



Economic Crisis and State Autonomy:
A Comparative Study of the Policy Responses
of the United States, Britain, and Australia
1967-1982

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For my Teacher

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Thesis Abstract

Economic Crisis and State Autonomy:
A Comparative Study of the Policy Responses
of the United States, Britain, and Australia During
1967-1982.

This thesis examines the relationship between economic crisis and public policy during 1967-1982 in the United States, Britain, and Australia. 1967 represents the end of post-war economic prosperity and 1982 marks the beginning of the fullest expression of "economism" typified by Reaganomics in the US and Thatcherism in Britain. The interim period represents a time of growing economic crisis within the international economy and within domestic economies and displays three distinct subperiods which are observed and analysed. The comparative analysis employed in the thesis establishes that three nations having very different domestic economies, but which share a common cultural and political heritage exhibit synchronic periodicity and similar policy responses to deepening economic crisis.

This thesis takes the position that the capitalist state lacks autonomy and is driven by structural imperatives to ever greater economic discipline. This characteristic is starkly evident during protracted economic decline. The imperative to enforce economic discipline compels a reduction of politics to crisis management whereby questions inherent in a liberal constitution are preempted by a political economic agenda of economic efficiency. The empirical observation of Part I and the theoretical argument of Part II of this thesis oppose the current notion of "relative state autonomy" as against the notion of economism.

I declare that this thesis contains no material which has been accepted for the award of any other degree or diploma in any University. To the best of my knowledge and belief the thesis contains no material previously published or written by another person, except where due reference is made in the text of the thesis.

I consent to the thesis being made available for photocopying and loan in accordance with the usual terms of attribution prevailing within the intellectual community.

Elaine McCoy

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Chapter One
Introduction
Economic Crisis and State Autonomy: A Comparative Study

This thesis examines the relationship between economic crisis and public policy during the years 1967 to 1982 in three nations: the United Kingdom, the United States of America and Australia. 1967 represents the end of post-war prosperity and 1982 represents the beginning of an era of "economism". The intervening period will be shown to represent a time of protracted economic crisis and an evolving policy of discipline within the international capitalist order.

This thesis takes the position that the capitalist state, especially during periods of economic crisis, lacks autonomy and is driven by structural imperatives of the capitalist order to increasing economic discipline. In arguing that position this thesis rejects the current notion of "relative state autonomy".

Contemporary political inquiry has produced a body of literature which deals extensively with the parameters of economic crises facing capitalist systems. A body of literature also exists which investigates class relations within contemporary capitalism. These strands of inquiry come together in discussions of the autonomy of the capitalist state regarding the formulation of both short-run and long-term policy designed to ameliorate the conditions

of crisis.

The literature suggests that during periods of prolonged economic crisis state autonomy increases. It is the hypothesis of this study that directionality is, in fact, the other way. The hypothesis will be tested in the use of empirical observation in Part I, and in a theoretical examination of the terms of relative state autonomy and the liberal constitution in Part II.

The Line of the Argument

If the state is presumed to exercise relative autonomy the question is from what constraint is the state free to exercise authority. Both a "structuralist" and "institutionalist" orientation to the question of state autonomy within the neo-Marxist perspective understand autonomy to be relative freedom from class domination and based upon the primacy of politics over a predominantly economic determination. The state is so characterized because it is seen to have a capacity to mediate plural interests which arise from class and class-fraction demands, and to derive its own interests (e.g., bureaucratic or national security "interests"). Interest mediation is a form of class interaction in this view and therefore an embodiment of class struggle essential to an understanding of capitalism. The notion of the state having interests is also held by liberal pluralists. It is my contention that

these views regarding relative state autonomy is derived from a singular fallacy which attributes interests to capitalist state activity, and that this notion has been a major stumbling block in the effort to develop a viable state theory.

It is understandable that a theory of relative autonomy is associated with the period of post-war growth which lasted to the mid-1960s. During these years of extended prosperity bourgeois governments developed many new programs which gave the appearance of compromising capitalist profitability. The "welfare state" is often considered the outcome of mediated interests, particularly those of organized labour and middle-level managers of business. The Marxist theorist of relative autonomy extended the argument, however. Because of a commitment to the notion of class conflict, certain neo-Marxist theorists envisioned the state's relative autonomy as increasing during periods of economic crisis. The struggle over interest representation presumably opened the state to extended demands and increased autonomy. The state became vulnerable to "capture". As I argue later, this notion is based upon a misconception of power which extends the interest-fallacy to a fundamental error regarding the identification of what is "capitalist" about a capitalist state. (Many theorists of the relative autonomy school conceive of a state-in-capitalism rather than a capitalist state. This designation implies much more than a semantic distinction).

