Australian capitalism has always had to reconcile the interests of two of its class fractions: the dominant industrial fraction on the one hand, and rural capital on the other. (1)

Solving this problem produced important effects at both the economic and political levels. Tracing the form of this ‘solution’ over the years is one way to produce a history of Australian capitalism.

But now there is a new factor which demands notice.

The rapid growth of the mineral sector from the middle 1960s has not only had a significant effect on the structure of other sectors, it has also threatened to disrupt relationships between the corresponding capitalist class fractions.

It is the role of the capitalist state to organise what Gramsci called the ‘unstable equilibrium of compromise’ between these competing fractions. It must ensure that contradictions between them never swamp what remains, for the capitalists, the main contradiction: that between the capitalist class as a whole and its enemy, the working class.

If the state fails to do this and the working class and its allies can exploit contradictions between fractions of capital the path is open to neutralise parts of the state apparatus prior to a general working class assault upon it.

It’s this sort of a breach the working class must always be looking for. While the current
struggle between different fractions of capital has not reached this stage of an open breach - and is unlikely to, given the balance of forces and room still left to manoeuvre - it's still worth working out what different fractions are up to.

A RURAL-INDUSTRIAL TRADE OFF

During the long boom following World War II, Australian capitalism developed by expanding its industrial base and relying less on rural production. This industrial expansion took place behind high tariff barriers which, far from being a temporary shelter, have become an indispensable prop for most of the new industries.

While rural industries have been efficient by world standards, allowing Australian exports to compete on world markets, industrial capital, paying relatively high wages and selling on a small local market, has remained uncompetitive.

The tariff has distorted price levels and so maintained industry's profitability - but at the expense of rural capital.

This transfer to industry of surplus value produced in the rural sector has caused a strain between rural and industrial capital. But this strain has not led to open division for three reasons.

First, because much of the transfer was invisible. Australian rural export industries were so profitable by world standards for most of the period that there was enough to go round.

A political alliance was formed that allowed rural interests disproportionate influence. In the Liberal-Country Party coalition that held office from 1949 to 1972 Country Party ministers always held key economic portfolios, including the Treasury. From 1958 when he became leader of the Country Party and Minister for Trade, John McEwen dominated the government's economic policy making.

This doesn't mean the rural sector's economic interests were safeguarded - in fact the opposite. The form of this political alliance was consolation for rural support of a struggling industrial development program.

And of course rural subsidies were handed round as well. While these still didn't fully counteract the effect of the tariff they were more apparent. So the coalition and in particular the Country Party retained political support from those rural interests who felt they had special access to government.

This Menzies-McEwen solution to the problem of reconciling the interests of industrial and rural capital was an outstanding success for the capitalist class as a whole. Despite a very slow growth rate, heavy reliance on foreign capital and a series of economic and political crises that threatened to shatter the coalition (2) it held together until 1972.

But then it floundered. Why?

THE END OF A DREAM

One answer was that the coalition form of government was unable to resolve the contradictions between the different fractions of capital precisely because these interests were being directly articulated at the political level.

For the state to express and represent the general political interest of the capitalist class as a whole it must maintain a relative autonomy with respect to particular classes and fractions.

This doesn't mean it's in any sense independent of these classes and fractions or even that it has to appear independent for ideological reasons. It's simply that in fawning upon particular interests it loses its ability to express the interests of the class as a whole.

This was the crisis of the McMahon government.

By the 1970s Australian capitalism desperately needed restructuring. During the long boom capital accumulation in Australia had been slower than in comparable countries. The boom was ending and still Australia lagged behind. To be competitive, Australian capital had to improve its profitability and this meant being much more selective in the industries that were encouraged.
Unprofitable industries had to be abandoned and capital and labor directed to those that could compete on a world market. Of course, there could be no return to an economy based on rural exports but there could be a shift in resources to another efficient exporter: minerals.

THE WHITLAM STRATEGY

The strategy of the Whitlam government brought to office in 1972 was one based on restructuring Australian capitalism along these lines. Precisely because of the Labor Party's structure it could distance itself from the direct pressure of those sectors that would be hurt in the short term. It carried through policies like revaluation of the dollar and tariff cuts that served the overall interests of capital, but that the McMahon government could never implement.

This doesn't mean that the Labor Party served as a conduit for articulating the immediate interests of capital in the mineral sector.

