Australian capitalism has been in the depths of economic recession since 1974 when all the capitalist world was thrust simultaneously into generalised recession. Since that time there has been an uneven, inflationary and minor recovery in some capitalist countries, particularly the USA, Western Europe and Japan. Not so Australian capitalism.

As the business newsletter Syntec recently lamented:

"... the pattern of the economy emerging in these winter months will have an all-too-familiar ring of hopelessness. The sag this winter will make four years now of short-lived start-ups, which have aborted early and sagged back to the bottom of the business cycle." (1)

This is a view reinforced by the latest forecasts of the Melbourne Institute of Applied Economic and Social Research. They predict continued economic stagnation and rising unemployment with no real growth in the economy in 1977-78.

The current economic crisis is a stark reminder of the inherent instability and contradictions of the capitalist system. So much for the bourgeois economists who claimed that with the advent of Keynes, severe economic crises in capitalism were a thing of the past.

The response of the Australian ruling class and the state to the crisis has been - as it always has been - to make the working class and minority groups bear the brunt of the crisis. Most obvious in this regard is the record post-war levels of unemployment which have accompanied the recession.

At present, the official (and hence understated) level of unemployment is 5.4 per cent of the workforce, or some 337,391 people. Recent predictions suggest that this will worsen. 1978 should see more than 7 per cent of Australian workers unemployed.

Perhaps the most ominous aspect of the present level of unemployment is the large number of youth who cannot get jobs. Overall, nearly one-third of unemployed are under 21. In the outer-western suburbs of Sydney and Melbourne the picture is much worse. Often, more than 50 per cent of the unemployed are under 21. In Sydney, for example, we find 46 per cent of unemployed in Bankstown under 21, 54 per cent in Blacktown, 52 per cent in Caringbah, 58 per cent in Liverpool and 50 per cent in Penrith.

Many of these youth have not had, and will not get, a job. At present there are 17.7 registered unemployed for every registered unfilled vacancy. And the future is even bleaker.

Why the unemployment? This is, of course, a complex question. In the final analysis it must be seen as a product of the response of the Australian ruling class and state to the economic crisis.

Capitalism is a system based on private ownership of the means of production. Here, capital accumulation - the amassing of greater and greater profits by capitalists - is the key determinant in the economy. The role of the state is to maintain the economic and
social conditions necessary to sustain a climate conducive to profit making.

Because of the contradictions inherent in the economic laws of motion of capitalist societies, economic crises are an unavoidable and inevitable product of this capital accumulation process. Hence, the very processes which generate boom conditions (with high levels of profits and employment) generate the conditions whereby the boom ends, giving way to a period of recession and crisis.

Similarly, the period of economic crisis is a period in which the preconditions for the next recovery and boom can be established. This centres around the introduction of conditions which lead to an increase in the rate of profit, which falls dramatically at the onset of recession.

Specifically, the crisis period allows a reorganisation and restructuring of capital, increasing profitability. This necessitates a large pool of unemployed workers, for such reorganisations result in large-scale retrenchments which would be very difficult to achieve during periods of full employment.

Unemployment is therefore both a precondition for, and a consequence of, the reorganisation of capital during the crisis period. At the same time, the capitalist state intervenes to enhance the recovery of profits by introducing policies that increase unemployment, reduce wages, and the living conditions of the working class.

Taking the restructuring and reorganisation of capital first of all, analysis of the present Australian crisis shows that this occurs at a number of levels. First, the crisis period sees a movement of capital from weaker and inefficient areas into those which are more profitable. This occurs through the process of bankruptcies and mergers and takeovers.

In 1975-76, for example, some 1,243 businesses fell into bankruptcy. During the same period, many mergers and takeovers occurred. In marxist terms, the crisis period enhances the process of concentration and centralisation of capital.

To select a few examples: the Sydney firm Mauri Bros. and Thompson closed down its PMU canned food factory to combine production with the under-utilised facilities owned by a Melbourne competitor, Heinz; Henry Jones (IXL) has rationalised its food production by merging its apple processing facilities with Clements Marshall in Tasmania as well as combining its general food interests with Cottee’s General Foods. Retrenchment of workers was a direct consequence of these moves.

Other sections of capital have utilised the current period to transfer production to South East Asia. Dunlop has set up a plant in Malaysia leading to the loss of 6,000 jobs. Similarly, ANI set up a plant in Indonesia. Consequently, its Australian workforce dropped from 3,400 in 1974 to 2,100 in 1976. These examples highlight the move by Australian capital out of Australia seeking to utilise the cheap and non-unionised labor of South East Asia.

Unemployment is often the result of the production plans of firms to maximise profits. The motor vehicle and color TV industries have provided recent examples of this. All the major car producers have substantially built up stocks of cars and retrenched large numbers of workers.

Similarly, HMV continued production of color TV sets at high levels even though sales had dropped by one-third compared to the previous years. The result was the stockpiling of 27,000 sets and the retrenchment of 50 per cent of its workers.

In this way capital can operate plant at fuller capacity and at lower wages for the first few months of the year. Having produced enough goods for the next few months or more, workers are retrenched and thrown onto the growing mass of unemployed.

By all these ways, capital increases the reserve army of unemployed in its search for higher profits. At the same time a large pool of unemployed increases the discipline over labor, leading to reduced turnover and absenteeism. It also allows bosses to work their employees harder so that output per worker increases.

