of the capitalist system:

The authoritarian state systems of today (1936) seem to solve the problem of unemployment at the expense of efficiency and of freedom. It is certain that the world will not much longer tolerate the unemployment which apart from brief intervals of excitement, is associated and, in my opinion, inevitably associated with present day capitalistic individualism.<sup>132</sup>

The Liberal Party under Menzies accepted this challenge 'and committed itself to a program of national development that included the maintenance of immigration and full employment and the curbing of inflation: objectives that were not easily compatible'.<sup>133</sup>

But how does a government maintain near full employment in a system that is primarily 'capitalist'? Keynes had the answer. It was the responsibility of government to maintain a climate which was conducive to that elusive concept 'business confidence'. In

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<sup>132</sup> Keynes J.M. op. cit P. 381.

<sup>133</sup> Reese T.R. *Australia in the Twentieth Century*. F.W. Cheshire, Melbourne 1964. P. 213.

short, Keynes expected the state to provide for the productive entrepreneur at the expense of the rest of the community, especially his old enemies: financial interests. Keynes noted that the capitalist system was inherently unstable as Marx had noted earlier. Keynes gave the reason, where Marx had not. The problem, Keynes argued, was that financial considerations had an impact on real economic activity and were not merely shadows of real activity as earlier economists had believed. Through the agency of the various stock markets, investments were being revalued every day. This allowed the functionless investor the ability to transfer his investment from one company, or indeed one industry, to another. This financial (previously regarded as non-real) activity affected the wealth-producing entrepreneur:

It is as though a farmer, having tapped his barometer after breakfast, could decide to remove his capital from the farming business between 10 and 11 in the morning and reconsider whether he should return to it later in the week.<sup>134</sup>

This caused the instability as ‘certain classes of investment are governed by the average expectation of those who deal on the Stock Exchange as revealed in the price of shares rather than by the genuine expectations of the professional entrepreneur’.<sup>135</sup> These may well be no problem in the economy when speculators are merely bubbles on the steady stream of enterprise, ‘but the position is serious when enterprise becomes the bubble on a whirlpool of speculation. 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’.<sup>136</sup> The implications for policy of this analysis seemed simple to Keynes. However, let it be said that he had no intention of wiping out the Scrooge-type capitalist:

It is better than a man should tyrannize over his bank balance than over his fellow citizens; whilst the former is sometimes denounced as being but a means to the latter,

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<sup>134</sup> Keynes J.M. op. cit P. 151

<sup>135</sup> *ibid.* P. 151

<sup>136</sup> *ibid.* P. 159



sometimes at least it is an alternative. But it is not necessary that the game should be played for such high stakes as at present.<sup>137</sup>

Keynes suggested the solution was that ‘communal saving through the agency of the state ... be maintained at a level which will allow the growth of capital up to the point where it ceases to be scarce and hence fails to attract a high price interest ... A great advantage of the order of events which I am advocating is that the euthanasia of the rentier, of the functionless investor, will be nothing sudden’.<sup>138</sup>

Keynes was thus advocating ‘to reduce the rate of interest to that point relative to the schedule of the marginal efficiency of capital at which there is full employment ... [but] not attempt to stimulate it ... beyond the point which corresponds to full employment’.<sup>139</sup>

The socialist element of Keynes, policy recommendations were that ‘the State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways’.<sup>140</sup> Keynes also concluded that the system of domestic laissez faire that had existed in the nineteenth century, together with an international gold standard, had meant that the only way a government could relieve distress at home was through a competitive struggle for overseas markets.<sup>141</sup> The implication for policy was less dependence on overseas markets and more self-sufficiency in the domestic economy. This analysis was similar to Marx’s assessment of ‘capitalist colonialism’ discussed above.

Menzies followed Keynes’ policies to the letter. We have already looked at some examples, but there are many others. For example: ‘the basic philosophy of Australian Liberalism is that the

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<sup>137</sup> *ibid* P. 374

<sup>138</sup> *ibid* P. 376

<sup>139</sup> *ibid* P. 375

<sup>140</sup> *ibid* P. 278

<sup>141</sup> *ibid* P. 382

prime duty of the government is to encourage enterprise to provide a climate favourable to its growth'.<sup>142</sup> This basic philosophy of the federal government from 1949 to 1972 is stated here by Menzies himself. There was an allowance for the continuance of some of the socialist industries that had been set up before the advent of Liberalism: 'We have, for example, socialist railways and a socialist Post Office, mostly to our great advantage'.<sup>143</sup> Accordingly, the Liberal government did not totally break with the past but added some Keynesianism to the pot which had the effect of bringing Australia towards a more free market system.

The Liberals, as Keynes had suggested, maintained full employment by keeping interest rates low and encouraging local manufacture through the already high Australian tariffs. During the period 1949 to 1959 local manufacture increased dramatically, not only in quantity of goods but in the variety of goods that were manufactured in Australia. Investment during this period also increased gradually, with the vast majority of it provided from domestic rather than overseas sources. This can be compared in part with the rise of petty capitalists in Cuba some years after the revolution. Persons who had been workers up to the revolution became petty capitalists sometime after. Here socialism created the situation where workers could ascend to the bourgeoisie.<sup>144</sup>

The danger in all this was, as Keynes had pointed out, that the interest rate would be reduced below the marginal efficiency of capital. The result of this would be inflationary pressure, and the Liberal federal government walked the fine line between full employment and inflation for the whole period up to 1972. Overall they largely succeeded. But some periods were particularly troublesome. The first was in 1956 when they found it necessary to

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<sup>142</sup> Menzies R.G. *The Measure of the Years*. Cassell. North Melbourne. 1970. P.35.

<sup>143</sup> Menzies R.G. op. cit. P. 121

<sup>144</sup> See Heilbroner R.L. *Between Capitalism to Socialism*. Random House. New York. 1970. P108-9.

increase interest rates and take measures to restrict imports and change tax rates as Keynes had suggested. The size and price of the wool clip came to the rescue and the emergency measures were reduced. The second period was in 1960 when, from what economists can ascertain, the economy was just coming out of a boom period and decline had already set in. Due to lags in data reaching the treasury, the analysis was, as always at this early time, out of date; but in this case dangerously so. The government applied the brakes again in true Keynesian tradition, but the economy had already begun to slow down. The result was a quickening of the slowing down process and a resulting collapse of business confidence. The country went through a short but deep recession. It almost cost the government the 1961 election but they scraped in with a majority of one in the Lower House. During the height of the Vietnam War in the late 1960s, the Gorton Liberal Government actually managed to achieve a surplus budget. This was highly necessary due to the inflationary pressure of the Vietnam War in Australia, and the pressure of overseas spending by the United States for the same purpose.

All this was highly commendable in a world where not everything was rosy, especially in Britain at the same period. However, there was some bad news. During the period of Liberal rule there was a concentration of corporate control, which had been going on across the Western world for over a hundred years, but this was obviated in Australia by the fact that under the Chifley Labor government, foreign business had been encouraged to set up in Australia. This policy was continued by the Liberals. Frequently, however, the setting up of foreign businesses meant simply buying out existing Australian ones with no increase in the real wealth of the country.

The result of this policy was the establishment of a series of cartels and oligopolies in various industries. In some of these industries the establishment of this type of market was a deliberate policy. An example of this was banking but the best example was the internal airline policy.

This policy became known as the two airline policy. Trans Australian Airlines was a government owned commission. This meant that it was totally owned by the government but the management and board ran it like a private company. In order to create some competition Menzies allowed Reg Ansett (later Sir Reginald) to operate his Ansett ANA group on interstate runs, with no other competition than the government owned TAA.

Reg was also a Victorian and his seemingly endless privileges made it appear that he was receiving special treatment. Perhaps the most amazing example of state intervention on his behalf occurred at the Victorian state level. At one period Thomas Nationwide Transport, under the management of Peter Abeles (later Sir Peter) made a share raiding attack on Reg's company. This was not with the intention of asset stripping but in order to run the company under the TNT banner from Sydney, rather than under Reg in Melbourne. The Victorian Parliament passed an act which effectively stated that no matter how many shares any other companies acquired in Ansett's group of companies they were not allowed to assume control; Reg must be protected from evil-minded Sydney slickers wanting to 'steal' his company.

This attitude, which came right out of Bob Menzies' territory – Melbourne – indicates the economic system which was being established in Australia during this period. Again it is important to reiterate that Australia entered the Keynesian policy period from a socialist rather than an entrepreneurial system. When Mrs. Joan Robinson, one of Keynes' colleagues, referred to herself as a 'left-wing Keynesian'<sup>145</sup>, she was referring to herself from the view of a liberal capitalist system. Australia was already left-wing socialist, so the move to Keynesianism could be regarded as a move to the right, relatively speaking.

As has been observed by Galbraith, an economist studied in the next chapter, Hitler applied Keynesianism in Germany in his

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<sup>145</sup> Robinson J. *Further Contributors to Modern Economics*. Bailey Blackwell Oxford, 1980 P. 165

right-wing socialist way without knowing anything about it.<sup>146</sup> Similarly, Menzies and the Liberal movement were right-wing socialist, and used monopoly power via corporations to achieve the aims of government rather than government departmental control which is the typical method of left-wing socialism. Where monopolies did not exist, they were created. In the example of the internal airline policy, Gordon Barton, founder of another transport group, IPEC, approached Menzies in the late 1950s to get permission to operate another airline. He was rather rudely refused. This again demonstrated the position of the federal government at least in this industry and the absolute control it wielded.

