Free enterprise on the cheap

— Australia and the world recession

--- Laurie Aarons

Laurie Aarons looks at the world recession, its effects on Australia, examines differing views about its causes and what should be done, suggesting some ideas for a working class alternative to the solutions suggested by upholders of the capitalist system.

The capitalist world is not yet suffering a depression on the scale of the 1930s, but few serious observers, whether supporters or opponents of capitalist "free enterprise", rule out the possibility. Many believe we are on the brink.

"There is no clearcut definition of a depression", reports Australian journalist Paul Sheehan from the US heartland of capitalism, "but many economists seem to accept that an economic downturn that causes at least 10 percent unemployment for a full year and a surge of bankruptcies and destroys confidence in long-term investment would qualify." (Sydney Morning Herald, 2/3/82.)

Many capitalist countries, including Australia, are already close to qualifying under this definition. True, unemployment has not yet reached the tragic figures of 1933, but these no longer seem impossible.

Australian unemployment has exceeded 500,000 for the first time since 1933 and is now 7.4 percent of the workforce. Over 11 million Americans are out of work — 10.1 percent — Britain and Belgium have 14 percent, even West Germany now reports 7.5 percent. Very few economists, if any, predict anything but worse figures next year.

Some may say: "Well, that's bad, but after all unemployment reached 25 to 30 percent of the workforce during the Depression." That's true, but this took some time to develop, as Leonard Silk of the New York Times points out:

"Nationally, unemployment (in the USA) has risen so far to less than 9 percent, far below the peak of 25 percent in 1933 .... But it took a few years of continuous erosion for the jobless rate to get that high — in 1930, the year after the crash, the unemployment rate averaged 8.7 percent; in 1931 it got up to 15.9 percent and in 1932 to 23.6 percent." (SMH, 5/3/82.)

The Great Depression hit Australia hard and quickly, unemployment reaching 18.4 percent in 1930, compared with only 8.9 percent in the USA ands 16 in Britain. But
Unemployed as percent of workforce

<table>
<thead>
<tr>
<th>Year</th>
<th>Australia</th>
<th>Germany</th>
<th>USA</th>
<th>Britain</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>10.2</td>
<td>22.7</td>
<td>3.2</td>
<td>10.4</td>
<td>10.2</td>
</tr>
<tr>
<td>1930</td>
<td>18.4</td>
<td>34.3</td>
<td>8.9</td>
<td>16.1</td>
<td>11.9</td>
</tr>
<tr>
<td>1931</td>
<td>26.5</td>
<td>43.8</td>
<td>15.9</td>
<td>21.3</td>
<td>16.8</td>
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<td>1932</td>
<td>28.1</td>
<td>36.2</td>
<td>23.6</td>
<td>22.1</td>
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<td>24.2</td>
<td>20.5</td>
<td>24.9</td>
<td>19.9</td>
<td>23.3</td>
</tr>
</tbody>
</table>

there was little difference between countries by 1932 (except for Germany), as the above table shows.

Britain’s jobless rate, already close to that of 1930, is expected to reach that figure by June next year when 3.5 million people will be unemployed. Australia’s rate next year will be well over 10 percent, with some pessimists predicting 13 percent.

1. They couldn’t see it coming

The economic crisis has developed rapidly and its perception by orthodox economists, conservative politicians and the media has been sudden and shocked, particularly in Australia. They deluded themselves with the “resources boom” and never-ending investment, lulled by belief in the Liberals’ God-bestowed economic expertise which would restore prosperity after Labor’s ruinous three years.

Failure to realise the recession’s severity arose largely because orthodox economists, business executives, Liberal politicians and the media saw only the economic indications they wanted to see. They deliberately ignored unemployment which, at that stage, hit hardest at the young. When the problem was admitted, it was dismissed by the “dole bludger” image created by the media (Murdoch’s to the van) and eagerly taken up by the Liberal Party.

This attitude is by no means extinct. A certain Keith Campbell, manager of Westpac Bank branch in Fairfield (NSW), discussing the present recession, declares: “I think anyone who wants a job can still get one. The unemployed are frequently the unemployable.” (SMH, 5/10/82.)

This reactionary view, heard during the 1930s too, is harder to sustain as unemployment spreads to all sections of the workforce, no longer confined to those considered “unemployable” or expendable. Lay-offs are spreading throughout the country, including skilled workers and people who’ve worked for 30 or 40 years. Whole regions face the probability of years of being “depressed areas” — Sydney’s western suburbs, Whyalla, Albury, Newcastle and Wollongong, for example.

The record shows how capitalist representatives ignored economic reality, deliberately or through ignorance, jawboning the economy into an illusory prosperity. The leading Liberal political economist, Treasurer Howard, proudly told the nation on February 26, 1981, that AUSTRALIA IS OUT OF RECESSION (according to the Financial Review headline the next day.)

“The Treasurer, Mr Howard, yesterday proclaimed the end of the recession in a major speech on the economy delivered in Federal Parliament,” the paper reported. “The Australian economy was now growing strongly because the Federal Government had tackled its fundamental problems.”

Howard’s chief adviser, Treasury Secretary Stone, had earlier foreshadowed this optimism, predicting that “the Australian economy would grow strongly this year, despite the economic downturn in the Western world and the effects of the drought.” (FR, 30/1/81.)
BOOM ... boom .... BUST

Financial journalists joined the paean, with David Potts of the Financial Review writing a long article headed THE BOOM INDUSTRIES TAKE OFF IN AUSTRALIA (FR, 27/2/81). Euphoria persists to year's end and even a little longer. The front page of the Financial Review for July 10, 1981 proudly reports that AUSTRALIA LEADS WESTERN GROWTH STAKES, saying:

"The OECD predicts that Australia's real gross domestic product (GDP) should grow by 5.75 percent this year and by 5.25 percent in 1982, close to double the expected OECD average. In stark contrast to its overall projection of a delayed world recovery, the OECD predicts rapid expansion of the Australian economy based on the development of energy and resource based industries."

