Immediately, vital economic decisions have to be made. The balance of payments has to be tackled, probably by a combination of deflationary moves—some restriction of credit, an attempt to stabilise wages while prices continue to rise (a general five per cent or bigger rise is tipped in 1968), holding of government expenditure on education, social services and money for the States. If these prove insufficient, then increased taxes and a generally class-biased budget can be expected, while war expenditure will continually rise. But this program will not be so easy to push through.

The trade union movement is in no mood to accept the employers’ tactics of absorption, the planned delays in flow-through of the increases in margins won in the metal trades “work-values” case by long and cumbersome “hearings”. The mailvan drivers’ strike for their modest $3 claim, delayed for years, shows that the government cannot expect to “set an example” by pegging its own employees’ wages without a sharp reaction. Widespread industrial action is certain. The unprecedented explosion of industrial strife even before most industrial workers resumed work has set the stage for 1968 as a year of sharp class struggle.

ARBITRATION HAS NEVER BEEN so discredited. The Commission’s decision to grant $7.40 rise for most metal tradesmen, far from restoring arbitration’s image, has further exposed the fiction that cases are heard on their merits. Rather, unionists as a whole are drawing the conclusion that metal unionists have already acted upon—that arbitration decisions reflect the real relation of forces between employers and unions. Strong unions can win claims by their strength, and courts will rubber-stamp them if there is no other way.

Indeed, unionists are seeing a clearer pattern in the apparent inconsistencies of recent judgments. If the employers can absorb the increases for tradesmen in over-award payments, if most metal workers can get only a small increase and the flow to other awards can be dammed, very few workers would get much at all.

However, employers, Commission and government are reckoning without the unions. The metal workers will fight absorption to the end, while other workers are already acting to obtain commensurate rises. Even if “109’s shower down life confetti at a double wedding” (to use a colorful phrase from a financial newspaper) industrial struggle will spread. If present penal powers fail, as they must when workers are determined and united, the government will have to decide whether to threaten more draconic measures.
There will be strong pressure from its ultra wing, and from the employers.

Deepseated and growing concern throughout the community about the chronic crisis in education, the glaring inequity and inadequacy of old age pensions, and the scandal of high costs of medical care, will increase political pressure for increases in socially necessary expenditure of public money. The Country Party's demand for compensation to primary producers hit by sterling devaluation adds a new factor.

Over all these problems hangs the question mark of war expenditure. In the Budget speech even McMahon had to admit the present spending is at danger level, economically. Since then, the Vietnam commitment has grown, F111 costs are rising, and new pressures are being exerted for increased commitment to the "defence of South East Asia". Whatever Gorton may say, the "American Alliance", cornerstone of conservatism's foreign policy, will force an escalation of military spending.

**THE VIETNAM WAR** therefore remains a central issue for national decision. There is no victory in sight, no apparent end to the cost in lives, in money and in political danger.

With the US Presidential election only nine months away, there has been a new rash of optimistic window-dressing. Westmoreland has spoken of a turning of the tide; Hanson Baldwin says "The Allies are winning". A dogged official optimism emanates from Washington. This scarcely reflects either the military or political situation in Vietnam, and is not convincing either world or American opinion. McNamara has gone, another political casualty of the war, following Maxwell Taylor, Cabot Lodge and many other military and political figures.

In reality, the war is running against the Americans. The battles are still being fought in the areas declared "cleared" a year ago, the most "secure" US bases are still open to National Liberation Front attacks, and daring probes are made up to the very outskirts of Saigon. The NLF forces alternate guerilla and positional battles with bewildering variety and brilliance. Indeed, the NLF Army is proving superior to the US in both strategy and tactics.

Its forces are better equipped than ever, and they have been able to counter every new tactical weapon the Americans have thrown into the war. The helicopter battalions, sky cavalry, worked out by US strategists for precisely this type of war, have failed to daunt the NLF forces, though they did produce an initial dismay. Massed bombing in North and South, defoliation, gas,
fiendishly ingenious and horrible anti-personnel weapons, napalm—all have been tried and have failed to secure superiority. Terror bombing has failed to crush Vietnam's spirit, and a huge toll of planes and pilots has been exacted by all types of defence, including small arms.