The use of large corporations to achieve government objectives was similar to Hitler's application, albeit unknowingly, of Keynesianism. In Hitler's case the example of the Krupp Corporation is the most famous. Unfortunately, similarities with Hitler's Germany do not end with a comparison of economic systems.

During this period the use of secret police for political purposes reached new highs, or lows. The most dramatic was the Petrov case in which ASIO agents paid a diplomat to defect just prior to a general election. The resulting debates gave Menzies the opportunity to lump the Labor party in with the Communist Party. As a result the Liberals won the election on a particularly bad economic record, although with a reduced majority. During the Korean War, Menzies attempted to enact particularly undemocratic legislation to outlaw the Australian Communist Party.

The ASIO network, as one of the secret police organizations was called, was used to gather evidence against persons opposed to the Menzies government, especially Labor members of Parliament and their associates. Menzies vowed these particular Labor members would be embarrassed if the Communist Party Dissolution Act became law. Others who were affected by the operations of ASIO were trade union leaders and academics. These examples point to

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146 Galbraith J.K. *The Age of Uncertainty* Houghton Mifflin, Boston. 1977 P. 213-4

frightening similarities and show the fulfillment of Max Hirsch's prophecies.<sup>147</sup> Although Hirsch's analysis foresees a more violent attack on human rights by misuse of police power, Australia in the 1950s saw the misuse of secret police power for political purposes.

Before looking the next phase of Australia's socialist story, we need to examine the economics of J. K. Galbraith, who had considerable influence on that next part, the Whitlam era.

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<sup>147</sup> Hirsch M. *Democracy versus Socialism* 4th Edition Robert Schalkenback Foundation, New York 1948 PP. 311-6



## CHAPTER 17

# THE ECONOMICS OF JOHN KENNETH GALBRAITH

John Kenneth Galbraith and Milton Friedman are the two American economists who dominated world economic thinking from the 1950s onwards. Galbraith first came to the public's attention as a result of his classic 'pop' economics book, *The Affluent Society*. This was written in 1958, and prior to that Galbraith was famous in economic circles for his theory of countervailing power. *The Affluent Society* marks the beginning of what became his main message: private affluence in the face of public squalor. His impact on Australia has been less than obvious because his policies have never been presented as the official doctrine of a political party, even though he has had great but unrecognised influence on the Labor Party.

When comparing Galbraith and Friedman, as any analysis of modern economics is forced to do, one is reminded of Schumpeter's judgments on the classes of economists:

It is always important to remember that the ability to see things in their correct perspective may be and often is divorced from the ability to reason correctly and vice versa. That is why a man may be a very good theorist, and yet talk absolute nonsense whenever confronted with the task of diagnosing a concrete historical pattern as a whole.<sup>148</sup>

Galbraith is a pragmatic economist with the ability to see things as they really are. Friedman, superior in his logical consistency and

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<sup>148</sup> Schumpeter, 1A. *Capitalism, Socialism and Democracy*. George Allen & Unwin. London, 1943 P. 76



general theoretical ability, uses models which are limited in their practical application. Friedman is discussed in Chapter 19.

Galbraith is and was a Keynesian and was largely responsible for introducing Keynesian economics into Harvard University in the USA. While working for the American government during the Second World War, he was actually visited by Keynes himself. Keynesian economics was not initially regarded as desirable in the USA; it was considered too socialist. Accordingly, the University of Chicago School dissented, and insisted on maintaining and modernizing the Fisher Quantity theory. Friedman's theories are a result of this.

Another reason for the concern over Keynes' work in the USA was the publication in 1942 of *The Road of Serfdom* by F.A. Hayek. Hayek's work has a very similar theory to that of the Australian Max Hirsch. He had escaped his native Austria when the Nazis took over and saw the same developments occurring in allied countries that had occurred in Germany and Austria many years before. These, he claimed were setting the stage for a socialist and ultimately a dictatorial take over. By implication only, one of the views which advocated government intervention and so fell under Hayek's criticism was Keynes' General Theory. Hayek did specifically attack Keynes in a later work *Tiger by the Tail*. In this atmosphere, Galbraith introduced Keynes into Harvard and as a result tended to lean towards a more socialist policy, or as it is called in the USA - 'liberal'. Hayek criticises this tendency of socialists to usurp the liberal name. Liberal was short for liberal capitalist, but in the USA it is used for socialist.<sup>149</sup>

The best illustration of Galbraithian economics is found in this oft quoted, classic passage from *The Affluent Society*:

The Family which takes its mauve and cerise air conditioned, power steered, and power braked car out for a tour passes through cities that are badly paved, made hideous by litter, blighted buildings, billboards, and posts

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<sup>149</sup> See Hayek, FA *The Road to Serfdom* Dymocks Books, Sydney. 1944. P.31

for wires, that should long since have been put underground. They pass on into countryside that has been rendered largely invisible by commercial art. (The goods which the latter advertise have an absolute priority in our value system. Such aesthetic considerations as a view of the countryside accordingly come second (on such matters we are consistent). They picnic on exquisitely packaged food from a portable ice box by a polluted stream, and go on to spend the night at a park which is a menace to public health and morals. Just before dozing off on an air mattress, beneath a nylon tent, amid the stench of decaying refuse, they may reflect vaguely on the curious unevenness of their blessings. Is this, indeed the American genius?<sup>150</sup>

With the publication of *The New Industrial State* in 1967 Galbraithian economics took a very definite form, both for theoretical study and for economic policy. This was continued and refined in his later work *Economics and the Public Purpose*. This analysis is based largely on these two works.

The basis of Galbraithian economics is public squalor in the face of private affluence. This has occurred, he maintains, because the economy has been dominated by a few large firms or corporations. This has been allowed to happen, he claims, because economists have unwittingly or otherwise only considered economic models that no longer apply to the real situation. Galbraith proceeds to develop a new more applicable economic model. In this he is largely successful; however, the conclusions he draws from it are not quite so impregnable. His background, mainly in the public service, is such that his conclusions tend towards 'more power to the public sector'.

Galbraith sees not one economic system but two. His economic model is a dichotomy, each part being separate and largely unrelated. The most important part, that is the part which is largest in the total economy, is what he calls the 'planning system'. This

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<sup>150</sup> Galbraith, J.K. *The Affluent Society* Penguin, Harmondsworth, Middlesex. 1958, PP.207-8

part contains the large organisations and the government bureaucracy. The second and less important part he calls the ‘market system’. This part contains the small entrepreneur, small manufacturer, farmer etc. Large ‘private’ organizations, which Galbraith refers to as the technostructure, relate better to large government organisations and so are in a good position to gain government business. At the same time, the public bureaucracy has gained in power relative to the legislature. The legislature has reacted to this, he says, by politicians becoming allies of the public bureaucracy and so by association acquiring some of its power.<sup>151</sup>

This is further confirmation of Max Hirsch’s deduction of what would happen under socialism. However, there is one great difference between the USA and Australia.

In the USA this system had evolved from small entrepreneurial firms, as Galbraith himself points out in *The New Industrial State*.<sup>152</sup> As we have seen this was not the case in Australia. Here government intervention was evident at the earliest times. Accordingly, the USA only entered a phase of development that Australia is now leaving, in the 1950s and 1960s. Galbraith also notes the sameness of the public and so-called private corporation.<sup>153</sup> He sees the ‘ceremonial entrepreneur’ as merely a figure head, not really an entrepreneur in the original sense. He may like to see himself in a heroic image but in practice decisions are made by committees.<sup>154</sup> This view of the American economy shows how economic power really works as opposed to how economists like to think it works, especially the highly influential Milton Friedman.

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<sup>151</sup> Galbraith, J.K. *Economics and the Public Purpose*. Houghton Mifflin Co. Boston. 1973 P. 160.

<sup>152</sup> Galbraith J.K *The New Industrial State* Andre Deutsch, London 1972 Edition. P90-2

<sup>153</sup> Galbraith J.K. *The New Industrial State*. Andre Deutsch, London. 1972, P. 100

<sup>154</sup> *ibid* p. 93 4

Having explained clearly how the modern economy works, Galbraith's implications for policy are less inspiring, largely one may suppose because of his background in the public sector. He sees conflict between what the public needs and what it gets from the planning system and the 'bizarre distribution of public expenditures'.<sup>155</sup> However, this bizarre distribution only occurs in the planning system and not in the market system. It seems therefore rather odd to suggest firstly that the public must 'win emancipation of belief',<sup>156</sup> that is, the television soap opera watching general public are to be transformed into thinking individuals. Then and only then can the final solution be implemented, which 'is full organisation under public ownership'.<sup>157</sup> In short, Galbraith is suggesting the substitution of left-wing socialism for that element of right-wing socialism which exists in the USA. This is the reverse of the experience in Australia, where it has been right-wing socialism which has been substituted for left-wing socialism.

If the public were educated and had won 'emancipation of belief', there would be no need to do anything to improve the economic system because only those goods which were truly beneficial would be demanded, rather than those which the soap opera sponsors claim are of value.

To say that first we fix that problem, and then we can have a socialist state, is an old socialist two-card trick. If man's nature could be changed, then socialism would work. But if man's nature could be changed, there would be no need for economics or economic systems or economists. Furthermore, the changing of man's nature lies outside the realm of economic theory.