The OECD's capacity to predict, never crash-hot, has been upset by the years of economic instability which began in 1974, as Ross Gittins of the Sydney Morning Herald recently pointed out:

"Every six months the OECD issues a forecast for the (Western) world economy. The latest forecast, issued at the end of December, predicted an upturn in the world economy would begin in about six months. The previous forecast, issued last June, predicted an upturn in the world economy six months later. And the one before that, issued in December 1980, also predicted an upturn six months later." (SMH, 3/3/82.)

The more things change, the more they remain the same! In the 1930s, the catchcry was: "Prosperity is just around the corner". The OECD experts still await the world economic upturn, 22 months after their first guess of six months, but they won't be holding their breath.

OECD's Australian forecasts were little closer. GDP increased only 2.9 percent in 1980/81, instead of the predicted 5.75 percent, while instead of a 5.25 percent rise 1981/82 saw only a 2.6 percent increase. Next year will be even worse, as GDP will decline or, as the economists' jargon has it, "experience negative growth".

The financial press continues its optimism up till year's end, and even into 1982. The Financial Review's pontifical editorialist writes on October 21, 1981, under the headline It's a boom, but don't shout about it:

"But there is a weight of evidence to show that a boom is in progress, even if some are benefitting more than others ...."

"So the investment boom, while it will wreak changes in the structure of Australian industry, will itself be changing in shape. But the fundamental momentum exists, and Australia's high economic growth relative to most of the Western world attests that most of the investment plans are not misplaced."

The Financial Review continued in this strain for another five months, until by April 6, 1982 the outlook was for a "levelling out" according to the INDECS forecast published that day.

"Not all the economics news is bad," the INDECS forecast said. "So far Australia has escaped the world recession and the economy, while not booming, is not getting worse .... The recovery is over, but the economy is moving sideways rather than being in recession."

"It's here .... and serious"

This "sideways movement" lasted a bare eight days, when the editor of the Financial Review pontificates again, but very differently, in a long article headed Recession: IT'S HERE AND SERIOUS by P P McGuinness. This font of economic wisdom not only reveals the truth about the economy (already well-known to the jobless, marxists and other riffraff), but also unveils the answer. This is not so much directed towards solving the recession but about how "we" should prepare for the next recovery.

Mr McGuinness explains that there is little to be done about the recession here, which depends on the state of the capitalist world economy generally, and the United States in particular. But unless workers' real wages are reduced, he tells the capitalists, "we" won't be ready to take advantage of the upturn when
— and if — it comes. Not that the capitalists need convincing, because they would like to cut wages all the time, boom or depression or stagnation.

2. From recession to depression —
Australia and the world

All sides of politics accept that the world economic outlook is decisive for Australia's economic prospects and the social consequences flowing from a deep and prolonged depression. It would therefore be useful to examine some current views about the world economic situation and concepts of the nature and causes of capitalism's malaise.

Leonard Silk, economics editor of the New York Times, noting recently that the world economic system is "suffering the most acute stress it has known in half a century", examines some theoretical and ideological issues this raises.

He quotes Italian economist Riccardo Parboni, of Modena University, who "contends that the unfolding of global events compels the rehabilitation of earlier views that the capitalist system is prone to severe crises that threaten its existence". This view was held not only by Marx and Lenin, but also by "such anti-communist thinkers as Joseph Schumpeter and John Maynard Keynes".

Silk then quotes from Parboni's estimate of some results of capitalist crisis as developed by three of those thinkers, suggesting their views are being confirmed:

"Creating a new relationship of forces between capitalists and workers — one more favorable to the capitalists (Marx). The present high unemployment has dealt a hard blow to trade union strength in the United States, Britain and other industrial countries.

"Strengthening the largest and most powerful industrial groups at the expense of smaller producers (Schumpeter). The current wave of mergers and takeovers, in banking as well as industry, looks like working out of this asserted effect of capitalist crisis.

"Sharpening conflict between capitalist countries for control of market outlets and supplies of raw materials (Lenin). The current conflicts between the US, Japan and the West European countries for world markets in cars, steel, computers and other manufactured goods is one aspect of the crisis." (SMH, 7/9/82.)

One should add to this last conclusion the deep-seated and politically explosive difference between the US and West Europe over construction of the Soviet gas pipeline.

It is a sign of the times that marxist ideas of crisis are discussed seriously, even though they are over-simplified and do not always correctly reflect marxist insights. (For example, Marx saw capitalist crises as producing much more fundamental consequences than the one quoted, and he described the concentration of capital long before Schumpeter. Lenin saw imperialism as the motive force for the struggle over markets and raw materials; crises intensify that struggle.)

Retreat from Keynesianism

Mr Silk points out that Keynes supplied the ideas upon which the institution of the post-war capitalist world were constructed, concluding with this analysis:

"Keynesian remedies for the perceived weakness of capitalism gave rise after World War II to the greatest period of growth in world output and trade in history. But in solving one great problem — depression and unemployment — the Keynesian revolution helped pave the way for world-wide inflation.

