KAPITALISTATE
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Noel Butlin is well known for his work on Australian economic growth in the late 19th century. Writing in the 1950s and 1960s, basically within a Keynesian framework, he emphasised the vital role of government-assisted immigration and government borrowing and investment in the process of capital formation and economic growth — even using the term "colonial socialism" to describe the Australian economic system of that time.

I would prefer the term "colonial governmentalism" (coined by W. Pember Reeves in his State Experiments in Australia and New Zealand). "Socialism" is a misnomer for the main means of production remained in private hands, production was geared to private profit, and regulated mainly by market forces, and there was nothing resembling a planned economy. Indeed, the role of the government was clearly to serve capitalist interests by building up the infrastructure that they needed to operate profitably, above all the transport and communications network. There was nothing "proletarian" about the state — parliaments were monopolised by the colonial bourgeoisie — and if late 19th-century Australia was a "working man's paradise" it was only because the pace of growth was so rapid that full employment was the norm, despite assisted immigration.

But there is no doubting the importance of the phenomenon, whatever name one chooses to attach to it. According to Butlin's estimates, from 1860 to 1890 public investment accounted for about 40 percent of all capital formation. There can be little doubt that Australia experienced very rapid growth in this period in large part because colonial governments, by deliberate action, raised the rate of investment well above that determined by free market forces. Since it was financed by overseas borrowing they were able to do it without placing any heavy demands on current incomes in Australia. At a time when the crudest laissez-faire dogmas have again become fashionable, and the current economic stagnation is widely blamed on the strangulation of private initiative by "big government" it is useful to be reminded of such basic facts of economic life.

In the present work Butlin and his co-authors have focused on the role of the public sector in the 20th-century Australian economy. While mindful of current political debates and academic arguments about the proper role of government, they have sought to avoid entanglement in them. Instead, they have tried to give these debates some "real grounding" in the evidence of this historical record but have left the "lessons of history" to others to draw out. While this is preferable to the a priori dogmas on this point common among theoretical economists, it means that the book is disappointingly inconclusive. The book is explicitly written for fellow academics rather than the general reader and thus in the opaque language that is assumed to be obligatory on such occasions. This is a pity, for some important points which deserve to be known by a wider audience emerge in the course of their discussion.

At the start they reject the conventional measures of the "size of government", such as the ratio of public spending to gross domestic product (GDP) or public employment to total employment. These give no real indication of the economic impact of government which may be felt through regulation of private enterprise as much as through direct public action, and through the patterns of revenue-raising as much as through the level of expenditure. The authors argue that government's relatively constant share of GDP and employment obscures important shifts in the nature of government's role. They try to clarify this by focusing on the way in which government action has altered patterns of decision-making, resource allocation and the distribution of income and wealth.
One of the central themes of this book is the "decline of colonial socialism" after 1930. In the first three decades of the 20th century, Australian governments (the state governments were still more important than the federal government in many ways) pushed ahead with investments in rail, trams, roads, water and sewerage, port and harbor facilities and electricity supply at a time when private investment tended to stagnate. The result was that by the 1920s, governments were responsible for around 50 percent of capital formation in Australia. But from the 1930s, this figure fell slowly to about a third, despite large investments in telecommunications and air transport in the post-war years.

There are a number of reasons for this "decline of colonial socialism". Partly, it is a reflection of the fact that the railways were the backbone of 19th-century public enterprise, and since the 1930s they (and public transport generally) have lost ground to the private car and the truck. Though an increasing amount of public investment went into urban areas the basic rationale of much government action at this time was the importation of labour and capital and the provision of infrastructure to accelerate rural development. But by the 1930s, the dream of "Australia unlimited" was crumbling into dust as low prices, high costs, poor markets and heavy debts ruined the marginal farmer and rolled back the limits of settlement. By contrast, post-war settlement was centred on urban manufacturing and did not require such extensive public infrastructure. Assisted immigration was revived to provide an expanding workforce, but public enterprise was not.