The forces opposing imperialism and war and fighting for peace and national liberation owe an enormous debt to the Vietnamese people. Their staunchness, patriotism and military skill have met and are defeating all the strength US imperialism can throw into this war. They have already inflicted crushing political and military reverses upon the US. The Vietnamese people's war is being won because it is waged politically as well as with arms, in the arena of world politics and within Vietnam, where the NLF struggle depends upon popular support from all but those social forces which served French colonialism, the Japanese occupiers, and now the Americans.

The political struggle includes the effort to win a just peace for Vietnam. The Vietnamese have shown themselves willing for negotiations seriously intended to bring peace through a return to the 1954 Geneva Accords. The US has shown it wants only victory and unconditional surrender. When the Democratic Republic of Vietnam announced willingness to begin peace talks if the US abandoned its bombing, Assistant Secretary of State W. P. Bundy made this clear, saying there was nothing to show that the Vietnamese leaders are "ready to yield". Of course they are not prepared to yield, nor will they ever be so prepared, for to yield would be to surrender Vietnam's independence forever. It is both dangerous and absurd to expect Vietnam to yield, and expectations that they might are evidence only of an unrealistic evaluation of the Vietnamese conflict.

The debt owed to Vietnam by the democratic peoples of the world should be repaid by a new effort to force US acceptance of the DRV offer. The demand for an immediate end to the bombing, once confined to the left and the protest movement, is receiving more and more support from world figures like U Thant and, in the USA, from people like Senator Mansfield. A new political offensive uniting all the diverse trends of opinion in Australia and the world in support of this demand is the best way to bring pressure upon American imperialism.

This is also a political demand that confronts the new Gorton Government, an essential component of the united front of all possible trends in the labor, peace and democratic movements needed to mount an offensive against the policies it will pursue and the threats it presents to most Australians.
1907 was an historic year for the wage earners of Australia, for in that year Judge Higgins in his Harvester Judgment established what was to be the pattern of wage fixation for over half a century. Out of this Judgment came the two-part wage structure of basic wage and margins which was unique to Australia. 1967 was another just as historic year for the wage earners of Australia, for in that year the basic wage was abolished, the total wage was adopted, and the decision in the first full work-value case covering the Metal Trades' Award was handed down.

These events compel the trade union movement to rethink its wage policy, for it is now propelled into a new situation. The following analysis is therefore put forward to assist in developing some understanding of what has happened in order to facilitate the rethinking which has to take place.

The Executive of the Australian Council of Trades Unions at its meeting held in November, 1966, said, "We again declare that the basic wage is the cornerstone of the Australian wages system and the employers' attempt to abolish it should be strongly resisted". But the decision of the High Court handed down on 13th December, 1967, clearly demonstrated that even if it was a cornerstone, it had no legal foundation whatsoever. For the High Court rejected unanimously the application of the ACTU to have declared invalid the decision of the Arbitration Commission of July, 1967, to introduce the total wage and abolish the basic wage on the grounds that it had exceeded its powers.

The decision stated that although the Conciliation and Arbitration Act assumed that the Arbitration Commission would declare a basic wage, it did not command it to do so. Moreover, it would have been illegal for Parliament to command it, as this would have exceeded its constitutional powers relating to the making of laws for dealing with interstate industrial disputes. Nor did Parliament have the power to direct an arbitrator as to
how he should settle such a dispute as to wages, for the constitution, required that the settlement of the dispute be left to the arbitrator. So he could consequently settle it in any way he wished, providing that it was within the requirements of the Act.

The trade union movement apparently regarded the basic wage as an immutable part of wage fixation by the arbitration system. This writer must honestly say that he accepted the existence of the basic wage as trustingly as anybody else in the trade union movement until the employers first move for a total wage raised a doubt, and was then astonished to find out that there was ample evidence that its lack of legal standing lay like a time bomb under it waiting to be triggered off.

The total wage concept was not a new concept to the old Arbitration Court and the present Arbitration Commission, as they apparently used it in their wage fixation calculations. This can be seen in the analysis in Table 1, which gives the relativity of the Fitters’ and Assistants’ total wage and marginal relativities in the Metal Trades Award at each basic wage and margins case, except for entries A, B, and C.