On the contrary, Labor's strategy for economy-wide restructuring and increased investment in mineral development and processing rested on reversing two trends that had emerged in the minerals sector: the dominance of foreign capital and the fact that little processing was done, and that most of Australia's mineral wealth was being exported in untreated or only partially treated form.

Thus, the new Labor government came up against existing capital in the mineral sector. This fraction wasn't going to wait around for restructuring of the Australian economy and for Australian capital to be made available for development projects. It was only interested in short term profits and in getting raw materials out of Australia and into its parent processing plants overseas.

Hence the battle between Connor and the mining multinationals.

Mineral capital won this struggle, playing a key role in the political crisis of November 1975. In the process it strengthened its links with Country Party politicians to create an alliance at the political level between the traditional rural and the new mineral sector.

A NEW ALLIANCE ....

This convergence of the interests of rural and mineral capital to the extent that both could operate within a tight-knit political party like the Country Party rests on a similar relation both have to industrial capital.

Both are exporters. Both recognise that if manufacturing industry in Australia is to develop, price and wage levels will be maintained that will ensure a flow of surplus value away from them and towards less efficient industrial capital. Thus, it's in their interests to bloc together to force policies like devaluation of the $A and to fight for tariff reform and so stem this flow.

For the Country Party itself, this has meant a new lease of life. As long as it can still mobilise political support outside the cities for its policies it can present the new mineral sector with a ready-made constituency.

As the economic significance of rural capital declines, its traditional political representatives will play a crucial role in mediating the interests of industrial and mineral capital.

Mineral capital cannot play this political role directly, being largely foreign based and having a small workforce which it is very unlikely to be able to mobilise to express its interests. (3)

There will be contradictions, of course. For instance, Anthony's advocacy of higher prices for Australian crude oil must make some of his rural supporters think again, since the Country Party has previously attacked policies that increase farmers' costs.

So far, however, the new alliance has held together and under the Fraser government has taken a more powerful form. Not only does the Country Party have increased weight in cabinet - 6 ministers out of 25 as compared with 7 out of 34 under McMahon - but it has 'captured' part of the Liberal Party.

The Liberals have always had to represent more diverse sectors of Australian capital and have had to seek electoral support from other classes, including the urban working
class. This difficult role meant the party has often been deeply divided, as the trail of bodies Fraser climbed over to the leadership testifies. And within the Liberal Party are some - including Fraser himself - who are prepared to ally with the Country Party’s championing of the rural/mineral axis rather than fight for the particular interests of industrial capital.

The Country Party won only 11 per cent of the vote in December 1975 but has 18 per cent of the seats in the House of Representatives and a quarter of the ministry and the cabinet.

However, even this picture understates its political importance; a full analysis must take account of the ‘Country Party in exile’ within the Liberal Party.

.... WITH PROBLEMS

So far we have assumed that the emergence of the Country Party as political representative of the mineral sector is compatible with its existing role, or at most requires only minor adjustments at the level of particular issues, like the oil price dispute.

However, a recent analysis by Dr. R.G. Gregory, published in The Australian Journal of Agricultural Economics casts doubts on this compatibility of interests. Although he doesn’t draw political conclusions his argument does imply effects at the political level.

Gregory argues that the rapid growth in Australian mineral exports, through its effect on the balance of payments, has been a significant force for structural change in other sectors.

In particular, the rural sector that exports and the manufacturing sector that competes with imports have both suffered.

While the push to devalue the $A came from an alliance of these three sectors, Dr. Gregory has shown that their interests are not normally parallel and are often directly opposed.

Thus “the development of a new and rapidly growing export sector will affect the import competing sector in much the same way as a tariff reduction (that is, adversely) and affect the traditional export sector in much the same way as a tariff increase (also adversely).” (4)

He goes on, “it is estimated that the effect of the rapid growth of mineral exports on the rural exporting industries is approximately equal to the effect, in the absence of mineral exports, of a doubling of the tariff level.”

“For the import competing sector the effect of the mineral discoveries is estimated to be approximately equal to setting the average tariff at zero and introducing an import subsidy.”

Obviously, these are very large effects which, if produced through policy decisions at government level, would create a political crisis.

Dr. Gregory concludes, “a significant proportion of the difficulties now experienced by export and import competing industries which are arising from changes in the Australian cost level relative to that of our overseas trading partners - both through exchange rate changes and relative inflation rates - might be explained by the rapid growth of mineral exports over the last decade.”