"In recent years, the effort of the US and other advanced industrial countries has been to halt inflation, but the methods used have brought back the capitalist crisis with a vengeance." (SMH, 7/9/82.)

These "methods used to halt inflation" are the return to pre-Keynesian monetarist measures applied in varying degrees in Britain, West Europe, USA and Australia.

Views on the underlying causes of the world
economic crisis are worth discussing. Three main causes are suggested: a prolonged period of stagnation in the world economy; the growth of national, corporate and private debt; the decline of demand due to erosion of purchasing power.

3. From stagnation to depression

Professor Daniel R Fusfeld, of the University of Michigan in the United States, has noted that every great depression like those of the 1840s, 1890s and 1930s has followed a period of relative stagnation in the world economy. He suggested in August 1978 that the period of relative stagnation was still in its early stages but could collapse into depression by 1984.

World capitalism developed rapidly for 25 years after World War II, then entered a prolonged period of relative stagnation for a decade or so, and is now in the stage of serious recession which could plunge into depression.

Australia's GDP grew from $7,849 million in 1949/1950 to $11,976 million in 1959/1960 (in constant 1953/54 prices) — a 52 percent rise over the decade, or an average of 5.2 percent annually.

In the next decade, GDP rose from $16,330 million in 1959/60 to $27,411 million (in constant 1966/67 prices) in 1969/70. This was 67 percent over the decade, or an average 6.7 percent.

The next decade saw a slowing of the rate of growth, from $50,765 million in 1969/70 to $69,604 million (in constant 1974/75 prices) in 1979/80, a ten-years increase of 37 percent or an annual rise of only 3.7 percent. The tendency to stagnation is greater in recent years, as the table below shows: This averages out at 2.5 percent over the six years, coinciding with the Fraser government but scarcely confirming its pretensions to "superior economic management". GDP in 1981/82 is estimated to be 2.5 percent, while it is certain to fall in this financial year.

The falling rate of increase in production, and actual declines, is now worldwide, as the last major capitalist nation, Japan, enters this phase. Britain's national output actually fell by 5.5 percent from 1979 to 1981, the US gross national product declined by 0.2 percent in 1980, rose by 1.9 percent in 1981 and will remain static, or fall, this year.

4. "Mountains of debt" and financial crisis

A second major feature of the capitalist world economy is the huge increase in debt and the chronic danger that even one default could precipitate a financial crisis like that of the 1930s. Mexico, Poland, Brazil and a dozen other countries are grave risks, owing hundreds of billions to the big Western banks and financial institutions.

The next table shows the position of 12 major debtor "developing countries", their total foreign debt, the payments of interest and principal due this year, and this latter amount as a percentage of their current account (CA) overseas earnings.

Third World hardest hit

Most of these countries, though not all, are "less developed Countries" (LDCs) and, apart from Mexico, Brazil and Indonesia, are oil-

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent Rise</th>
<th>Year</th>
<th>Percent Rise</th>
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<tbody>
<tr>
<td>1975/76</td>
<td>2.6</td>
<td>1978/79</td>
<td>4.4</td>
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<td>1976/77</td>
<td>3.0</td>
<td>1979/80</td>
<td>1.9</td>
</tr>
<tr>
<td>1977/78</td>
<td>0.4</td>
<td>1980/81</td>
<td>2.8</td>
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</table>
deficient countries. This draws attention to another cause of the world crisis — the contradiction between the LDCs and the “advanced industrial countries” (the capitalist countries).

Due to the historical legacy of colonialism, the LDCs are mainly producers of raw materials whose economies are tied to the industrialised capitalist countries. The notorious “scissors effect” has accelerated over the last 10 years, with prices for manufactured goods rising more quickly than the price of raw materials, with one notable exception — oil. However, the oil price rise was incorporated into the price of exports from industrialised capitalist countries and therefore hit the oil-deficient LDCs much harder than the capitalist powers, particularly those which shared, through the oil giants, the international redistribution of wealth flowing from oil price rises.

The recent drastic decline in world commodity prices, which affected Australia greatly, is disastrous for the LDCs and has deepened the world financial crisis as falling export incomes reduce capacity to pay the huge interest debt. With the recent oil price fall, even oil-rich countries like Mexico face insolvency. How much worse is the crisis for countries lacking oil, hit by the decline in prices for their staple exports while prices for their imports of capital goods and manufactures are kept up by the multinationals and the bankers demanding their pound of flesh?

John Calverley of American Express International Banking Corporation recently estimated (FR, 8/9/82) that developing countries owed $629 billion in 1981, up from $252 billion in 1976. “It is certain to be one trillion dollars by 1986.” The concept “trillion”, hitherto confined to astronomy, is the US word for one million million ($1,000,000,000,000).

US through the trillion barrier

The debt problem is not confined to LDCs, however. Indeed, the US national debt (owed by the government) had already passed the trillion figure in October last year and could rise by one-third (i.e. by $330,000,000,000) by 1984. Alarming as this figure is, “the more alarming threat to the stability of the economy appears to be the mountain of private debt” in the United States, according to Leonard Silk (SMH, 21/10/81).

The international bankers played a key role in erecting this huge debt pyramid. Their aggressive search for profits has led to
widespread evasion of national banking regulations, dubious chains of transactions through tax havens and other sharp practices. One of the biggest American banks, Citicorp, is presently under Congressional investigation for such activities, while the Banco Ambrosiano of Milan has collapsed in very murky circumstances. The Vatican Bank owes Banco Ambrosiano $1.3 billion, but refuses to pay up, leaving hundreds of banks in many countries caught with bad debts.