### Table 1.

<table>
<thead>
<tr>
<th>Year Of Decision</th>
<th>Assistant’s Percentage of Fitter’s Rate (B/W Case)</th>
<th>Assistant’s Percentage of Fitter’s Rate (Margins Case)</th>
<th>Year Of Decision</th>
<th>Assistant’s Percentage of Fitter’s Rate (B/W Case)</th>
<th>Assistant’s Percentage of Fitter’s Rate (Margins Case)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>84.2%</td>
<td>25%</td>
<td>1957</td>
<td>84.2%</td>
<td></td>
</tr>
<tr>
<td>1934</td>
<td>79.7%</td>
<td></td>
<td>1958</td>
<td>84.5%</td>
<td></td>
</tr>
<tr>
<td>1935</td>
<td>77.4%</td>
<td>22.2%</td>
<td>1959</td>
<td>85.1%</td>
<td>30.2%</td>
</tr>
<tr>
<td>1937</td>
<td>79.0%</td>
<td>33.3%</td>
<td>1959</td>
<td></td>
<td>82.1%</td>
</tr>
<tr>
<td>1937</td>
<td>79.6%</td>
<td></td>
<td>1961</td>
<td>82.6%</td>
<td></td>
</tr>
<tr>
<td>1941</td>
<td>80.3%</td>
<td>33.3%</td>
<td>1963</td>
<td>81.3%</td>
<td>30.1%</td>
</tr>
<tr>
<td>1946</td>
<td>83.3%</td>
<td></td>
<td>1964</td>
<td>82.2%</td>
<td></td>
</tr>
<tr>
<td>1947</td>
<td>81.7%</td>
<td>44.2%</td>
<td>1965</td>
<td>82.2%</td>
<td>33.4%</td>
</tr>
<tr>
<td>1950</td>
<td>86.4%</td>
<td></td>
<td>1966</td>
<td>83.0%</td>
<td></td>
</tr>
<tr>
<td>1953 A (89.9%)</td>
<td>1967</td>
<td></td>
<td>1967</td>
<td>82.0%</td>
<td>34.1%</td>
</tr>
<tr>
<td>1954</td>
<td>83.2%</td>
<td>30.6%</td>
<td>1967 B</td>
<td>82.5%</td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td>83.7%</td>
<td></td>
<td>1967 C</td>
<td></td>
<td>72.7%</td>
</tr>
</tbody>
</table>

A.—Quarterly adjustments basic wage abolished.

B.—First total wage.

C.—Work value total wage.
As can be seen from this table, a problem was created by the increase in the basic wage which gave proportionately more to the Assistant than to the Fitter, so upsetting the total wage relativity. The periodic margins cases therefore were used as a mechanism for restoring the total wage relativity, and in the postwar period they did this with remarkable consistency, for the relativity was maintained within a range of 2.4%. The 1953 and 1954 cases and the two 1959 cases demonstrate the operation of the mechanism most clearly.

In 1953, the total wage relativity had increased substantially to 89.9%, so drastic action had to be taken to pull it back towards the average. This was done by means of the abolition of the automatic adjustments in 1953, plus the margins decision of 1954, which gave 23/- to the tradesmen and nothing to the non-tradesman. The combined effect of these two decisions was to pull the total wage relativity back to 83.2%. By 1959, four increases in the basic wage had increased the total wage relativity to 85.1%, but the margins decision of 1959 pulled it back to 82.1%. The later percentage increases in margins of 10% in 1959, 28% in 1963, 1½% in 1965, and 1, 1½, 2 and 2½% in 1966, were mathematically those which were required to maintain the average total wage relativity in the face of basic wage increases.

It is difficult to believe that such consistency in the adjustment of total wage relativities when margins cases occurred was only accidental. In fact, because of the two-part structure this would be the only way of ensuring sufficient consistency of total wage relativities to give reasonable marginal stability to the wage structure.