Galbraith's main strength in the naïve world of economic theory is that he points out that the economic models used by economists and their students are outdated. His analysis suggests

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<sup>155</sup> *Economics and the Public Purpose* P 221

<sup>156</sup> *ibid* P. 221

<sup>156</sup> *ibid*. P. 279

that in fact rather than in theory the economy is dominated by large corporations and by the government bureaucracy which conduct themselves totally differently from the way a private entrepreneur conducts himself. The corporation is more concerned with survival and the corporation man is only interested in security and maintaining his position rather than directly concerning himself with the corporation in the way a business owner does. The corporation demands 'not indifference but sensitivity to others, not individualism but accommodation to organisation, not competition but intimate and continuing cooperation. (These) are the prime requirements for group action'.<sup>158</sup> This is a whole new world, with different motivations and different value systems, and it threatens the very existence of the entrepreneur.

It was easy for Menzies to refuse to allow another airline to operate internally in Australia. A whole economy had been built up over many years dominated by bureaucratic thinking, and this bureaucracy did not want entrepreneurs upsetting the organisation of Australian internal airlines, or any other industry if possible.

Another point which Galbraith makes by implication from his general view that public business is more at home with government departments than is private business is that government is more likely to support large corporations than private entrepreneurs. Galbraith recounts the following anecdote:

I was sitting with Helmut Strudel, president of Strudel Industries, at President Nixon's inauguration ... The President said: 'Let each of us remember that America was built not by government, but by people; not by welfare, but by work; not by shirking responsibility, but by seeking responsibility.' Strudel began to perspire. 'It sounds like he's not going to bail my company out of bankruptcy,' he said worriedly. 'Don't be silly,' I told Strudel. 'When he speaks of people on welfare, the President's talking about the little guy who's free loading on the government. He is

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<sup>158</sup> *The New Industrial State* P. 93

not talking about companies that get large government subsidies’<sup>159</sup>.

Some of Galbraith’s more traditional economic assumptions, however, have been challenged unknowingly by others. One good example is by another American, John Keyes, who freely admits that he is not an economist<sup>160</sup> but an engineer who is chairman of a solar research firm which produces solar collectors for water and house heating. His book is really a testimony to his efforts to produce a solar furnace, get government approval, and find manufacturing firms willing to manufacture and market his company’s product under license. What he finds out and experiences in the process concerning the economy comes as a great shock. His findings can be split into two categories: those relating to the position of public service relative to the legislature; and those relating to the American and to a certain extent Western view that the small entrepreneur cannot compete with the large corporation.

On the first point, he comes to the same conclusions as Galbraith but with more sinister overtones:

A veteran Washingtonian laughed ... and said, ‘The legislators come and go every two years. Their ‘power’ is illusory. The real power lies in the staff members on the hill. They stay here for thirty, forty, fifty years. And it is in their hands that the government rests. They are supposedly, the advisors, the counselors, but in actuality they draft the legislation, hold the hearings, conduct the investigations, sort the mail and exercise a near total control over the legislators ... By the end of the visit (to Washington), I knew it to be valid in my bones ... It was a trauma, this

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<sup>159</sup> *Economics and the Public Purpose* op. cit. p. 155 quoting Art Buchwald 1973

<sup>160</sup> Keyes John. *The Solar Conspiracy* Morgan & Morgan New York 1975 P. 73

recognition. It re emphasized the farmer's belief that honour and politics are mutually exclusive categories.<sup>161</sup>

Unfortunately, in Keyes' opinion the large corporations were relying on the permanence of public servants, as opposed to legislators, and encouraging them to organise legislation to the advantage of the large corporation, sometimes at the expense of the small businessman. After all, the small businessman 'often cannot afford the time or expense of traveling to Washington to communicate with the policymakers. He also can't afford a lobbyist'.<sup>162</sup> In the case of solar power, Keyes reports that big business and government bureaucracy wanted to make solar power only available via vast projects such as solar farms. Rather than the rooftop collector, which is a familiar sight in Australia, there would be 40 acres of collectors. In that way the power would be sold to the homeowner, making him still more dependent on a private or government monopoly and the unions working for them. As Hirsch pointed out, only monopoly power gives the special privileges which throw the economy out of sync. Solar power implementation, Keyes felt, was actually being impeded by legislation, which went by the very acceptable title of 'consumer protection'. There was not necessarily any conspiracy on the part of the government departments, although the same cannot be said of the corporations. However, given that they are a bureaucracy they automatically relate to private bureaucracies.

What of these large corporations? With their economies of scale they are supposed to make it impossible for small businessmen to enter the market for their goods (in other words, nearly everything we consume in an economy). Economies of scale are the theory on which the whole of socialist economic theory stands or falls. If there are no economies of scale, then there is no argument for the economy to be one great office and/or one great factory. The good news for those who prefer individual freedom over the wild promises of socialist governments is that there are very few instances where there are any economies of scale. Even the original

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<sup>161</sup> Keyes, John op cit. P xiv

<sup>162</sup> *ibid* P. 88

argument for economies of scale, which was detailed in Adam Smith's *Wealth of Nations*, the example of pin making using specialisation of labour, has been demolished by more than one economist.<sup>163</sup>

Keyes is more specific and has the experience to be. Adam Smith's example is modest, compared with the vast organisations that we have controlling our lives in present day economies.

Because big corporations are runaway bureaucracies with no one person in control, they become mindless beasts; or worse, dinosaurs. Like their reptilian equivalent they will ultimately disappear according to Keyes<sup>164</sup>, and they are not competitive with the small firm. Let's say that again because it is not easy to accept. Large firms, by the very nature of their largeness, are uncompetitive with small firms, in a free and unobstructed market. This is the finding Keyes arrives at using an engineering approach. He first discovered it when he was looking for firms wishing to manufacture and sell his solar furnace. The small manufacturer could sell the product through retail dealers installed at between one-third and one-half of the price required by large corporations. Keyes used his engineering knowledge to make further enquiries, this time in relation to his solar-powered car. He estimated that a car could be custom built in your home town using an OEM (Original Equipment Manufacturer, that is 'bought in') engine for about half what the big three automobile manufacturers in the USA were charging at that time.<sup>165</sup> If this analysis is true what does this mean for our socialist economics and the policies of the 1949 to 1972 Liberal government? It means that economists have been sold a 'pup', or more correctly have sold a 'pup' to society at large. The whole spectrum of Australian economic policy has been misguided for a considerable

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<sup>163</sup> One of the best attacks is in Estwell G. and Robinson Joan, *An Introduction to Modern Economics*. McGraw. Maidenhead, Berkshire. 1973 P.16 17

<sup>164</sup> Keyes, John op cit. P. 56

<sup>165</sup> *ibid* PP. 49 51



period. The smallness of the Australian market may not be the problem that a first reaction may suggest.

Let us now attempt to validate or otherwise Keyes analysis. Firstly, where do the large chain stores which sell products at prices below anyone else go for their products? They invariably go to non-branded products, usually from small unknown firms. No one person can say that the leading corporation in every industry is a bureaucratic monster simply because no one has that breadth of knowledge. When one looks at the large multi-national corporations one finds that they are usually one of the most inefficient firms in the industry in terms of releasing new technology, as well as in terms of the price of their product relative to their competition.

The only way they survive is largely because the market is either dominated by their trained ex-employees or students, or the market is simply uninformed. In the industry with which I am familiar, IBM is by far the market leader. Vast numbers of technical decision makers are IBM-trained and many know little else, and are then frightened to find out. At the first time user level, IBM is frequently the only firm known in the computer industry. Further, IBM technology invariably lags behind the more progressive sections of the industry. Their prices are far in excess of their opposition for relative offerings – in some cases nearly double. One would assume that computer technology needs high level expertise and large amounts of capital; so according to Galbraith only larger firms can enter this industry.<sup>166</sup> The facts are that the industry contains a myriad of very small firms, some of these producing components and some producing total computer systems, both in the USA and in Australia.

So much for the mass production myth! The cornerstone of economics (especially socialist economics) has proved in practice to be not a general but a special case. The anti-socialist economics of Max Hirsch has said it all before. The only way an economy gets into trouble, and that includes unemployment trouble, is through the establishment of privileges, especially monopoly privileges.

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<sup>166</sup> *The New Industrial State* op. cit P 86

How then have these corporations survived if the problem of their survival against competition from small businessman is so critical? Some of the answers to this important question are implied in the preceding paragraph. The most important answer is the establishment, unknowingly or otherwise, of monopolies by government intervention or acquiescence. This is where the Friedman economic model is both strong and weak. It looks to the good old days of entrepreneurialism, which says government intervention is bad, but then assumes that leaving the economy as it is will solve the problem when the problems are here because of previous legislation. To solve the problems Friedman's way requires the clock to be turned back to a period, which, in Australia's case never existed.

A further reason why this situation has been allowed to develop is lack of interest in the problem. We are swamped by dead boring television filled with 'penny dreadful' fantasies punctuated by multinationals telling us either how good their products are; or if they are raping our environment or making monopoly profits or both, telling us how wonderful they are. If the average person has been lulled into this opium smoker's delirium, then he has only himself to blame. Over the last few decades vast quantities of legislation have been enacted to save the consumer, or the worker, or the corporate user, or somebody, from evil-minded entrepreneurs. We now have, for example, stock markets closely controlled so that rapacious capitalist rentiers will not lose any money as a result of their incessant greed. But because of this type of legislation two other factors have emerged. Firstly, it is now virtually impossible for a person to go into anything but the simplest business venture because of the myriad of laws that he needs to be aware of before he goes into it. The second is the rather sinister tendency to make these laws only apply to new firms entering the industry, so firms that are already established do not have to comply with the new laws. This gives existing firms monopoly privileges.