The bankers' irresponsible pursuit of super-profits, not unknown in Australia where the banks co-operate with tax evasion and other shady deals, is not merely reprehensible. It is also very dangerous, raising the ghosts of the past, when over-stretched lending precipitated the 1929 Wall Street crash.

Julian Snyder, publisher of the US journal *International Moneyline*, recently warned the New York Society of Analysts of menacing parallels between today's level of debt and that which triggered the 1929 crash.

"There is," he said, "an unmanageable amount of consumer interest debt, a huge burden of agricultural debt, a mountain of home mortgage debt, a huge pyramid of business debt, erected on a thin equity base and a critical mass of international borrowing, resting on a continuing flow of credit from the United States."

**Australia's little mountain**

Australian debt figures are not easy to obtain, *Year Book Australia* warning that its figures for public borrowing don't provide an accurate measure of national debt because of duplication and other problems. But Commonwealth and state governments had on issue securities worth $32,635 million in 1981, $4,652 million repayable in foreign currencies.

Corporate debt figures are not easily available either, but piecemeal reports of the huge amounts needed to service corporate loans suggest that the figure is very high, and growing. (As this article is written, the big mining company Peko Wallsend reports that its borrowings total $209.8 million, 59 percent of shareholders' funds. This is not atypical; Burns Philp reports an interest bill of $33.1 million compared with a profit of $9.9 million.)

Some idea of private debt is provided by the total advances by Australian financial institutions which aggregated $64,707 million in 1981, divided as follows:

<table>
<thead>
<tr>
<th>Type of institution</th>
<th>Advances $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading banks</td>
<td>21,827</td>
</tr>
<tr>
<td>Finance companies</td>
<td>19,293</td>
</tr>
<tr>
<td>Savings banks</td>
<td>11,931</td>
</tr>
<tr>
<td>Building societies</td>
<td></td>
</tr>
<tr>
<td>permanent</td>
<td>8,286</td>
</tr>
<tr>
<td>terminating</td>
<td>1,431</td>
</tr>
<tr>
<td>Credit unions</td>
<td>1,801</td>
</tr>
<tr>
<td>Instalment credit</td>
<td></td>
</tr>
<tr>
<td>(Other than finance cos.)</td>
<td>138</td>
</tr>
</tbody>
</table>

A tolerable mountain of debt, over $100 billion owed by governments, corporations and consumers, even if only a Kosciusko compared to the Himalayan peaks owed by bigger countries.

**Deeper into the red**

Further light is thrown on public and corporate debt by the balance of payments and capital inflow from abroad. In the Fraser years, Australia has "enjoyed" a total balance of payments deficit of $27,840 million ($15,000 million in the last two years), met by a huge foreign capital inflow which postpones the problem but worsens it in the long run.

Future dividend payments for foreign corporate investors and repayment of high interest and principal on private and public borrowings overseas ensure continued recourse to ever-rising borrowings, a spiral of debt both corporate and public.

The balance of payments last year
• Unemployed besiege Liberal HQ

(1981/82) was in the red to the tune of $9,080 million, a record, while capital inflow reached $10,442 million, including $3 billion of Japanese money in short-term investment liable to sudden withdrawal at any time.

5. The contracting market: erosion of purchasing power

A third major cause suggested for the present recession and the potential deep depression is the decline of purchasing power. Writing of the US economy, Leonard Silk says:

"Such an erosion of real purchasing power has been going on for the past decade. Measured in constant 1977 dollars, average weekly earnings in private non-agricultural industries declined 15.7 percent to $US167.21 in December 1981 from $US198.35 in 1973. High taxes reduced consumers' real disposable incomes even further .... When sluggish growth gives way to steep recession, as it has done now, the drop in purchasing power worsens, causing sales of durable goods such as autos and housing to plunge, threatening depression .... "

Australian housing figures have plunged, shown by new housing commencements in the first three quarters of 1981/82 as compared with those for 1980/81 (see table next page):

This is a fall of 16 percent over the nine months period, and not from a high level. New housing commencements for the last eight years have never exceeded the level attained in 1973/74, although the Australian population has grown by 1.6 million, or 17.6 percent, over this period.

The decline continues, with August 1982 commencements down to only 8,235 compared with the August 1981 figure of 12,506 — a crashing 29 percent fall.

Car sales are now declining, after keeping
up fairly well — because, it is said, people who'd saved to build a house decided it was hopeless and bought a car instead. But that's been mopped up and the car industry's future is again grim. The same applies to most other durable consumer goods, with calamitous effects on the whitegoods and associated industries.

Consumer demand has declined despite Australian workers' relative success in resisting seven years of pressure to reduce real wages. Reasons for this decline include the growth of unemployment (never less than 4.5 percent during that time), uncertainty thus created among those still working and the effect of high interest rates (which if counted in the CPI would have eroded the small growth in real wages).

Cutting real wages is central to the monetarist-conservative "economic strategy" practised most consistently in Thatcher's Britain, applied with a supply-side twist by Reagan and promised by Fraser, but not prosecuted strongly enough to satisfy his own "Drys".

Leading "Dry", John Hyde of West Australia, recently put their case bluntly in a Financial Review article summed up in its headline: Fraser's Budget error — not enough Thatcher. Hyde contrasts the two broad strategies to meet the recession adopted by capitalist countries. The first is Keynesian ("Stimulate domestic demand by public sector expenditure financed by deficit budgets"), adopted by nations like France, Canada and Ireland. That's "Wet"; the proper path is:

"Others, of which the UK is the best example, have concentrated on making their economies more efficient .... The British approach involves the radical restructuring of what was and in some parts .... is still, a very flabby British industry. It seeks long-term benefits and accepts short-term costs." (FR, 3/9/82.)