In 1952, Conciliation Commissioner Galvin, in his decision in the Metal Trades Award Case made a number of comments on the need to look at the total wage when fixing margins. For example, “I see nothing either in the decisions of the Court on the basic wage or in the language of Section 13 (B) of the Act itself which would prevent me from having regard to the whole wage sum when examining the marginal portion thereof.” This was, however, the only margins case where an increase was not granted, as Mr. Galvin refused to do so because of the fears of inflation. So on this occasion the usual adjustment of total wage relativities did not occur and it had to wait until 1953 and 1954.

It could well be asked why at this particular point of time the employers decided to press so strongly for the abolition of the two-part structure which had served them so well for over half a century, and for the adoption of the total wage. The compelling
reason to rethink their wage policy was caused by the big changes brought about by the expansion of the Australian economy in the post-war period. These have created what is now a national economy, witness the leader of the *Financial Review* of 2nd March, 1967, entitled “Australian Common Market,” which stressed the need for the breaking down of State barriers to the establishment of the common market.

The total wage is the key to establishing a national wage to match the now national economy. At the lowest level it would lead to an eventual simplification of the present multiplicity of Federal and State wages for the same classification. The Arbitration Commission in its July 1967 pronouncement spoke of the possibility of abolishing the present locality differentials in the Metal Trades Award caused by differences in the previous basic wages. At present there are the three higher ones of 40c for Broken Hill 65c for Yallourn and Morwell, 50c at Whyalla and Iron Knob, and the lower one for Launceston of 40c less than Hobart. These amounts are quite a small proportion of a Fitter’s total wage of around $53 so would not be difficult to eliminate, thus establishing the same Federal total wage throughout each State.

The next moves would then be the elimination of the differentials between the Federal total wages in the capital cities, and the levelling of these with the State total wages. These moves have problems, but the solution of them would be greatly assisted by the existence of the total wage. There now appears little question that it will not be long before all the States follow Victoria in adopting the total wage. This establishment of a common national wage is a long term project that need not be a matter of great concern to the trade unions providing it was not done at the expense of their members.

A more dangerous effect of the total wage to the trade unions is that it will facilitate the employers’ drive to implement their full wage policy of a total wage adjusted only according to movements in national productivity. They have strongly pressed this aspect of their policy in past total wage cases, so it would be surprising if they abandoned it after such a resounding success in obtaining one leg of their policy. And in view of their success with achieving the total wage the trade unions should not be too sanguine that they have no hope of obtaining the other leg of their policy. The more immediate advantage the employers expect to obtain from the total wage is in the arguing of wage cases before the Arbitration Commission, for the total wage ends the situation where the unions had two bites at the cherry in basic
wage and margins cases, and confines argument to narrow economic grounds.

The Metal Trades Award Work Value Inquiry

After one of the most bizarre cases in the history of the Arbitration Commission a decision was handed down on 11th December, 1967, which fully confirmed the fears that such a case would be to the detriment of the non-tradesmen. For the decision granted the 47 base rate tradesmen in the Award their full claim of $7.40, which was by far the biggest increase ever granted and lifted their rates to $53.40 in Melbourne and $54.20 in Sydney.

The decision recognised the contention of the unions made over the years that skill was under-valued, but for the non-tradesmen it was a disaster. For despite the extensive and well-argued case put on their behalf, a few received no increase at all, most received only a $1 increase, and there was a big gap between the $7.40 for the tradesmen, and the biggest increase of $3.75 for the non-tradesmen.

The decision was a continuation of the thinking in the Interim Margins Decision of December, 1966, which was stated to be designed to widen the gap between tradesmen and non-tradesmen. The sample figures for Victoria in Table 2 clearly show the character of the disaster, for it sets a total wage relativity between tradesmen and practically all non-tradesmen below the previous lowest ever of 1935.