Another factor which affects small firms has been pointed out by Galbraith. Small firms find it hard to get government business because of their inability to converse with public servants on their

own level. Government business is a large part of most markets. Often, the large corporation gets the tender and subcontracts the work down to smaller firms. This adds to the argument against economies of scale and also shows how further control of an industry can be gained by large firms. A further related factor is that government intervention in the economy or in a particular industry either helps all or if not all, then it helps the large at the expense of the small. Government intervention takes the form of subsidies, or dole handouts of one form or another, to firms who cannot continue to be competitive without them. Alternatively it may take the form of tariff protection.

In 1983 Australia's largest company, BHP, was not backward when it came to asking for tariff protection, even though it had a monopoly on steel manufacture. These requests are frequently preceded by mass sackings which put the government of the day, regardless of political colour, in a more receptive mood. The small entrepreneur individually has no such bargaining power over people's livelihood. Yet small business in Australia at that time employed some 60% of the work force.

Galbraith's influence on Australian economic policy has been through his capacity as a neo-Keynesian. He explains how the modern economy actually works, not how we are told it works. However, there are still some differences between actuality and the economy described by Galbraith. It is not a general case as no doubt he would be the first to admit, but it is still close to the situation in Australia since about 1950. In extending this thesis, however, we find that his implications for policy are not quite so relevant. This is because in Australia, Galbraith would be a reactionary; in the United States he is definitely a progressive, as that country has never had an extreme socialist government and only recently has had any degree of socialism at all. His reactionary status in Australia places him in the Labor camp, and Labor adherents have been most influenced by him.

His argument falls down, however, when he recommends that the government take over unduly weak and unduly strong industries. He criticises government expenditure on arms, but

expects government control of industries not to misdirect funds in the same way.<sup>167</sup> The whole concept of bigness needs to be reappraised as has been attempted here. On the subject of arms, the lessons of the Vietnam War show that bigness in terms of technology and quantity need not be the most important military criteria for winning a war, but that is outside the realm of economic theory.

The next chapter analyses the practical results of applied Galbriathianism, or what could be termed in the Australian political context ‘reactionary socialism’.

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<sup>167</sup> *Economics and the Public Purpose* op cit. PP 283–5



## CHAPTER 18

# KEYNESIAN TO POST-KEYNESIAN: THE WHITLAM ERA

‘All [that] this Whitlam government has done, with the exception of Medibank [the national health system based on the Canadian Medicare system] is to put their foot on the accelerator. All the other departments were already in existence.’

That was the judgment given in 1975 during the final stages of the Whitlam experiment by leading Sydney businessman, John Singleton. Singleton was at the time addressing a Worker’s (later Progressive) Party meeting in Sydney. This particular party was loosely based on the ideas of Ayn Rand, and so was at the other extreme to the policies of the then ruling Labor Party. After the hysteria of ‘let’s get rid of socialism’ and ‘we don’t want European socialism in Australia’, Singleton’s statement came as a pleasantly realistic view. The Labor Party in power, for all its faults, and there were many, had really done very little that could be viewed long-term as remotely revolutionary. What they had tried to do was to fix the problems as they saw them. Although they did not use Galbraithianism as the official doctrine of the Labor Party, their economic policies were based on his ideas, and the problems they saw were mostly Galbraithian. In other words, this supposedly revolutionary government was taking the Keynesian ideas that had been applied by Menzies and his disciples, and modernising them through the application of the ideas of the Keynesian Galbraith.

In the words of Menzies’ political rival Arthur Calwell:

The new philosophy (Menzies’ free enterprise’) was a doctrine which, when expressed with glib arguments and in

eloquent tones, appealed in many ways to some of man's best instincts; it appealed also ... to the worst side of human nature. It made an appeal on the grounds of 'liberty', 'Freedom from restraint', 'individual effort', 'just rewards', 'the end of austerity'. It was tempting for Sir Robert to argue that Labor was addicted to control for the sake of control... It was in that atmosphere that the glorious doctrine of latter day liberalism was born and nurtured'.<sup>168</sup>

Taking this point of view, rather than the Singleton view above, the Whitlam government was not progressive but reactionary. It was attempting to take Australia back to the glorious days of state socialism.

From that point this 'reformist' government would continue the reforms that had been 'stifled' by the 'free enterprise' philosophy which had been in operation since the advent of Menzies' power in 1949. The true position of this Labor experiment lies in a combination of the two points of view. On the one hand they promised to extend some of the Liberal Party initiatives as Singleton's statement above implies. On the other hand they wanted to move back to a more traditional Labor, and for that matter Australian, political/economic situation.

The most common criticism of the Whitlam era was that the Labor government moved too fast. In the early weeks after the election, before a ministry could be sworn in, Gough Whitlam and Lance Barnard formed a two man Ministry to start the implementation of some of Labor's promises. The main reason for such speed was the abolition of the National Service Act, and the subsequent releasing from jail of persons who were held there under the act. However, the fast pace continued in other areas as well. This speed set the pace for other ministers when they were later appointed. It seemed as if each was trying to outdo the others in the number of reforms and legislation they could push through. The

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<sup>168</sup> Calwell, A.A. *Labor's Role in Modern Society*. Cheshire. Melbourne. P.74

result was a chaotic period of change, but change within limits. There was no revolution.

The main thrust of the Labor program was social rather than economic. Labor seemed to be working on the assumption that social reforms, many of which affected the business community, could be enacted and the economy would take care of itself. It was a typically socialist assumption that was to turn the electorate against the Labor government in a way never seen before. Socialists, using their traditional suspicious logic, set out to change the world and everyone in it, but at the same time assume that most things are going to stay the same. They invariably expect the business community to keep investing its money in economic ventures in spite of mocking threats from the socialist government, and in a climate created largely by government interference, which is not conducive to that elusive goal of 'business confidence'. Using this suspicious logic socialists imagine that businessmen will continue to produce the nation's wealth, while the government takes that wealth from them in increasing quantities, and gives it to its friends and other non-producers.

One of the other mistakes which Labor made was its insistence on its 'mandate'. Whitlam and his colleagues felt they had a right and a duty to implement their policy promises as soon as possible. This led to the speed which was discussed above, but it also had two other effects. Firstly, Whitlam assumed that Labor had been elected to carry out Labor's promises, when it is more likely that they were elected to solve the problems that faced Australia in 1972. There had been a slowing down in the introduction of social service benefits, the Vietnam embroilment had divided the nation, there was a leadership crisis in the Liberal government, and unemployment and inflation were high relative to what the electorate had previously experienced. Implying or stating that Labor would solve these problems and then failing to do so assisted in Labor's electoral demise, especially when many of these problems increased under Labor.

The second problem that stemmed from Labor's fetish with their 'mandate' was that it became a straightjacket. When advised to



increase taxes, which was probably as correct an action as possible given the socialist nature of Labor economic policy, Whitlam stated that this was against the spirit of the ‘mandate’.<sup>169</sup>

Much of the Labor party’s personality and success was directly attributable to its leader, Gough Whitlam. ‘Gough Whitlam had grown up in a household where international relations and human rights were breakfast table conversation topics’.<sup>170</sup> By 1973 he was regarded as practically the only thing the Labor Party had going for it. He was left with the duty of recapturing the rapture of the first few weeks in office almost entirely on his own.<sup>171</sup> The reason for this position was twofold: firstly, because the Labor Party pushed this responsibility on him, and secondly, because of Whitlam’s upbringing and ambition he desired and therefore assumed this responsibility.<sup>172</sup>

It was Whitlam’s strengths which brought Labor to power and it was his weaknesses which caused them to lose power. His strengths were those one would expect from a professional politician. He was an excellent speaker and debater. He studied hard to understand what was required of him in parliament. He also had a charisma which charmed his supporters and others and gave him the mystical quality of a true leader. Some might be forgiven for saying that he was metaphorically the son of Bob (Menzies). His weakness was economics. He had never studied it, never understood it, and seemed to imagine that it all magically happened, regardless of what the government of the day might do. As a result of this he was susceptible to advice from high sounding economists whose real ability did not match their dulcet tones. He appears to have been influenced by Galbraith as implied above. However, he was mainly influenced by an Australian economist of dubious ability who,

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<sup>169</sup> Freudenberg G. *A Certain Grandeur*. Macmillan, North Sydney. 1977. P.3

<sup>170</sup> Oakes, L. *Whitlam, P.M Angus & Robertson* ‘Sydney’ 1973

<sup>171</sup> Oakes 1. op. cit. P. 246

<sup>172</sup> Oakes 1. op. cit. P. 246

according to Alan Reid, had left many Liberal politicians unimpressed, including Prime Minister Gorton and John McEwan, the Country Party Leader from 1958 to 1971. After the debacle of the 1961 elections, the Liberal Party cabinet was prepared to listen to any advice. The recovery was achieved by ignoring the advice of H.C. Coombes and accepting the alternative advice presented by Sir Alan Westerman and Sir Ronald Wilson.<sup>173</sup> This same Coombes had a great deal of influence on Whitlam.

Another interesting point about Whitlam's background was that he was the first Australian Prime Minister to be produced totally by the system. By 'the system' I mean the Federal Parliamentary system and attendant public service departments. Whitlam's father had been a leading career public servant with the Crown Solicitor's Office. Whitlam had been brought up for much of his life in Canberra, the nation's capital. He therefore had an intimate knowledge of the social life and forms there, when he went there as a politician. It was his insistence on the form of the system that also played a part in the downfall of the Labor Government.

The fine points of the interesting Constitutional controversy that raged over his government's dismissal seemed to preoccupy him and became rather tiresome to the electors, who were under the illusion that a government is only elected as long as the people want it in power. Whitlam seemed to suggest that an elected government has a divine right to three uninterrupted years of absolute power to implement the precious mandate. Whitlam seemed to think the whole population of Australia had as much interest in his mandate as he and his followers.