The "decline of colonial socialism" was also the result of more directly political considerations. The very prominence of public enterprise in Australia before 1929 led many to blame it rather than the private sector for the Great Depression, with the result that the greatest crisis in the history of the capitalist system led to an upsurge of "laissez-faire" rhetoric and the deliberate winding back of direct government action in favour of "free enterprise" — especially by the Menzies government in the 1950s. As Butlin, Barnard and Pincus point out, this response to the Depression contrasted with that of most western countries.

An underlying reason for this decline of government action was that "colonial socialism" had always depended on overseas borrowing. These funds dried up in 1930 leaving the Australian economy exposed to a crippling burden of public debt at the same time as the private sector slumped. This severely limited the possibility of pushing ahead with more public enterprise: the government had to squeeze already depressed local incomes to pay for the triumphs and follies of the past and was in no position to undertake new ones. Whereas previously the relation between public enterprise and local business interests had been, in the author's words, "supportive" they now became "adversary". While the Labor Party's fury was directed against "debt slavery" and "overseas financiers" and that of the UAP/Liberal Party (whose backers often had close connections with British financial institutions) against "big government", they converged on ensuring that this particular pattern of development would not recur.

For the liberal true-believer, however, the real paradox of the story is that the erosion of "colonial socialism" did not usher in the "laissez-faire" paradise. Instead, it spawned an unprecedented expansion of government regulation of the private sector at all levels and an increasing centralisation of political authority as Canberra asserted its dominance over the states. The gulf between the rhetoric of "free enterprise" and the actions of Liberal governments became wider than ever.

Government intervention in the workings of the private sector began essentially with Arbitration at the turn of the century and was extended by attempts to build up local manufacturing through tariff protection and import substitution. In turn, it helped stimulate the organisation of private interest groups and their attempts to influence government policy. The result was, by the interwar years, what the authors describe as "an intricate coalescence of public and private action and decision-making .... The slogan "protection all round" reflected an increased awareness of a symbiotic relationship between manufacturers, rural producers and wage-earners and a consciousness of the need for political accommodation of these groups".

World War II precipitated the decisive shift in power from state governments to the federal government and was followed by conscious efforts (inspired by the wartime experience and Keynesian theories) to ensure stable growth by budgetary manipulations, monetary controls and import quotas. It also saw the consolidation of large-scale enterprise in industry and of centralised business associations. Government regulation of the private sector thus grew hand-in-hand with the cartelsisation of the economy and the influence of organised business in government. "From this development", the authors sum up, "flowed the extension of monopolistic practices of almost every
sort, with greater or less active assistance but almost always with legal permission given by the federal and state governments.” Thus, we see that, liberated from the fetters of “colonial socialism”, “free enterprise” embraced not the spartan ideals of competition advocated in the textbooks, but the patterns of private monopoly, restrictive practices and government regulation typical of advanced capitalism.

The third major trend discussed by Butlin, Barnard and Pincus is the growth of welfare and social services. The authors find the common belief that this has involved redistribution of income from the well-to-do to the poor to be a “curious myth”. It was never intended to do this and there is no evidence to suggest that it has. The public welfare system was designed in the manner of a compulsory insurance scheme, benefits being financed by taxing lower-income brackets. As the authors put it, public welfare has operated as “a self-supporting system, organised through coercive taxation, of wage-earner provision of protection for their kind”. In a sense, Fraser’s introduction of taxation on unemployment benefits is the logical conclusion of the whole trend. As for the expansion of education and public health services, the major beneficiaries have been the better-off rather than the poor, and since the 1950s the trend has been towards publicly guided private delivery of these services rather than direct public provision. Whatever benefits may have flowed from this, redistribution was not one of them. “Underlying Australian attitudes,” they conclude, “there was comparatively little concern with equity.”

Butlin, Barnard and Pincus have made a valuable contribution to Australian economic history and to discussions on the role of the state in a capitalist economy. It is a pity that they restricted themselves to the descriptive level and did not try to explain more fully the patterns they identified. If they had done this, since they observe that orthodox theories of public finance were of little use in their investigation, they would perhaps have found it necessary to take the concept of “capitalism” seriously rather than treating it as just a catchphrase for the book’s title.

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