TABLE 2.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Fitter</th>
<th>Rigger</th>
<th>Assistant</th>
<th>Process Worker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous Rate</td>
<td>$46.00</td>
<td>$43.85</td>
<td>$37.85</td>
<td>$37.70</td>
</tr>
<tr>
<td>New Rate</td>
<td>$53.40</td>
<td>$47.10</td>
<td>$38.85</td>
<td>$39.30</td>
</tr>
<tr>
<td>Increase</td>
<td>$ 7.40</td>
<td>$ 3.25</td>
<td>$ 1.00</td>
<td>$ 1.60</td>
</tr>
<tr>
<td>% age Claim granted</td>
<td>100%</td>
<td>53.3%</td>
<td>21.9%</td>
<td>36.7%</td>
</tr>
<tr>
<td>New Relativity</td>
<td>—</td>
<td>88.2%</td>
<td>72.7%</td>
<td>73.5%</td>
</tr>
<tr>
<td>Previous Relativity</td>
<td>—</td>
<td>95.5%</td>
<td>82.2%</td>
<td>81.9%</td>
</tr>
<tr>
<td>1935 Relativity</td>
<td>—</td>
<td>78.8%</td>
<td>78.1%</td>
<td>78.1%</td>
</tr>
</tbody>
</table>

The decision did little to clarify the mystique of work-value fixation as can be seen from Table 3, which gives recent assessments for the same metal classifications in different awards. For they prescribe widely varying rates for employees who receive the same training, exercise the same skills, do comparable work, and are fully interchangeable between the different industries.
TABLE 3.

<table>
<thead>
<tr>
<th>Classification (NSW Total Wages)</th>
<th>Aircraft Metal</th>
<th>Space</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Industry 28-11-66</td>
<td>Trades 11-12-67</td>
</tr>
<tr>
<td>Toolmaker</td>
<td>$54.20</td>
<td>$59.15</td>
</tr>
<tr>
<td>Fitter</td>
<td>$51.20</td>
<td>$54.20</td>
</tr>
<tr>
<td>Assistant</td>
<td>$39.40</td>
<td>$39.65</td>
</tr>
</tbody>
</table>

The only thing they do is confirm the comment of Commissioner E. R. Kelly of the Industrial Commission of Western Australia, in his work value decision of 27th May, 1965 (which granted a $4.30 increase to a Fitter), that "A work-value assessment is, in the final analysis, the opinion of the arbitrator concerned."

Perspectives For 1968

The three decisions relating to wages which have been briefly analysed, obviously present the trade union movement with some complex problems that call for the formulation of effective policies to cope with them. The Australian Council of Trade Unions will have need to consider a new wage policy appropriate to the era of wage fixation that it is entering.

The old complex prices and productivity formula approach is now bankrupt, as the base rate tradesman has received the full amount available to him under the formula, so according to the formula there are no further arbitration fields for him to conquer. It was creating problems even before now, for there was general dissatisfaction in 1965 about the paltry claim of a 12/- increase in the basic wage arrived at by the formula. In the light of the work value decision it is interesting that it was criticism from the left which brought about a stretching of the formula to its limit in order to produce a decent claim. If that had not been done the ambit for the work value claim could have been less than the $7.40, and consequently the tradesmen would have received less than they actually did.

The total wage decision raises the question of the tactics to be adopted in the wages struggle. The employers expect with justification that it will put them in an advantageous position in arguing wage claims before the Arbitration Commission. It would therefore be fatal for the trade unions to accept that as their union battleground, as it would give the employers a big tactical advantage. The unions should therefore shift their main battleground to the workshops where they can have the tactical advantage. In any case the implementation of the decision will compel that shift to be made.
For one thing, two major contentious questions arising out of the total wage decision are those of absorption and the flow to other awards, as the employers will fight strenuously to ensure one and prevent the other so that the decision will cost them close to nothing. The Commission has bluntly stated that there should be absorption of the increase in over-award payments, but has put the responsibility on to the employers of ensuring that the increases will be absorbed. The ACTU on the other hand is adamant that there shall be no absorption. Already, at the beginning of January, stoppages of work in support of trade union policy have taken place and big meetings of shop delegates to plan future action are being organised.

The Commission has stated categorically that there shall be no flow of the decision to other awards. This question has not yet been resolved. In the past decisions on metal trades margins quickly flowed into other industries, with the result that considerable numbers of other workers benefited by wage increases. Now, it seems, the workers in other industries will have to take action if they are to obtain increases in wages corresponding to those in the recent metal trades work-value case. The shift of emphasis of the wages struggle to the workshops is also made necessary as it now is the only avenue for improving the position of non-tradesmen. So far as arbitration argument is concerned the situation emphasises the importance of a policy of a "family living wage" as the minimum wage in awards as the way forward for non-tradesmen.