Hyde adds a throwaway line: "It is associated with high levels of unemployment", adding that the "wet" strategy also leads to high unemployment without the benefits lying at the foot of the rainbow. "I predict that by the end of the depression the UK will be looking better than Canada, Ireland or France", he concludes, without saying how long the unemployed have to wait for the Dry Utopia.

They're only statistics ....

Lofty economic thinkers like Mr Hyde don't trouble about mere details such as whether the jobless rate is 7 percent or 14 percent. They're just statistics, not people, and anyway "the unemployed are only the unemployable". The Dries won't hesitate to sacrifice (other people's) jobs in pursuing the chimera of "looking better" when the recession ends.

The Hydes of this world find it easy to "accept short-term costs" when somebody else is doing the accepting — in Thatcher's Britain, the workers with jobs whose real wages are cut and the one in seven jobless. This results in reduced demand, a worse recession and unemployment approaching
"real depression" levels.

It's not for want of trying that employers and the Fraser government have failed to reduce real wages. Real wages were cut in three of their first six years in office and, contrary to ceaseless capitalist propaganda about a "wages explosion", the rise in real average weekly earnings was only 2.4 percent from March 1975 to March 1981. The after-tax wage remained almost static, rising a mere 0.7 percent over this period.

Average male weekly earnings (AWE) were $151.10 in March 1975, coming down to $117.30 after deducting tax at the single rate. By March 1981, AWE was $284 a week, $217 after tax, BUT the Consumer Price Index had risen by 83.6 percent (from 171.1 to 314.2). The pre-tax AWE of $284 becomes only $154.66 in 1975 dollars, a rise of $3.46 or 2.3 percent. After-tax AWE in March 1981 becomes only $118.17 in 1975 dollars, a rise of just 87 cents or 0.73 percent. Some wage explosion!

Wage rates for lower-paid workers — and 60 percent earn less than AWE — follow the same pattern, with a lesser increase if anything.

Wages and profits in Australia

A favorite monetarist argument is that the wages explosion results in a declining "share of profits", with catastrophic effects on investment and employment. Manufacturing industry statistics don't bear out this argument, showing that the "wages share" of Value Added in manufacturing has declined from 57 percent in 1920/21 to only 52.2 percent in 1980/81. (Value Added is the surplus added in the manufacturing process after deducting all costs of production except wages and depreciation, so what remains after these costs is the "share of profits"). The table which appears below, prepared from official statistics, shows the trend.

A closer look at the manufacturing industry in the Fraser years will show how the "wages share" has been pushed down through a combination of hard times, technological change and government pressures.

Would wage cuts improve the economy?

Nevertheless, Australian workers' stubborn resistance to real wage cuts has maintained their living standards at about the 1975 level, instead of falling as in Britain and the United States. The key question is: Would the economy be stronger and unemployment higher if workers' real wages had dropped by about 15 percent as in the United States?

The empirical answer would have to be No. The US inflation rate is down to 7 percent and the British to 8, compared with 10 percent here, but the Australian unemployment rate is only half the British and two-thirds of the American. If real wages had dropped 15 percent here, domestic demand would have dropped by almost that much, sales and production would be down, unemployment

<table>
<thead>
<tr>
<th>Year</th>
<th>Factories '000s</th>
<th>Employment '000s</th>
<th>Value Added $million</th>
<th>Wages and Salaries $million</th>
<th>%age of VA</th>
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</thead>
<tbody>
<tr>
<td>1920/21</td>
<td>17.1</td>
<td>367</td>
<td>220.8</td>
<td>125.9</td>
<td>57.0</td>
</tr>
<tr>
<td>1930/31</td>
<td>21.8</td>
<td>339</td>
<td>236.6</td>
<td>124.9</td>
<td>52.8</td>
</tr>
<tr>
<td>1940/41</td>
<td>27.3</td>
<td>650</td>
<td>515.8</td>
<td>275.8</td>
<td>53.5</td>
</tr>
<tr>
<td>1950/51</td>
<td>43.2</td>
<td>969</td>
<td>1,687.7</td>
<td>983.4</td>
<td>58.3</td>
</tr>
<tr>
<td>1960/61</td>
<td>57.8</td>
<td>1,145</td>
<td>4,349.8</td>
<td>2,289.2</td>
<td>52.6</td>
</tr>
<tr>
<td>1971/72*</td>
<td>36.2</td>
<td>1,301</td>
<td>9,508.1</td>
<td>5,250.0</td>
<td>55.2</td>
</tr>
<tr>
<td>1980/81</td>
<td>27.8</td>
<td>1,149</td>
<td>28,475.0</td>
<td>14,872.0</td>
<td>52.2</td>
</tr>
</tbody>
</table>

* No figures were issued for 1970/71 and from 1971/72 factories employing less than four workers were no longer counted in the survey.
would be worse. The vicious circle would be spiralling inwards even more rapidly than it is now, with little impact on "competitvity" and none on demand for Australia's major exports.

Australia is very dependent on the world market, particularly upon Japan, and on world prices for raw materials. Australian wage rates do not influence world commodity prices nor affect world demand for Australian coal, iron ore, alumina, and a dozen other minerals — or for wheat, wool, meat and sugar. Yet the "cut real wages" school of economists believe they can overcome the effects of the contracting world market on the Australian economy by reducing workers' real wages, thus cutting domestic demand as well. Who will buy the commodities then?