It was this situation which produced in Australia for the first time something which comes close to the 'The New Class' described in the book of the same name by Milovan Djilas.<sup>174</sup> Djilas was second to Marshall Tito when he became President of Yugoslavia. His thesis is that under socialism there eventually develops a new

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<sup>173</sup> Reid A. *The Whitlam Venture*. Hill of Content Melbourne, 1976. P.62

<sup>174</sup> Djilas, L. *The New Class*. Thames and Hudson, London 1

class of aristocracy who have all the effective power of the old aristocracy. Under Roman law, ownership of land means that a person can hold or dispose of that land, or do with it as he wishes. This power resides with bureaucrats under extreme socialism and so Djilas concludes that senior bureaucrats own the land under Roman law. In Australia the system was not so extreme, especially since the 'new liberalism' of Bob Menzies. Whitlam, however, was a member of this new ruling class such as it was. As with any hereditary aristocracy it was regarded by outsiders, that is most of the electorate, as an incestuous group living in the ivory tower of Canberra, who seemed to cleave only to themselves, understand only their own problems, and fail to have any real feeling or understanding for the masses out there in suburbia, who are maintaining them.

A further element in Whitlam's make-up was his attitude to religion. This became more important later in his rule, but relates very strongly to this concept of the Canberra aristocracy. Whitlam was brought up in a devout Christian home. He was, however, a confessed atheist. He was typical of his generation, rejecting Church and Christianity, and in his particular case, rejecting any belief in a supreme being. Instead, he put his faith, as it were, in the forms, rules and traditions that make up Australian society in general and the Federal system in particular. Whitlam complained loudly when Bjelke Petersen, Premier of Queensland, exercised the hitherto unexercised right of appointing a Senator not of the same party to replace one who had died. During this controversy, Whitlam referred to Bjelke Petersen as 'a Bible-bashing bastard' implying that it was his Christian duty to follow the traditions of Australian Parliamentary practice. In fact there is no Christian duty to follow traditions outside the Christian Church and Christians do not rely on Parliamentary practice for their salvation. This pointed to the Whitlam dilemma. He had assumed that tradition in the Australian system was as sacred to everyone else as it was to him. Parliamentary tradition was the rock on which he had built his career, but it was also the rock that crushed him. Australian parliamentary tradition was a means to an end, and the end was

improving the lot of the Australian people in aggregate. Failure to use the system to that end, rather than as an end in itself, was failure indeed in the eyes of the electorate.

The Labor government was committed to a continuation of state socialism as it had developed up to the Menzies' era. This was different from the purely Marxist approach of nationalisation and departmental control of industry, distribution and exchange, which was the European, specifically the Eastern European, model. In Australia, there had been, prior to Menzies and to a lesser extent under Menzies, a move towards the setting up of public enterprises or commissions, such as the Commonwealth Bank. Whitlam spelt out his apparent position in his Curtin Memorial Lecture in 1961:

A more fruitful and complete use can be made of Australia's human and material resources through the initiation of public enterprise .... Public enterprise is not only the best, but probably the only means of now staving off or counteracting private monopoly in Australia and providing continued competition where there is still competition.<sup>175</sup>

Here we see on the one hand a slight change, and on the other a reaffirmation of the direction which a Labor government would, and to some certain extent did, take. The superficial expectation which one would subsume from the statements above is that where there is monopoly, or a tendency towards monopoly, the government will set up a commission to compete with the industries that are becoming sloppy. Another view is that where it is unprofitable for private enterprise to provide a needed service, the government will provide the service funded partly out of taxation revenue. Both of these arguments have little in them to complain about on the surface. They are based on earlier Australian state socialism and on Galbraithian economics.

Below the surface, however, two things emerge. Firstly, if there is no demand for a product or, service why disturb the market? There is always a demand when the product or service is free.

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<sup>175</sup> Whitlam E.G. *On Australia's Constitution*. Widescope, Melbourne, 1977. P26

Secondly, is setting up a government commission which can subsidise its losses out of taxation a fair competitor to companies who are paying tax and thereby indirectly supporting the competitive commission? Interestingly the answer to both these questions is irrelevant, as the way the Whitlam government used the concept of commissions was different to either of them, and in reality approached nationalisation.

In the first six months of the Whitlam government the money supply increased by 25.7% compared to 17% in the six months before the Labor Party came to power.<sup>176</sup> This created a rate of inflation which had been unheard of since Federation. It was on this issue that the 1974 elections were fought. This had largely been caused by the increases in social services that Labor enacted in the early months of power. When the time came to start implementing the platform of public enterprise, the attitude changed from a handout government, to an 'anti-business' government. Two examples of socialist double-talk as practiced by the Whitlam government are sufficient to demonstrate this.

One example was the proposal to set up an Australian Government Insurance Office (AGIO). There were already a number of State Government Insurance Offices, so superficially it seemed like a reasonable idea, except that it was unclear why the Australian insurance industry was either not providing an adequate service or was operating as a cartel, especially as brokers could go overseas to underwrite policies if they wished. There was in this sense free trade in that industry. Within the proposal was the provision that the AGIO was not to be bound by the normal underwriting restraints of the Insurance industry. This meant that the AGIO could charge any premiums it liked and because it did not have to make a profit, underwriting losses could be paid for by Australian taxpayers. In other words it was possible for the AGIO to drive out its 'competitors' by undercutting them, then paying for the resultant losses out of taxation revenue.

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<sup>176</sup> Reid A. *The Whitlam Venture* op. cit. p. 69

Another example was the proposal to set up Medibank, which was based on the Canadian Medicare system. Like the first example the Labor government set up nothing new, although it was a new venture like the proposed AGIO. Instead it copied existing practices that were in existence in the so called 'private sector'. In both cases the public were adequately or even excessively serviced by the existing private systems. In the case of private health funds, these had grown up in Australia to fill a need that had been felt by the public for health, as opposed to other, insurance.

In overseas countries such as New Zealand and Britain, National Health Schemes had eliminated the need for well developed funds, although even in these countries there are private health funds. In Australia the major health funds had grown into large organisations with good service capability and an aggressive marketing ability. Far from being a National Health Service, Medibank turned out to be a copy, poor at that, of the existing private funds, except that no contributions were to be made directly as was the case with the private funds. Here two things became clear. The first and obvious one was a simple attempt to drive the private health funds out of business, which they failed to do. Because of long years of service and superior marketing, the funds fought back and became the crutches which propped up the proletarian Medibank, providing extra cover and extra services that Medibank did not offer.

The second part of this initiative was more subtle and sinister. In Britain the Labour Party had been able to nationalise the medical profession, making them paid slaves of the state. In Australia, however, there is a constitution to protect people from these government excesses. Accordingly, it appeared from the information put out by the Australian Medical Association that the Labor government was trying to achieve the same result by different means. By forcing the doctors and private hospitals to rely on Medibank for their fees, especially if they took the option of bulk billing for their patients, the government could dictate what those fees should be, check on the billing which doctors sent in, and determine if they were charging too much or working too hard. It

would have been ultimately possible for the government to deduct income tax from the fee repayments should they so desire. In short, via the Medibank legislation it was possible, assuming the success of Medibank in driving out the private health funds, to nationalise medicine to the same extent that it had been nationalised in any socialist state. No new industry was created. No new service was rendered to the public. No increased level of product or service was provided. Just the same old rubbish except now it was provided with the typical arrogance of public servants, in the tasteless surrounds of government centres, complete with numbers to be called out when the 'customer' is to be given the privilege of some service. And instead of the users paying, the taxpayer paid.

In the midst of these various fiascoes the economy had been neglected. This was partly through ignorance, and lack of interest, and partly because Whitlam – followed by the rest of the Labor leaders – assumed that the economy ticks along regardless of what the government does to it. This latter attitude was partly a legacy of the long rule by the Liberal Party. Because they became so efficient at handling the economy, it all looked easy from the outside. After the 1974 election, the August Budget continued the precious mandate. Within three months, however, the government had done a complete about-face and tried to stimulate business. It was too late. Thousands of businesses, especially small ones, had already closed down, throwing thousands of workers out of work. Unemployment reached an all-time high. It became obvious to many that this bold socialist experiment/reaction had failed. It had brought Australia back to its reliance on government at the expense of enterprise, and only because the government had used its power to stop enterprise rather than to encourage it. Its all powerful attitudes, especially the pontifical, presidential attitude of Whitlam himself, had created an impression similar to that prior to Menzies' 1949 election triumph, that Labor simply wanted control for the sake of control.

Part of the cause of this problem was the rather suspect advice which Coombes continually gave the economically ignorant Whitlam. Such gems as tax increases, 25% tariff cuts with no compensation to industry for the resulting dislocation, abolition of

subsidies immediately, without, a chance for the economy to adjust gradually. These were part of the so-called Coombes Task Force which reported to the Labor government on economic policy recommendations. It was able to set out 140 programs which could be cut back in order to reduce government spending. Many of these would have reduced the anomalies that had occurred under the previous government, but because they were implemented gradually, people feared that worse was to come. As one of Whitlam's closest Party supporters has said:

The Coombes Report epitomised everything they (business people) found distasteful in the style and decisions of the Whitlam Government: a group of bureaucrats and advisors, the 'long hairs' and 'intellectuals', remote from reality, sitting in judgment on the fate of the wealth producers of Australia.<sup>177</sup>

The result of the economic failures and the socialist experiments of the Labor government were ultimately not accepted by the Australian electorate. Whitlam sacked a number of his ministers, by simply informing the Governor-General to terminate their appointments. The Governor-General continued this new policy and terminated Whitlam's appointment. If this had not happened, it is possible that Australia would have had a *coup d' état* far more violent than the peaceful coup that occurred.