A positive aspect of the total wage decision is that it could open up the way to achieving the major wage objective of equal pay, although precautions would have to be taken to avoid the swindle that was worked on this in New South Wales on the semantics of "equal pay for equal work."

All these major wage questions will have to be resolved in the uncertain economic and political climate created by the devaluation of sterling, the cut in overseas investments of US and British capital; increasing defence expenditure; and the loss of primary production caused by the serious droughts in the south-eastern States. 1968 will therefore be a test of the quality of the leadership given to the trade union movement by the left, right and centre at ACTU, Trades and Labor Councils and workshop levels, and their ability to produce positive policies.
R. Dixon

DEVALUATION AND DOLLAR CURBS

In 1968 the Australian economy will face two new pressures—the effect of British devaluation of the pound sterling and the subsequent United States restrictions on dollar investment abroad. Richard Dixon considers where these pressures will be felt and suggests some alternatives to those generally offered.

THE DEVALUATION of the British pound and the drastic economic measures of the United States Government to save the dollar from the same fate, raises the question of Australia's economic position and the problems we are likely to face in the future. The economic measures taken by Britain, and the US, the two strongest capitalist powers, are likely to extend and prolong the financial crisis that has gripped the capitalist world. In trying to overcome their economic problems they complicate the position of other countries. As these countries—Singapore, Australia, Japan, France and many others—take measures to protect and bolster up their own economies, we can expect economic instability to grow in the capitalist world.

Although there has been a marked tendency for the Australian press to play down the financial crisis, its impact on Australia is likely to be considerable. Already it has had the effect of bringing into the open the divisions on economic policies within the Liberal-Country Party coalition. Mr. McEwen was overseas when Federal Cabinet had devaluation of the British pound under consideration. He could have returned to Australia within 24 hours but for tactical reasons, apparently, preferred to remain away. According to reports Federal Cabinet's decision not to devalue the Australian dollar was strongly advocated by the Treasurer, Mr. McMahon, and resisted by those Country Party Ministers who were present.

In the past, because of Australia's dependence on Britain, devaluation of the British pound was immediately followed by devaluation of the Australian currency. The reasons advanced by the Government for not following Britain and devaluing on this occasion was that the Australian economy today is stronger
and more widely based. Also, the pattern of trade has changed so that Australia is less dependent on the British market now than formerly. Further, it was suggested that devaluation of the dollar would not be helpful to Britain as it would nullify the contribution Australia could make to Britain's attempt to improve its balance of payments position. A major reason, that received little attention however, was the role of the United States. To an increasing extent Australia has become tied to US imperialism. Today this country's international policies are based more on the economic and political policies of the US than of Britain, and this was a major influence in the decision not to devalue the dollar. It is another indication of the weakening ties of Empire, now starkly emphasised by Britain's accelerated withdrawal from the East and elsewhere.

Mr. McEwen set out the Country Party case on his return from overseas. In his sharp, critical statement he pointed out that the Government's decision not to devalue, in effect, meant that the Australian dollar was revalued upward in relation to the British pound. This would result, he claimed, in a "giant disability" for export industries dependent on the British market, wool, sugar, butter. Where these and other exports were under a contract price in sterling, the payment for them would be in devalued British pounds, which are 14.3% per cent less in terms of the Australian dollar, so the producer would lose money. As for products not governed by contracts, their prices would have to rise by 14.3% per cent in British currency and this seemed unlikely. Even before the devaluation, prices of wool and some other rural exports were falling, so the producer stood to lose.

Mr. McEwen also said that because of devaluation of the pound British manufactured products would now sell on the Australian and other markets at lower prices in terms of dollars, and therefore, in stronger competition with Australian manufacturing industries. New stresses, he claimed, will be placed on the Australian balance of payment, and on overseas reserves. Mr. McEwen was mainly concerned with defending various primary and manufacturing interests. He did not specifically call for a rejection of the Government's decision on devaluation, which would have split the Government, but insisted upon the establishment of a "special authority" to assess the effects of the British devaluation on primary and secondary industries, and on the basis of its reports, financial compensation to be paid by the Government to the interests concerned.