6. What does the future hold?

In an article written on the 50th anniversary of the Wall Street crash, I tried to analyse the economic situation as it was in 1979, coming to this conclusion:

"The capitalist system is once again in a deep crisis which its controllers do not understand and their conventional neo-Keynesian wisdom cannot solve. The four-year-old recession is obviously very different from the 1930s, but in some ways it is more serious and potentially worse in its human consequences." (Tribune, September 29, 1979.)

Monetarist policies adopted in place of Keynesian have not improved things, but made them worse. If neither Keynesian nor monetarist solutions can cure the system's ills, the future is indeed grim and the difference between the thirties and the eighties may not be so obvious, while the social consequences are horrifying. Before suggesting some ideas about future developments and ways of fighting the crisis, we should look at some current ideas about what is likely to happen.

Despite similarities, world capitalism in the eighties is different from the capitalism of the thirties, more sophisticated, vastly more advanced technologically and capable of using computers and instant electronic information for economic planning and forecasting. But despite all this, how do the experts see the future?

They scarcely inspire confidence even when expressing an optimistic view. This is how Leonard Silk sees the financial crisis:

"It is far less plausible to write the scenario of a world crash now than the more boring scenario that adds up to muddling through with the probability of a few national and banking disasters on the way." (SMH, 9/9/82, emphasis added.)

Sir Jeremy Morse, who presides over the big British Lloyds Bank, recently told a Melbourne business gathering that "there is a five percent risk of a serious collapse of the world banking system .... The other challenge was the threat of a series of defaults, a chain reaction by countries with huge debts." (SMH, 6/10/82.)
The international banker wasn’t quite as worried as he might have been, because "he was quite convinced the central banks would step in to rescue nations in danger of default, despite the inflationary implications of such lifeboat operations." Inflation is fine when it is incurred in rescuing bankers' investments!

The banker’s main worry, however, was possible inflation for another aim. "Sir Jeremy warned about the possibility of a political revulsion against unemployment. He said there could be a general move to the Left which would concentrate on reducing the number of jobless but promote a resurgence of inflation."

As to future prospects, this is how Sir Jeremy sees it:

"The short-term outlook was for a weakish recovery in 1983 with the chance of 'continued hard times' .... there may be a pause in recessionary pressures which would allow interest rates to be held at present levels or even decline."

Even this is a bit optimistic for other British capitalists. Observers predict that 3.5 million Britons will be jobless by next June, and the British Chamber of Commerce reports "evidence of a growing number of companies closing down because they see no prospect of recovery .... (SMH, 5/10/82.)"

The Financial Review editorialist, so optimistic a year ago, is now filled with foreboding:

"How bad and how long the recession (or depression) will be will depend upon the world economy, and specifically the US economy. So far signs of recovery in the world are ambiguous and not encouraging. It is not a pleasant prospect." (FR, 8/10/82.)

The prospect is indeed unpleasant for working people since they are marked for the sack, lower real wages, higher indirect taxes and lowered social services, to get capitalism out of its crisis.

Sacrificing for prosperity

The Financial Review leader-writer spells it out:

"As the Government has recognised no path to recovery and full employment is available to Australia without the rest of the world. But an acceptance by the community as a whole of the inevitability of the fall in living standards could cushion the severity in employment terms of the recession.

"This must involve an acceptance by everybody that real personal incomes need to fall. Not profits — this would simply be a self-defeating proposition. What is wanted is not a reduction but a large increase in profits. However, personal incomes are a different matter. The greater part of profits is retained and invested." (FR, 8/10/82.)

There are two sorts of income: wages and profits (including interest and salaries of business executives). If profits are not to fall, then it's wages he means, and that's his panacea, as already noted. However, there's another string to the bow — higher indirect taxes: "A substantial cut in real personal incomes could be achieved by a general sales tax, or better by some kind of value-added tax."

The millionaire, the worker (with or without a job) and the pensioner will all sacrifice by paying more for the articles of consumption, but the millionaire will get the extra profits supposed to come from this. Then all the millionaires will reinvest their profits, there'll be jobs for all — and the pigs will start flying.

What happens to profits?

There are still plenty of profits around. On the same day our editorialist dropped his pearls of wisdom, his own paper reports the following:

"Perth property developer, Mr Henry Chappie, had taken $2 million out of Australia when he left for Britain last month, the West Australian Supreme Court was told yesterday during an action related to writs served by the Taxation Department. The Reserve Bank had approved the transfer on the basis that Mr Chappie was emigrating .... (FR, 8/10/82.)"
Mr Chappie, who sold his companies to asset-stripper Brian Maher, had a couple of million to spare but he’s not investing it to provide jobs. His fellow sandgroper Robert Holmes a’Court used his tax-free $27.5 million profits from speculation in Elder Smith and Ansett shares to take over a British media company, providing not one extra job in either country.

Many big Australian corporations, and multinationals operating here, have exported their profits — made from Australian workers’ labor — by switching their operations to low-wage Southeast Asian countries. In the process they “exported” Australian workers’ jobs. The whole point about profits is that they belong to the capitalists, who consume quite a lot and reinvest the rest — wherever they can get the biggest return. Jobs are secondary.

BHF still makes hundreds of millions in profits from its oil and gas, but won’t invest these in steel production to maintain jobs. And why? Because there’s no profit to be made there, at the present. That’s the fallacy in the whole argument that everyone else must suffer except the owners of capital, because they alone provide jobs. There is a similar flaw in the proposition that lower wages will somehow provide more jobs. Quite apart from the problem of the market, employers are notorious for their constant desire to reduce the number of workers, and equally notorious for not allowing their human feelings to override “efficiency” considerations.