It is outside this thesis to discuss the history and legality of the Governor-General's dismissal of an elected government. Suffice it to say that at the elections which were held a few weeks after the sacking in 1975, the Liberal Country Party Coalition was returned with the largest majority ever held by a government in the Australian Federal Parliament. Further, there was only a very slight swing against them in 1977 when the next elections were held. In short, the electorate totally rejected this socialist experiment. Whether the experiment was regarded as a reaction against the 'liberalism' of Menzies, or whether it was regarded as reformists

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<sup>177</sup> Freudenberg A. *A Certain Grandeur*. MacMillan. North Sydney, 1977, P. 281



trying to implement socialist policies, it was rejected. Menzies' 'liberalism' had been accepted out of hand; the old Australian state socialism had died. Its death had been assisted during the campaign by Milton Friedman, or more specifically by his economic doctrines. These are discussed in the next chapter.

The headlong rush into, or back to, socialism, by the Whitlam Labor government converted the grass roots Australian electorate from any further socialist advance. Australian Socialism, which had been radically altered by Menzies, died under Whitlam. Its death was not as thorough as the Fraser/Friedman promises suggested. However, the electorate indicated they wanted even more freedom than Menzies had promised; they wanted not simply a lifting of the foot from the accelerator, but a redesign of the engine. The economist who put a theoretical structure around this desire of the electorate was Milton Friedman.

## CHAPTER 19

# THE ECONOMICS OF MILTON FRIEDMAN

In the closing stages of the Labor government's economic fiasco in mid-1975, Constable & Bain, who were stockbrokers and members of the Sydney Stock Exchange, invited Milton Friedman to Australia to present his ideas on the reason for inflation. Friedman had differed totally from worldwide economic opinion and so his presence tended to confirm the view expressed by John Singleton above, that all the Labor Government had done was to put their foot on the accelerator.<sup>178</sup> Some people were coming to the conclusion that there was something wrong with the economic policy that Australia had been following for some considerable period. Friedman's visit was an expression of this.

To say that Friedman's influence on the elections held in the December of that year was great would be an understatement. His presence gave the Liberal Party a theoretical base for their policies. It also provided an answer to the lower standard of living that many Australians were experiencing compared to pre-1972. It also provided an alternative to the ideas of the only Australian Treasurer not to bring down a budget – Jim Cairns. His answer to the economic situation was that there was something basically wrong with the system. Friedman claimed there was something wrong with economics.

Friedman was a pupil of Friedrich Von Hayek and so fits the school of thought represented in Australia by Max Hirsch. Although

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<sup>178</sup> See Chapter 18

Hayek had probably never heard of Hirsch, his views were very similar, although Hayek had little direct influence on Australia. His influence on academic economists overseas, however, was great even if Keynes captured the policy makers. So an overseas economist told Australia what had been explained in remarkably similar terms three-quarters of a century earlier. There was of course no direct connection between Hirsch and Friedman.

Friedman is best described as a free market economist. He believes as did the founder of modern economics, Adam Smith, that whenever the state interferes with economic activity, even with the best intentions, it does more harm than good, almost inevitably. His difference to Keynes comes from his analysis of the causes of the 1930s depression. Friedman sees no problem in the existence of the trade cycle, with its booms and short depressions, or recessions as they are now called. There was, however, a problem with the depression of the 1930s. Keynes claimed that the problem was caused by the advice given by economists to the government. They were basing this advice on a view of the economy which contained Say's Law as discussed above. Keynes view was that the economy was not self-righting and that to believe it was, as economists of the time did, was producing the policy decisions which in turn caused the problems.

The key to the Keynesian model was *aggregate demand*. If this could be increased, then all other problems would solve themselves. The best way to increase aggregate demand was, in Keynes opinion, to temporarily increase the money supply. This would have the effect of reducing interest rates and as a result of this, increasing investment. The Quantity Theory of classical economics only held true like other postulates of classical economics, in the special case, as Keynes called it, of full employment. Henry Simons and the University of Chicago Economics School did not agree: Chicago became the centre of worldwide anti-Keynesianism. Friedman was a student of this school and of Henry Simons in particular.

Friedman maintains that the original classical quantity theory is fundamentally correct, if somewhat naïve, in the long run.

This is because the demand for money is determined by the cost of holding money, an hypothesis that Keynes would accept. However, the cost of holding money is not only the rate of return of holding alternative assets but also the cost caused by inflation, or more specifically the anticipated increase in the price level. Persons holding cash and forgoing current consumption, for hopefully future consumption, will calculate what the benefit is to holding money, compared to what they expect to pay for goods to be purchased at a future date.

In the case of hyper-inflation the cost of holding money is extremely high, and people are eager to dispose of their money, virtually for any asset. As the level of inflation increases and expectations of future price rises become higher, the situation approaches this hyper-inflation model. At lower inflation rates the same sorts of things occur in the long run, but to a lesser extent.

Keynes would not have disagreed with this. Where Keynes disagreed with the original quantity theory, say that described by Irving Fisher, was in the stability of the ‘velocity of circulation of money’ function. Keynes rejected the claim that the ‘velocity of circulation’ was a stable function to the extent that it was possible that a ‘liquidity trap’ could occur when no amount of increase in the money supply would lead to an increase in investment and income. Empirical research by Friedman suggested that velocity was a stable function of long run or what Friedman refers to as permanent income.<sup>179</sup> Certainly it was as stable as Keynes’ ‘consumption function’, and as he went on to demonstrate later, more stable.

Friedman’s conclusion was that ‘there is perhaps no other empirical relation in economics that has been observed to occur so uniformly under so wide a variety of circumstances as the relation between substantial changes over short periods in the stock of money and in prices; the one is invariably linked with the other and

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<sup>179</sup> Friedman M. *A Theory of the Consumption Function*. Princeton, New Jersey, National Bureau of Economic Research, Princeton University Press, 1957, P.37

is in the same direction'.<sup>180</sup> This had some dire consequences for policy compared to Keynes. It meant that in the long run, when the majority of people become accustomed to inflation, using increases in the money supply to increase investment and income would ultimately only work if ever higher rates of increase in the money supply were initiated. This is what happened under the Whitlam regime: large increases in the money supply caused by large deficits used to provide increased government services ultimately did nothing to stimulate investment. The only observable continuing effect was sustained inflation.

One effect of inflation which is different from the accepted effects of Keynesian policies is rising interest rates. Keynes considered the price of money to be affected by supply and demand as is any other good. So an increase in the money supply would reduce interest, which is the price of money. Friedman says, however, that 'low interest rates are a sign that monetary policy has been tight in the sense that the quantity of money has grown slowly; high interest rates are a sign that monetary policy has been easy in the sense that the quantity of money has grown rapidly'.<sup>181</sup> This view, that interest rates rise during inflation, eventually offsets any value that the average person may achieve from it. Thereafter the only real beneficiary from inflation is government, whose continual deficit financing creates the inflation in the first place. Inflation is described as a tax on savings, especially as the government stands to gain by paying back less than it borrowed in real terms through government bonds, and quietly pushing income tax payers into higher brackets.

While in Australia, Friedman made this indictment against the government in both the USA and Australia:

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<sup>180</sup> Friedman M. 'The Quantity Theory of Money, A Restatement' *Studies in the Quantity Theory of Money* ed. Milton Friedman, University of Chicago Press, Chicago. 1956. PP.20-1

<sup>181</sup> Friedman M. 'Role of Monetary Policy'. *American Economic Review*. Vol. 58. March, 1968. P.7

There is no purchaser of Government securities in this country [Australia] in the past 10 years, I suspect, who has not paid the Government for the privilege of lending it money. The so called interest has been more than eaten up by inflation and to add insult to injury, the lender has had to pay taxes on the non existent interest ... I believe you would find it ... difficult to write an honest speech today for your Treasurer to give, urging the purchase of savings bonds. I believe it is disgraceful in a democracy that it should be part of the duties of office of a senior official that he should stand up and lie to the public.<sup>182</sup>

Strong words from the free trade proponent. They were, however, words which fell on eager ears in 1975. The Whitlam fiasco had made businessmen even more keen to see a freer market than had even been the case under the previous 23 years of the Liberal regime. The socialist heritage of Australia had taken a sound battering under Menzies and his disciples. The reactionary government of Whitlam only confirmed that Menzies' policies had erred on the side of too conservative; that is, too socialist.

Socialism in Australia had peaked between 1945 and 1949, and reached its zenith during those years with more regulation and government control than there had been since the days of the Botany Bay prison camp. After 1949, it started to be diluted. Under the reactionary Whitlam, more regulation and government initiatives became the norm and this only confirmed that the experiment had failed for the business community at least, and the indications were at the December 1975 elections, for many more people. Socialism needed to be trimmed back even more. Friedman became the hero of the new free marketers movement which saw expression firstly in the formation of the Ayn Rand-based Workers Party, which received double the vote of the more socialist Australia Party, and secondly in the election to Federal Parliament of young Liberal Backbenchers who later became known as 'the free marketers'. These 'new guns'

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<sup>182</sup> Constable & Bain *Milton Friedman in Australia*. 1975. Clarendon Press, Kensington, NSW, 1975, P.70

started to force change in the Liberal Party composition. They wanted to dismantle the socialist regulations and departments that had grown up since Federation.