On December 15, 1967, following a Cabinet meeting, the Government issued a statement defending its decision not to devalue
the dollar, but accepting all of Mr. McEwen's demands. A committee was established to examine the effect of devaluation of the British pound on rural industries. A special inquiry will be undertaken into the Dairy industry to "re-structure" it, which means to eliminate the poorer farms. Thirty million dollars compensation will be paid to the Wheat Board. Urgent aid for the canned fruit industry will be examined. The export problems of the manufacturing industry and the provision of extra tariff protection to meet stiffer competition will also be looked into.

Mr. McEwen's attack against the Government's decision on British devaluation was clearly a blow at the Treasurer, Mr. McMahon, who initiated the move not to devalue the dollar. It showed how deep and far reaching the division within the Government on economic policy is, and how shaky the Liberal-Country Party coalition has become. Later, after the death of Mr. Holt, Mr. McEwen made his dramatic declaration that he and other Country Party Ministers would not serve under Mr. McMahon in a coalition government. This was a crushing blow to Mr. McMahon's personal ambitions to become Prime Minister but it also spelt out even more clearly the sharp and deep differences within the coalition.

Far reaching decisions on both the external and internal economic position of Australia will soon have to be taken by the Gorton Government. These will include payment of compensation and the assistance demanded by Mr. McEwen for rural and manufacturing industries affected by the British devaluation, Australia's balance of payments position and internal economic policy. Whether the coalition government can reconcile its differences sufficiently to survive these problems remains to be seen.

United States and British measures to try and correct their balance of payment deficits and restore their countries' flagging economies will make the Australian position more difficult than ever. Australia's overseas financial reserves were down to $1,145.6 m. in December, and it is now estimated that they will fall to about $900 m. by the end of June, 1968. If this happens Australia's overseas reserves will have fallen almost to a level previously considered dangerous by the Government and its financial advisers. Continuation of the downward trend would mean that the Government, if it follows past practice, will resort to recessive measures aimed at reducing consumption demand and imports.

Australia's balance of payments problem is notoriously difficult. In the year 1966-67 there was a trading surplus of $94 m. but
after accounting for the so-called invisible items — i.e., shipping freights, insurance, profits to overseas companies, and other payments — our balance of payments were in deficit by $120 m. In the current year the trading position is already more difficult and shows a deficit of $34.5 m. to the end of December. What with the drought, which will affect rural exports, falling wool prices and the tougher trading conditions overseas, and the rise in shipping freights, the deficit on trade could very well multiply.

In recent years the Government has looked increasingly to the flow of overseas capital into Australia, mainly from Britain and the United States, to improve its balance of payments position. Canberra figures show that in 1965-66 foreign investment amounted to $658 m. In 1966-67 the amount of $488 m. was down $150 m. There is little doubt that Government hopes for a surplus in the 1966-67 overseas balances were dashed by the earlier curbs imposed by both the British and US Governments on foreign investment.

What is to happen now? The flow of British capital into Australia, following devaluation and the new restraint on capital exports, will decline to a mere trickle. The US decisions are also far reaching. The Johnson administration has imposed a mandatory cut-back to 65 per cent. of the total 1965-66 investment for a group of countries which includes Australia, Japan, Canada, Britain and others. It has called upon companies with investments abroad to repatriate more of the profits they make. It decided to reduce dollar loans (Australia has raised a series of loans in the US in recent years), and to cut US tourist travel and spending abroad. The combined effect of these curbs will seriously weaken the Australian balance of payments position.