This rather tedious discussion of the cut-wages arguments is needed because it is now a big issue, with many workers grasping for some immediate solution to unemployment and depression. But acceptance of pay cuts or allowing real wages to erode through inflation, “sharing the work” or other capitalist-inspired solutions would be self-defeating, merely reducing living standards without providing extra jobs.

7. Fighting the Depression

A deep depression shakes society to its depths, but past experience shows that this does not automatically lead to a swing to the left, or rather that capitalism may answer this by a swing to rightwing extremism and violence justified by demagogic promises to solve the crisis.

Germany is the classic case, but similar movements mushroomed everywhere, including Australia with its New Guard and other semi-military fascist groups. History won’t repeat itself exactly, but extreme-right
groupings are spreading and infiltrating existing conservative parties.

Even Margaret Thatcher isn't rightist enough for the British ultras, nor is Fraser for strong groupings within the Liberal Party, particularly in NSW and West Australia, and the National Party in Queensland. If to that is added the extreme right in the trade unions and Labor Party, the big business lobbyists who play with the idea of swinging the Labor Party to the right or splitting it, and the militarist lobby, there is a potential for regroupment of the extreme right which would fish in the troubled waters of a long Depression.

The working class movement can best answer the rightist threat by developing its own program to meet the coming depression by demanding the right to work and suggesting ways of creating jobs, alongside its defence of workers' wages and resisting sackings.

Sackings are being resisted, as workers challenge the callous attitude of the big corporations which are taking advantage of the recession to slash employment to the bone. Wollongong miners and steelworkers, through the Kemira stay-in and their one-day stoppage and protest march, have set an example that will spread.

The trade union movement is 100 percent correct in defending real wages and living standards. It needs, however, to explain the issues very concretely, to answer the fallacious and self-interested arguments of the capitalist class, realising that we are now in a deep crisis of the system. This will not be easily solved by merely changing governments and economic policies.

"They can't blame us for the faults of their system", declared ACTU president Bob Hawke in 1974. Whether he still holds that view or not, it remains correct. Flowing from that, the working class should resist vigorously each and every effort to make it bear the burden of the system's partial breakdown.

The indispensable starting point is to fight every attack on living standards — on wages and hours, but also against sackings; to demand better unemployment and sick benefits, pensions and also essential services like child care, health and education. But resistance is only the beginning. The working class should also develop its own program to meet the coming depression, an alternative to the capitalist program, one that rejects the conventional wisdom that says the profit motive is supreme because it provides the jobs.

The Financial Review editorial of October 8, 1982 puts this view bluntly:

"But there is no solution to the rapidly worsening unemployment rate which does not involve the acceptance by the community generally that there has to be a substantial shift in income shares towards profits and away from personal incomes. This is simply a matter of how our economic system works." (emphasis added)

The obvious retort in the present situation is surely: This is simply a matter of how the economic system doesn't work. If this is so, then the working class response is to advance its own idea of the sort of a system which should replace the one that's not working.

Even more urgent is to advance a program of action to meet the needs of the people who suffer from or are threatened by the economic crisis, one that is not bound by the dogmas of capitalist economics — or socialist dogmas either.

The social costs of depression

Capitalist dogmas are the biggest danger here in Australia, naturally enough since these dogmas dominate thinking and policy in a capitalist country like this. If these dogmas stand in the way of providing jobs, let's do without the dogmas. The social and human costs of worshipping at the altar of the profit motive are too high, as the Australian Council of Social Service has pointed out recently. The existence of an average 450,000-strong army of unemployed, ACOSS estimates, costs the community about $8,000 million
worth of goods and services unprovided, on top of $900 million of lost tax revenue, and $1,200 million paid in unemployment benefits. That's without counting the prostitution, drug-taking and crime caused directly or indirectly, the frustration, psychological problems and disruption of relationships arising, directly or indirectly, from unemployment.

The recent ACTU Federal Unions conference, convened to discuss the economic crisis, suggested a National Employment Fund to be financed equally by a capital gains tax and collection of evaded taxes, on the one hand, and workers forgoing half of the tax cut due to operate from November (about $4 a week for workers on AWE). This proposal, while only a beginning, is an historic step forward in that the national trade union movement accepts the responsibility of putting forward a plan which offers an alternative to policies of both the Fraser government and, partially at least, the Labor Party.

It differs from the Labor Party in that the ALP has rejected the idea of a capital gains tax, on electoral grounds; it naturally differs from the Fraser government which relies on "the private sector" and the profit motive. The left is somewhat divided on the issue, the more traditional rejecting the idea out of hand and others suggesting it should be developed and strengthened. The latter view seems correct, for people everywhere are demanding action to meet immediate problems which threaten almost every worker.

A workers' program

Strengthening and developing the idea of a national program to create jobs would surely involve a more concrete plan to tackle economic and social problems in a different way from that pursued by the corporations and Liberal governments. One suggestion could be the demand that federal and state governments launch an immediate attack on one of the country's biggest social problems, the housing shortage.

This would require the provision of large low-interest funds, coming from public money raised for the purpose and also obliging banks to provide cheaper funds for this specific purpose. It would require allocation of crown land and acquisition of privately-owned land at reasonable prices, expanding the public works labor force and combining this with private construction firms.

Such a housing program would meet a real social need, would quickly employ thousands of people and provide training for young people. More, it would stimulate activity in dozens of industries supplying goods for housing, from bricks and timber to aluminium, nails and a thousand other products.