The mechanism Dr. Gregory points to is simple. Assume the long term balance of trade is roughly in equilibrium. A sudden increase in exports from a new sector like minerals will lead to a balance of payments surplus and thus either to domestic inflation or to pressure for Australia to revalue. Either way, the prices of local goods measured in $A rises. Exporters face a harder battle on the world market while local manufacturers face a flood of imports made cheaper by the change in the $A’s value.

Any policy designed to cushion this effect in one of the three sectors must hit the other two, as Dr. Gregory shows. And the effects are large. In particular, the emergence of mineral exports has dwarfed the 25 per cent tariff cut introduced by Labor in 1973, according to his numerical analysis.

Dr. Gregory’s model leaves out factors that will become important at the political level. For example, foreign capital flows are ignored and imports assumed to equal exports, even though Australia has often had an export deficit and made up for this by importing foreign capital.

Also, as he himself points out, the model assumes everything reacts instantaneously but, in practice, there are lags.
The analogy between the emergence of a new export sector and changes in the tariff is thus not exact: the former "operates only after a sufficient period has elapsed to require either an exchange rate or to provide for a change in the relative rates of inflation between Australia and her major trading partners."

"From the viewpoint of the rural sector, however, the major effects of a tariff change and mineral exports operate through the same mechanisms, the exchange rate or inflation rate, and the time profiles of each may not be very different."

A MORE DEMANDING MASTER

Ruling political parties under capitalism have to subsume the economic interests of different fractions of capital; that's one of their functions. While the Liberal Party has done this reasonably successfully, the Country Party has not had to: both because of its special representative role and because much of this mediation took place between the coalition partners.

Now mineral capital will put special, unfamiliar demands on the Country Party.

For a start, capital in this sector, which is largely directed from overseas and dominated by the rhythm of capital accumulation on a world scale, is unlikely to be prepared to exchange some of its profits for political clout in Australia. Its attitude to political power is more direct and mercenary.

Also the divergence in economic interests between rural and mineral capital we have pointed to must make the Country Party's task more difficult and force a restructuring in the way it expresses these interests.

Of course, political parties change in response to demands like this; if they don't they are discarded. When Paul Keating, Labor shadow minister for minerals and energy, blamed Country Party ministers for their "failure" in extracting commitments from Japan in the minerals area at the recent Australia-Japan ministerial talks, he was making this sort of a threat.

Nixon and Sinclair had chased only minor agricultural concessions and allowed the Japanese once again to reassert their bargaining dominance in the mineral resources area, he said.

"The ministerial delegation", he said, "should have returned to Australia with a firm commitment to the new iron ore project for Western Australia and an assurance that coal exports to Japan would this year be in accordance with the 1975 Inayama agreement." "Instead Mr. Nixon has received no assurances on the iron ore project and has failed to secure from the Japanese steel mills a commitment that coking coal tonnages be maintained at contract levels."

Mr. Keating may feel he could better express the interests of the mineral sector of Australian capital; it's not clear that many of these capitalists agree with him yet. But it is clear that the conservative political parties face difficulties in mediating the interests of conflicting sectors of capital and if they fail the capitalist class could again be forced to abandon its traditional representatives as it did in 1972, and risk the Labor option.

T.O'S. 1-2-77.

FOOTNOTES

1. Useful concepts to analyse divisions within the capitalist class are outlined in Nicolas Poulantzas, Classes in Contemporary Capitalism, especially pp. 91-189.

2. There were major cabinet divisions in 1962, 1967 and 1971. In 1962, McEwen forced the unprecedented resignation of a Liberal cabinet minister, Leslie Bury, following Bury's comments on the effect on Australia of Britain's entry into the European Common Market. When Britain devalued in 1967, the Country Party wanted Australia to follow - when it didn't the row was bitter. And in late 1971, Country Party members threatened to walk out of the coalition to prevent the Australian dollar being revalued.

3. Compare the way the Country Party mobilises political support. As Davies wrote in 1971, "The Country Party has recently averaged 14 per cent of the vote in federal elections; farmers themselves make up 8 per cent of workforce", Australian Democracy, p.136. And Emy observed, "the Country Party has been able to retain the support of two out of three farm laborers", The Politics of Australian Democracy, p. 366.