In this regard it is significant to note that during 1976 real non-farm GDP rose by 3.8 per cent. Syntec estimated that at least 3.5 per cent was accounted for by growth in worker productivity.

The economic policies of the Fraser
government have also systematically led to an increase in the pool of unemployed. These policies can best be seen in two strands: First, the increase in the share of national income going to capital and to raise the rate of profit by holding down wages; second, to redistribute income particularly to those sections of capital oriented to the international economy.

The first is achieved partly through substantial reductions in the public sector and the budget deficit. This creates unemployment directly, while the cuts in spending are greatest in those areas which most directly benefit the working class. These reserves are then redistributed to capital.

Thus the 1976 Lynch budget saw the dismantling of Medibank and the cutting of expenditure on health, social security and welfare, and education. In contrast, the budget increased handouts to capital. It announced a 40 per cent investment allowance, suspended company tax for 6 months, introduced the stock valuation adjustment which reduced declared profits and hence taxes. Further, lucrative subsidies to mining and agriculture - including reintroduction of the superphosphate bounty - were announced. We can expect a continuation of this strategy in the August budget this year.

The upshot of the Fraser government strategy with the other prong of wage restraint is that the present domestic recession is maintained.

In the year to June 1977, average weekly earnings rose by 10.8 per cent while prices rose by 13.4 per cent. With rising unemployment and falling real wages, together with rising personal savings induced by the recession, domestic recovery is impossible.

It is for this reason that the Fraser government has pinned its hopes on recovery coming from those sections of capital oriented to the international market. To this end, the government has facilitated the trends in the capital market for funds to be attracted away from manufacturing into mining.

Needless to say, this does little for employment. The mining sector particularly is heavily capital-intensive and provides high profits but few jobs. Hence, we find that the mining company Utah was Australia's highest profit-maker last year. It declared a profit of $137 million, but employed only 3,000 workers. In contrast, BHP employed 60,000 workers for its $100 million profit. It is not surprising that BHP is attempting to emulate Utah, moving funds out of its labor-intensive steel making into its minerals and oil ventures.

The Fraser strategy for recovery has failed. Granted, there has been a recovery of profits. Similarly a restructuring of capital has occurred. At the same time, and in consequence, the working class has suffered a loss of jobs. Real wages have been cut and workers' living standards reduced. However, while these conditions are conducive to a recovery of capital accumulation, they do not guarantee recovery.

The key indicator to a substantial recovery in capital accumulation is the level of new investment in plant and equipment. While there was a mild increase in the level of investment in the June quarter of 1976, investment has progressively fallen since that date. Indeed, most existing plant and equipment is severely under-utilised.

One of the major reasons for the failure of the Fraser strategy is that the expected rapid international economic recovery has not materialised. While there has been some recovery, it is hesitant and not cumulative. Indeed, recent predictions are for a further recession in the United States in 1979.

At the same time the Australian economy has been hampered by the structural crisis in the manufacturing sector which pre-dated the international recession. As the Jackson Report found, there is a "deep-seated malaise" in this sector with profits and investment declining since the mid-1960s. In many sections of manufacturing, plant and equipment are old and out-dated. Only one-quarter of machine tools in industrial plants are less than ten years old.

The solution for capital in manufacturing is to inject massive investment expenditure in new plant and equipment. In the current recession that is impossible. But even if the economy did recover from the cyclical crisis it is doubtful if such investment would occur. Given the domination of foreign capital in
this sector it could be doubtful if the economic and political conditions in Australia would prove sufficiently attractive for such large scale investment with alternatives in South East Asia and elsewhere. Even if such investment were forthcoming it would result in increased structural unemployment as machines would replace jobs. In either case, the future is for the high levels of unemployment to remain or increase.

Overall, the Australian economy has moved from a long boom in the post-war period to a long wave of stagnation and crisis. Though this period will be punctuated by occasional recovery, substantial recovery seems highly unlikely. The important consequence of this will be further attacks on the jobs and living conditions of the Australian working class as the ruling class, backed by the state, seeks higher profits.

It is important to stress that this analysis of the present economic crisis of Australian capitalism rejects those breakdown theorists who claim that capitalism is finished for good and is on the slippery-dip to economic destruction and social change. This ignores the restructuring of capital and the successful economic attacks on the working class that have already occurred in this recession.

An economic crisis by no means automatically brings about a general social crisis that trumpets the overthrow of capitalism and ushers in the new socialist society. Such a social crisis is resolved at the political level. This necessitates the development and implementation of a successful working class strategy. Such a strategy must be geared both to a defence of working class interests against ruling class attack and to a utilisation of the contradictions of the forthcoming period of protracted economic crisis leading to a successful overthrow of the capitalist system itself.

J.C.
August 11, 1977.

CLASS ANALYSIS CONFERENCE 1977

Plans are underway to hold a third conference on class analysis in Sydney from 28-30 October 1977, on the general theme of ....

THE CURRENT RULING CLASS OFFENSIVE

Five areas have been proposed for the conference program of plenary and workshop sessions.

1. The ruling class offensive in its historical context.
2. The class relations of Australian capitalism.
3. Australia and world capitalism.
4. The agents of social change.
5. Ideology, cultural dominance, and the media.

In the months preceding the conference, working groups will be structuring the conference program in these areas.

If you are interested in working with any of these groups or in offering a paper please make contact with:

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