It's done for the 'deserving rich'

The hardline free enterprisers will howl that this is impossible; "the market" must be allowed to set interest rates and you must never give "handouts" to the poor, no matter how deserving. This is claptrap, for special low-interest housing finance is long-established, thought not always for the poor. For example, War Service Housing finance has always been cheaper than market rates, while low interest loans are quite common for politicians, top public servants and business executives.

NCP leader Doug Anthony is one politician who got a cheap loan to buy the Canberra house which he later leased to CIA agent Richard Stallings. Sir John Westerman, who presides over the Australian Industries Development Corporation, has a $30,000 housing loan at three percent interest from the corporation, and his chief executives have loans totalling $500,000. The Sydney Morning Herald reports (9/10/82) that "money market talk in Sydney is that the chief executive of a leading merchant bank recently was granted a $500,000 home loan at an interest rate well below market levels".

The overriding needs of providing jobs and homes demands that low-interest money be found for housing for all, not just for the
privileged few.

There are many other urgent social needs which could use the creative abilities of all the unemployed, were it not for the artificial restrictions imposed by the capitalist economic system. These include improved public transport, a real national drive to develop solar energy, a national network of childcare facilities and a real health service aimed as much at prevention as at cure. These suggestions could be added to, and a concrete program developed for action to tackle the unemployment program.

Instead, the corporate controllers and Liberal politicians who run the system do nothing but wring their hands and say: “Well, the unemployed will just have to grin and bear it until the US economy recovers” — thus clearly showing their bankruptcy.

Development of this type of action program is, I believe, the second and most urgent task, hand in hand with resisting attacks on the working class.

Control over investment

Any real attack on unemployment will require effective controls upon the investment policies of the big corporations, controls which can only be operated by the national government. It will also require an all-out attack on tax evasion by corporations and the rich, going far beyond either the Fraser government’s belated and politically-motivated partial measures, or the official Labor Party policy. This latter is hesitant and timid about tackling the major issues of capital gains, wealth tax and “legal” avoidance by corporations and individuals which costs $7 billion a year, at a conservative estimate.

Investment control would prevent export of capital and jobs, direct investment into job-creating and socially-necessary projects and prevent takeovers, speculation and socially wasteful but profitable production. The “free-market” champions will howl again that this is “regimentation”, but their precious market has regimented hundreds of thousands onto the industrial scrap-heap.

People must come before profits, the right to work before capitalists’ “freedom” to do what they like with their profits.

The workers’ movement should advocate public ownership of key strategic industries vital to the economy, and direct their resources to meet people’s needs and provide jobs. BHP is a case in point; Hurford’s mistake was not that he advocated taking over BHP’s ailing steel industry but that he did not include its vastly profitable oil and gas fields which could subsidise modernisation and maintenance of steelworkers’ jobs. Such public ownership, directed to meeting the present crisis, would include workers’ direct participation — via elected representatives — in the operation of the industry, from shopfloor to boardroom.

Labor governments and depression

This raises the important issue of the serious problems facing a Labor government in office during economic crises, which happened to the first Labor government after World War I (the Scullin government, elected in 1929) and to the Whitlam government. The problems are real, the pressures will be even greater than in 1974/75, the temptation to seek solutions through co-operation with the big corporations on their terms will be alluring. Yet there is little prospect for solving the economic crisis easily, by better economic management or orthodox policies, Keynesian or otherwise.

A much more radical approach is needed, and the left (inside and outside the Labor Party) should be striving to develop its ideas and programs, gaining support for them among working people and encouraging intervention by workers in economic management from the workplace upwards. It is not sectarian to estimate soberly that the dominant grouping in a Hayden Labor government would tend towards a careful, orthodox reformist position, or to suggest that an active, informed, and militant mass movement outside parliament will strengthen the more radical elements in the government.

Just the same, it would avail little if the left...
were merely to stand aside from the real problems or confine itself to criticising from the sidelines and calling for socialism. The real difficulties arising from depression, and the human suffering caused, requires creative new initiatives to develop mass activity to force radical policies upon the big corporations and demand use of the great social wealth to meet people's needs.

The socialist alternative

This is not to suggest that the socialist alternative should be kept in the background or soft-pedalled; quite the opposite. The causes for the crisis lie within the system itself, and these must be revealed and explained in down-to-earth and vivid terms, helping people to understand the forces which throw them onto the streets and slow down the economic life of society. The socialist alternative must be developed and spread in the course of the mass actions which will arise more and more often as the crisis bears down on people.

We should not ignore the difficulties created by the problems in those countries which have ended capitalism and are trying to build socialism (or claim they have already done so). These include economic as well as problems of political institutions, and indeed the two are closely related. The very real economic problems, which also merit the word "crisis", not only of Poland but of every such country in varying degree, are deeply affected by the capitalist world economy. But they have their own internal causes, including the basic issues of democracy and self-management, as well as those raised by the political and military struggle between the two systems.

To admit this reality is not to discard socialism as the answer to capitalism's incurable internal problems. On the contrary, to ignore the reality or pretend the crisis doesn't exist is a disservice to the socialist cause. The development of a new concept of socialism, of a way forward from capitalist crisis which does not take the road developed in previous times and guided by old dogmas, is the only effective answer to the present crisis of world capitalism.

The most effective way to develop a real socialist alternative is to work actively, and help develop, the mass movement to resist capitalist solutions for the coming depression and to seek new solutions through struggle. In this way, marxist theory will stimulate the mass movement's development of a people's program and in turn develop further its concept of socialist society and the paths to its achievement.