With the rising interest rates, gone were the dreams of low rate finance which would stimulate building and business investments. A whole new, hard world started to make itself felt. Inflation also caused static in the messages that prices send to manufacturers concerning relative supply of materials. Businesses and consumers did not know whether any given price rise was caused by inflation or by changes in the supply of that good or material.<sup>183</sup> Australia now started to pay the price for years of Keynesian policies. These had largely worked because in the 1950s people were still conscious of the depression of the 1930s and worried that it could happen again. It was not until a new generation who had never known anything but affluence entered the workforce that people started to take advantage of the economic conditions. As often happens, this new generation believed that because this state of affairs had always existed in their lifetime, it had always existed. In 1972 many had gone further than this and felt that much more could be achieved, especially with more government spending and interference. This 'baby boom generation' had been the basis of the Whitlam electoral success.

But was Friedman, this pleasant balding man from the city of savages (as Rudyard Kipling described Chicago) infallible? His visits to Australia had similar effect to the visits of his fellow countryman, Henry George, 100 years earlier. Australians flocked to their television sets to hear the words of wisdom as they dropped from the golden mouth of Milton Friedman. Very few people in this world claim to be infallible and Milton Friedman is not one of them.

Galbraith wrote an article about Friedman economics which appeared in 'The Times' in London. It is unusual, however, for either of these two opposing economic giants to directly attack the other. Galbraith claimed that although Friedman promised to ultimately lower inflation and to lower the unemployment level, in

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<sup>183</sup> See Friedman M. *Free to Choose* MacMillan, Melbourne 1980 P.17

the few South American countries that had tried his policies both of these had increased simultaneously. Friedman, Galbraith charged, was out of touch with reality. The models on which his hypotheses are based do not exist any more, if they ever did. They represent a perfectly competitive market, which largely has been replaced by imperfect competition and monopoly. Marketing plays a far larger role in business now than it did when the Quantity Theory was perfected by Fisher. Advertising and other marketing techniques have changed consumption patterns to what powerful corporations want them to be says Galbraith.<sup>184</sup> In the Schumpeterian dichotomy of economists<sup>185</sup> perhaps Friedman falls into the category of being ‘a very good theorist .... [who talks] absolute nonsense wherever confronted with the task of diagnosing a concrete historical pattern as a whole’.

Whether such a strong condemnation is fair to Friedman is debatable, however there are certain points which suggest that he tends more towards that side of the dichotomy than the other; assuming of course that the dichotomy is valid. Friedman economics tends to fall into two distinct areas: firstly, the area of theoretical hypotheses, which are then subject to comparison with empirical evidence. Secondly, the area of observation, of the Galbraithian variety where Friedman observes what is, and comments on the wrongs which he sees exists, and finally makes suggestions for righting these wrongs. Although both of these groupings of Friedman’s work have the same common denominator, free market economics, they both tend in other ways to be unrelated. When Friedman is debating some obscure theory in economics Friedman the theorist is in action. When Friedman is describing what he sees and describing methods by which the faults in what he sees can be rectified then he becomes Friedman the observer. In neither case do the two inter-relate. For example, if we compare the debate ‘Monetary versus Fiscal Policy’ between Friedman and Walter W. Heller with either *Capitalism and Freedom* or *Free to Choose* there

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<sup>184</sup> Weekend Times. London. 25th October 1980

<sup>185</sup> See Chapter 17



is on the one hand absolute theory presented and on the other little or no reference to any theory but instead Galbraithian style observation.

No one attempts to criticise Friedman's grasp of theory, with good reason. He was probably one of the most, if not the most, able economic theorist in the world. Where he attracts criticism is in relation to his view of the real world. 'If Milton's policy prescription were made in a frictionless Friedmanesque world without price, wage and exchange rigidities, a world of his own making, it would be more admissible. But in the imperfect world in which we actually operate, beset by all sorts of rigidities, the introduction of his fixed-throttle money supply rule might, in fact, be destabilising. Or it could condemn us to long periods of economic slack or inflation as the slow adjustment processes in wages and prices, given market power, delayed the economy's reaction to the monetary rule while policy makers stand helplessly by.'<sup>186</sup>

This was Walter Heller's view of why Friedman economics was suspect. An extension of this argument is: 'where does this Friedmanesque world originate from?' It certainly does not originate out of the mind of Milton Friedman. The world Friedman uses in his analyses is of course the world of the classical economists of the nineteenth century. They made certain assumptions, most of which are still part of economic theory but whose relevance is debatable. There have been changes in the concepts of nineteenth century economics which Friedman may not accept. This consideration is all the more important when one considers the way in which Friedman came to his views. He was not a Keynesian, who saw the error of his ways and repented. Instead he comes from a pre-Keynesian school via his mentor, Henry Simons. His, and for that matter, his mentor's approach to Keynesianism is that it is a heresy that must be proved wrong at all costs. At no stage did either Simons or Friedman accept any of Keynes conclusions, even though they accepted some of his criticisms of economics. This attitude suggests a bias of religious

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<sup>186</sup> Friedman M. & Heller WW. *Monetary versus Fiscal Policy. A Dialogue*. W.W. Norton & Co. New York 1969 P. 26

proportions, where the barbaric hordes of Keynesians must be beaten back by the power of pen and sword.

Furthermore, the assumptions of nineteenth century economists do not necessarily apply in current American or Australian economic situations. The most obvious is the change in the observed world from what may be termed 'frontier economics'. In the world of frontier economics there were unlimited lands, animals and vegetation, and one assumed there always would be. In the late twentieth century conservation and preservation of the environment and of natural resources became more important. The theoretical equivalent of 'frontier economics' is the assumption in economic theory of unlimited resources. In recent times this assumption has been quietly dropped from textbooks, but still forms the cornerstone of many economic hypotheses. To attempt to turn back the clock to a real or theoretical world which no longer exists is a suspicious move in any event. When in observation mode, Friedman frequently criticises many of the things he sees around him. The implication of this criticism is that things in the good old days were better.

However the same power problems, frictions and rigidities were present then as now. In short, where Friedman has the capacity to be a revolutionary leading us all from the controls and ravages of socialism into a new and wonderful post-socialist world, he is simply a reactionary, who wants to return to the golden days when his parents, recently arrived from Eastern Europe, worked for a robber capitalist, for hunger wages in New York City. This may have been bad at the time but all things work for the best in the best of all possible worlds, or that seems to be the view of Friedman. This adherence to the good old days of 'frontier economics' is aptly demonstrated in *Free to Choose*: 'Most economic fallacies derive from the neglect of this simple insight, from the tendency to assume that there is a fixed pie, that one party can gain only at the expense of another'.<sup>187</sup> The assumption underlying this statement is the assumption of unlimited resources. Only when this assumption is

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<sup>187</sup> Friedman M. *Free to Choose*. MacMillan, Melbourne. 1980 P. 13

made can there be a gain to both parties. However, as Henry George and his disciple Max Hirsch pointed out there is at least one economic factor which is in absolute fixed supply: land. Without land it is virtually impossible to carry out any economic activity, and as George argued<sup>188</sup> forcing the mass of people from the land had the effect of depriving them of their real (economic) freedom.

One further question which Friedman does not adequately answer is how the government of a country can enforce the free market concept, given the frictions and current rigidities. This question is best examined in the actual world rather than in the theoretical. Again Australia offers a fine example of Friedmanism in action, as in keeping with its history, Australia was the first country in the world to attempt to apply this economic system instead of the Keynesian one that had been applied immediately prior as we shall see in the next chapter.

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<sup>188</sup> See Chapter 9 above

## CHAPTER 20

# APPLIED FRIEDMAN ECONOMICS: ANOTHER WORLD FIRST

The first nation in the world to apply the Friedman economics discussed in the previous chapter was Australia, leaving aside certain minor experiments in South America. After the electoral success of the Australian Liberal Party, Britain and later the USA adopted the same electoral policy with Australian Liberal Party public relations officers advising the Conservative Party on their successful campaign in Britain, which saw Margaret Thatcher elected as Britain's first female Prime Minister.

Friedman was invited to Australia and his philosophy appeared to be the philosophy that the Liberal party were adopting. As with the Labor Party in 1972, however, what they appeared to be offering was not what later became obvious as their actual philosophy. One point, however, is important: Malcolm Fraser, Liberal leader and later Prime Minister, made it quite clear that although the Liberal Party had only been out of office for three years he did 'not see the next Liberal Government as restoring the pre-1972 status quo'.<sup>189</sup> The main thrust of the Liberal Party policy according to their election campaign was to control inflation. The Liberals appeared on the surface to accept Friedman's condemnation that inflation is caused primarily, if not solely, by governments 'printing money' instead of raising taxes to finance expenditure.

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<sup>189</sup> 'Australia's future under a Liberal and National Country Party Government' address to the National Press Club Sydney 31 July 1975. P. 1

Once inflation had been brought under control, so the theory went, real and solid investments would be made by businessmen and so unemployment figures would evaporate.<sup>190</sup>

Certainly, control of inflation occupied, one might even say obsessed, the Liberal government during the first years in office. Their pre-election arguments suggested that inflation had been caused solely by the Labor government's 'printing of money' in order to finance its extravagant schemes. This argument became a rod for the Liberal back as they by default accepted the total responsibility for controlling inflation. Their record, although a vast improvement on the Labor situation, was at first encouraging, but after about 1978–9 the inflation rate started to rise again, along with unemployment. It appeared that the Liberal government was trying to reduce inflation by applying the inferences normally drawn from the famed 'Phillips Curve' developed by the New Zealand born Professor Phillips.