There is a strong and growing body of opinion in Australia opposed to the Government's policy of encouraging unlimited foreign investment. Already many industries vital to our future are owned by foreign interests. Australia's great natural resources, oil, iron ore, bauxite and other minerals, are very largely in the control of US and other foreign monopoly concerns. Each year a growing volume of profits from those industries is transferred to overseas monopolies. Now another dangerous feature of the Government's policy on foreign capital investment is revealed, i.e., the growing dependence on the inflow of foreign capital to balance Australia's external payments. The sudden reduction of this capital inflow has created a serious financial position for us. The crisis in Britain and the US is, thus, extended to Australia.
The financial crisis of Britain and the United States has its basis in economic decay and the decline in the rates of growth of most capitalist countries. World trade has fallen and unemployment is increasing. Another important factor, which applies particularly to Britain, United States and Australia, is the growing strain that the foreign and military policies of their Governments impose on their payment position.

On coming to power the Labor Government in Britain could have improved the economic situation by reducing Britain's heavy foreign military commitments East of Suez, in the Middle East and in Europe. Instead of this the Wilson Government imposed a wage freeze that has reduced the standard of living. It took recession measures which has resulted in nearly a million unemployed. The Labor Government's measures inevitably failed to correct the economic situation. The heavy drain on resources to maintain overseas military bases and commitments was too much for the ailing British economy. Now that the damage is done and the Labor Party has lost much of the mass support that swept it into office, it is being forced by the financial crisis to reduce overseas military expenditure all along the line.

United States imperialism has a similar problem. The cruel and dirty war it is waging in Vietnam is costing in the vicinity of $US2,000 m. a month, a part of which enters into US external payments. The maintenance of huge military forces and bases in Japan, Europe, the Mediterranean and in other parts of the world also builds up the excessive overseas dollar expenditure. Playing the role of world policeman against national liberation movements and other revolutionary activities is a very costly business. The Johnson administration proposes to cut its overseas military expenditure by $US500 m., but there is to be no reduction of military expenditure for the Vietnam aggression.

In the case of Australia, Government defence expenditure has grown, under successive Liberal-Country Party Governments, from $400 m. in 1963 to $1,118 m. in the current year. This rapid rise in military spending was associated with growing intervention in countries of South East Asia, which reached its most dangerous point in the decision to commit Australian military forces in Vietnam in support of US aggression. On top of the financial burden of its Vietnam-South East Asian policies, the Government has committed Australia to heavy expenditures for the purchase of war materials in the United States. These will rise, according to the Treasurer, Mr. McMahon, to $350 m. this year, which is 11 per cent. of Australia's export earnings. In his budget speech
last year Mr. McMahon said that these military expenditures were nearing danger point for the economy. He said this when the Government was expecting a substantial capital inflow from the US, which would have helped offset the cost of the military purchases in the US. Now it appears, the Government's expectations will not be realised. Mr. McEwen was aware of this when, as Prime Minister, he urged President Johnson's special envoy to Australia, E. V. Rostow, that the US Government should give special consideration to Australian claims for easing the dollar restrictions because of the heavy cost of military purchases in the US.

There is no doubt the Australian people are paying a high price for the right-wing policies of the Coalition Government and the indications are that the price will rise still higher. If balance of payments difficulties grow, and this is to be expected, what will be the policy of the Government?

Already there are signs that the Government is shaping up to impose recessive measures. The *Financial Review* of January 11, 1968, in a careful assessment of the situation suggests that "money will become tight" this year. It expects the Reserve Bank to take financial measures that will result in a credit squeeze. We know, from experience, that as finance tightens up unemployment grows. On wages the Minister for Labor and Industry Mr. Bury came forward to insist that increases granted in the Metal Trades work-value case should be absorbed in current over-award payment and that there should be no flowing over of the increases into other industries. Social services are in decay with pensioners barely existing, and hospital and medical benefits in virtual chaos because of Government financial neglect.

The Gorton Government is trying to maintain the previous policies of the coalition, which have had bad results for Australia. The Government is not in a strong position, indeed it is weak. It has lost control of the Senate. The coalition is in disarray and hangs together precariously. The struggle in the Liberal Party for leadership has left wounds that are not easy to heal. The Labor Party shows signs of resurgence and improved its vote at the recent Senate elections.

Pressures are coming from the labor movement, the youth and from other sections of the people seeking changes in policy, for a new line of advance for Australia to take. What is needed is wider and more developed discussions among all these forces in order to reach clarity and more agreement on future policy, on the best way to build unity and to develop the mass movement for change.