The Phillips analysis had demonstrated empirically that over approximately 100 years in Britain an increase in the rate of increase of inflation had led to a decrease in the rate of increase in unemployment, and vice versa. This is normally shortened, incorrectly, to the statement that a high inflation rate gives low levels of unemployment and vice versa. This was the theory on which the Liberal Policy was based. Unfortunately, economists had discovered that this empirical relationship that had existed in Britain up to the mid 1950s had not proved to be the case after about 1970. Post-1970 had proved to be a different case. Since 1970 the situation became one of rising unemployment and rising inflation. Friedman's explanation of this was that as inflation simultaneously became accepted as the norm, more inflation was necessary to neutralise the effect of the 'natural rate' of unemployment. The 'natural rate of unemployment' is a concept which Friedman does not elaborate on, except to say that it contains those people who are between jobs, dissatisfied with their current or previous job and looking for more

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<sup>190</sup> See Federal Secretariat, Policy Speech: Malcolm Fraser. 27th November, 1975. Canberra. 1975 P.1

money or whatever in the job market. These people form the major part of the 'natural unemployment' group. This inapplicability of the 'Phillips Curve' became a problem to Liberal Government as it had to Labor and governments in other countries around the world.

Although the Liberal Party accepted the Friedman philosophy and therefore the responsibility for inflation control, most other areas were not compatible with Liberal Party policy. The Liberal Party has an obligation to the market mechanism where possible but in no way does this mean that 'The liberal market economy is ... a laissez faire economy'. The government has the responsibility to lay down the rules within which enterprises may operate.<sup>191</sup> The 1975 Liberal policy still allowed for some government intervention in the economy where 'no ... Business Corporation has any right to survival unless it can justify its existence by the contribution it makes to a better life for the average Australian'.<sup>192</sup>

Fraser also believed that Ancient Rome had fallen 'principally because the citizens believed that they had only rights and they had forgotten their duties and their responsibilities to their country'.<sup>193</sup> These two attitudes had been previously criticised by Friedman when he criticised Kennedy's inaugural Presidential speech which had largely the same flavour: 'Think not what your country can do for you but what you can do for your country'. Friedman's criticism of this is that in a supposedly democratic country, certainly a country which otherwise espouses the merits of a free market economy, neither of the elements of the Kennedy quote are applicable. An individual has neither a duty to this country, nor

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<sup>191</sup> Puplick, C.B. & Southy, R.J. *Liberal Thinking*. Macmillan. Australian Melbourne 1980 P. 119

<sup>192</sup> Institute of Directors Speech Liberal Party Press Release 30 May 1975. P. 8

<sup>193</sup> *Australian Financial Review*. 28th June 1972

is his country a benevolent institution with a duty towards him.<sup>194</sup> A Liberal Government had previously used this non-Friedman policy and gone against the advice of military leaders and opted for conscription for the Vietnam War. This was instead of opting for the traditional Australian peace-time method of recruiting for foreign wars: the forming of an Australian Expeditionary Force, historically called the AIF. This element of duty, which comes from the military element in socialism, was probably the last remaining socialist element within the Liberal philosophy. The rest of the socialist ideas which had infiltrated every party had fallen by the wayside.

Liberalism now stood in direct ‘contrast to the philosophies in the tradition of Rousseau, Hegel and Marx, which had sought to find an ‘absolute’; once and for all answer’. The absolute which socialism searched for – the once and for all answer – was public ownership. ‘Socialism had wrongly postulated that all social evils could be removed by the change from private to public ownership, something that the last thirty years had shown was a false hope’.<sup>195</sup> Philosophically at least, it seemed that nearly all socialist ideas had been purged from the main non-Labor Party.

In practice, however, things were not quite so clear cut. On gaining power in 1975, the new Liberal National/Country Party government set about restoring for all practical purposes the status quo. The National Country Party, being a minor party and one which from the beginning sold its votes in the parliament to those who would support its sectional interests, had allowed the rural sector to become highly subsidised by the rest of Australia. The National Country Party was one of the most socialistic parties in the Australian parliaments. One of the first acts of the new government was to restore the super-phosphate bounty which had been abolished by the Labor government. This bounty meant that the taxpayer paid

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<sup>194</sup> Friedman M. *Capitalism and Freedom* University of Chicago Press, Chicago 1962. P.1

<sup>195</sup> Tiver P. *The Liberal Party*. Jacaranda Press. Milton, Queensland. 1978 P. 253

for fertilising that rural property whose owners chose to do so. Fraser himself had made some five thousand dollars from the bounty just prior to its abolition. Family allowances, as child endowment had come to be called, were increased by the new government, having been largely ignored by the Labor Government. This was simply an expensive transfer payment which allowed government to interfere for no apparent reason in the distribution of wealth. Rather than reducing tax as promised, and as Friedman had advocated continuously, taxes were increased in 1978, after a further election confirmed the vast majority in parliament that the Liberals had won in 1975. Defense expenditure also increased dramatically, paid for in part by reductions in expenditure on education and other more social areas.

The net result of all this was that taxes were increased in real terms, and the budgets, which according to Friedman were supposed to be balanced in order to reduce the government's reliance on the Australian mint printing press as a source of revenue, had deficits which were nearly as high as when the Labor Party was in power. Staff in the Department of Social Security increased and the government found justification in spending twenty million dollars on VIP aircraft for the Prime Minister's frequent overseas junkets. All this helped to generate the criticism that this new government was not as tight-fisted as it continually represented itself to be, but was a spendthrift government. The Labor Party did not easily see the new government as spendthrift, especially when they saw their initiatives being reduced or eliminated. What had happened in reality was that spending had simply been transferred from one extravagance – social welfare – to another – defense. The spending levels and the amount of government initiatives relative to new private ones were sadly similar.

Nothing was done, as could have been with minimum disruption, to reduce the monopoly power of government institutions. One of many examples was the Post Office. Since the establishment of the Post Office it has been illegal to carry mail unless authorised by the Post Office. This meant that if an enterprising individual offered a mail service around town he could



be prosecuted by the Post Office and many had been. To de-monopolise this would have been simple and easy and would have caused no one any problems including the Post Office. But this, like all other government monopolies remained intact.

The only hope on the horizon, which came as a result of the 1975 election, was the election of a number of back benchers who were attracted to the free market philosophy as stated in the election campaign. These members became known as the free marketers. They represented the younger, newer element of the parliamentary Liberal Party, the ones who ultimately will take over the leadership. In the future therefore, there was hope that if Australia continued to be ruled by conservative governments, the tendency would be towards a more free market philosophy in the true sense of the term. But history tells a completely different story. The only other government organisation which received an increase in funds (other than those mentioned above) in the first budget brought down by the Fraser government was ASIO, the original and most notorious of the secret police organisations in Australia.

## EPILOGUE

After more than twenty years since the writing of the previous chapters, history has shown Australia to be far more influential than anyone could have imagined during the Fraser years of the 1970s and 1980s.

Firstly, the Australian Liberal Party sent a team of political campaign experts to Britain to assist the UK Conservative Party get elected. With this assistance, and more importantly, with the same platform that Fraser had used to get elected, Margaret Thatcher (later Baroness Thatcher) was elected on the same ‘sack the public service’ platform. The Conservatives held power for ages. When Tony Blair finally managed to push Labor over the line it was with a completely ‘reformed’, that is non-socialist, agenda. The socialist system had been destroyed in the UK.

My concern, expressed above, that Fraser was not doing as much as he promised to bring about free market economics, was borne out. The concepts of the free market, ‘Friedmanism’ and the anti-socialist writings of Von Hayek that Fraser had alluded to in order to get elected took on a life of their own. When his government did not deliver the reforms and freeing up of the markets as promised, it was not left to young Liberal Turks, as I had thought in the early eighties and mentioned during a bout of Fraser-induced depression in the previous chapter, but to a Labor government headed by Bob Hawke. The reforms promised by Fraser and implemented by Thatcher, were belatedly introduced by the Labor party into Australia by Hawke. As his reward, Bob Hawke became Australia’s second-longest serving Prime Minister to that date. His Labor government was the longest serving Federal Labor government ever.

The story does not end there. The free market platform had now proved a winner in two countries, and had finally given the West a real ‘explainable’ alternative to fascism, communism and even middle-road socialism.

The next country to take up this platform was the USA. The USA had been flirting with socialism since the 1940s. The seductive delights of ‘jobs for life’, ‘security in old age and sickness without having to concern oneself with insurance or savings’ had all appealed to the American voter over time. Eventually, however, one aspect of socialism appeared that Americans will not abide – ‘Red Tape’, as noted at the end of Chapter 15.

Reagan translated the ‘sack the public service’ platform of the UK to the platform of ‘going back to the halcyon days of no Red Tape’. Reagan promised to balance the budget; reduce taxes; increase spending and cut inflation. Taken together, these policies are a mathematical and economic impossibility. Americans did not care about the logic or the maths (math in the US); anything to get rid of ‘Red Tape’ and bring back the good old days. The USA’s cursory flirt with socialism came to an abrupt and permanent end under the Republican Presidential administrations of Ronald Reagan and George Bush Senior.

The story continues. The West now had a story to tell. More importantly, it was applying the theories of one of the most widely-read authors in the Communist Block – Von Hayek, The communist world started to ask their governments the embarrassing questions which no amount of threats against their citizenry could contain any longer: ‘Where is this communist fairyland promised decades ago and never delivered?’

The short answer is that communism fell!

The platform that Fraser had initiated in Australia had taken on such a life of its own that even his reluctance to implement it could not stop it. It could be argued that the Fraser free market platform changed the world.

Could the destruction of socialism have been another world first for Australia?