The hypothesis tested in this thesis is that during periods of economic crisis the autonomy of the capitalist state, in fact, decreases. The hypothesis is strongly supported by empirical evidence. That evidence establishes a periodicity of crisis shared by three countries in a comparative analysis and it establishes an increase in the severity of economic crisis accompanied by increasingly disciplinary policy responses which seek to ameliorate threats to profitability. The data also provide a basis from which to examine the theoretical claims of both liberal and neo-Marxist state theory. Part II not only finds that the empirical proof about the direction of state activity creates a suspicion about the adequacy of the autonomy theory but introduces an extended rebuttal of the fundamental presuppositions of these theorists based upon a Leninist critique. I show how and why these theorists employ interest assumptions to develop a notion of autonomy. The question is, finally, not so much a simplistic dispute about relative autonomy as against absolutely no autonomy for the capitalist state. I do not endeavour to defend reductionism. Rather the question becomes one of identifying fundamental characteristics about the capitalist state which assist an efficacious research posture. An emphasis upon economic crisis explains more about capitalist state activity than does the misplaced concept of interest.

A programmatic rebuttal of the relative autonomy thesis constitutes the summation of this dissertation in Chapter

Seven. Having provided empirical "profiles" of the duration and terms of economic crisis in a comparative setting during the years 1967-1982, and having extended the implications of these findings to a critique of state autonomy assumptions, I provide a rebuttal. This is done by operationalizing four tests which measure the degree or occurrence of state autonomy. Those tests are: 1) whether the state generates its "own" social base, viz., a clientele independent of class determination, 2) whether the state organizes its own sectoral interests, 3) whether the state exercises independent control of economic and social regulatory mechanisms and 4) whether the state engages in increasingly direct appropriation of economic surplus. My rebuttal is a summation of the empirical findings of Part I and the theoretical discussion of Part II in operationalizing the terms of the tests. In all four tests, the autonomy assumptions are repudiated.

The Organization of the Thesis

A division of the thesis into two parts accommodates both empirical and theoretical aims: the first part, consisting of three chapters, details the nature of the economic crisis and the public policy responses in the United States, Britain and Australia. Part I is composed of three empirical chapters. Chapter Two, "The Global Economic Context: European/American Capitalism 1967-1982", places the economic crisis of the period under study in its world

context. Chapter Three, "Economic Profiles of the United States, England and Australia 1967-1982", details the impact of economic crises in each of the three countries included in this comparative analysis. Chapter Four, "The Policy Responses to Economic Crisis in the United States, Britain and Australia" details the public policy responses to the economic crises described in the two previous chapters using examples pertinent to the domestic economic structure and international position of each nation.

Part Two of this thesis raises certain theoretical issues regarding state autonomy. Chapter Five, "The Bourgeois State and Enclave Government", illustrates the erosion of politics which takes place during a period of economic crisis, focussing upon the deformation of the British constitution. A second section in that chapter explores the implications of enclave government for a theory of power and the capitalist state by examining the work of two writers and providing a critique of their "relational" theories of power. Chapter Six examines the "relative autonomy" notion implicit in both liberal and Marxist theories of the state. It is the contention of these two chapters that liberal and certain Marxist theories share a mistaken view about the nature of the capitalist state which assumes an "interest nexus" at the point of state mediation. This promotes a fallacy which assumes a relative autonomy of the state. The writings are examined and criticised.

Chapter Seven concludes the argument by recapitulating the case against state autonomy among the nations under study.

The completeness and availability of economic data for the United States, Britain and Australia is one criterion for including them in a comparative analysis. These nations are also compatible in terms of language and political culture. They share an English heritage which includes notions of law and political representation. They have institutional similarities with regard to government administration, regulatory mechanisms, and the organization of political parties. They are capitalist societies. On the other hand, each country displays differences in size, history and in the structure of its domestic economy, which allows for interesting comparisons to be made. The comparative development of political economic policy during the period under study within each country offers a rich source of empirical data.

The Strategy for Analysis

As has been stated the hypothesis to be tested is that during extended periods of economic crisis the autonomy of the capitalist state decreases. The first objective is to establish that an extended economic crisis has, in fact, occurred. This is achieved in the first two chapters of Part One of the thesis. Chapter Two, "The Global Context: American and European Capitalism 1967-1982" demonstrates

that the world economy is evolving into an economic system in crisis. (A system exists when various units are so integrated that an occurrence in one part is transmitted almost immediately throughout all the units. To some extent through world trade the various capitalist economies of the nations of the world had for a long time existed as a system, albeit a rather loosely articulated one.) Chapter Two demonstrates that through international finance a new degree of system integration is achieved. Furthermore, the integration that superseded the Bretton Woods order is different not merely in degree but in kinds so much so that all but the most peripheral national economies are now truly units of a world economic system. Clearly the three nations being compared here are all units of a world economic system. The remarkable development of a truly integrated international finance system was undertaken of necessity precisely because the period 1967-1982 was one of developing economic crisis for capitalism. Although the period witnessed the dismantling of certain international financial arrangements, notably the Bretton Woods monetary agreements, they were superseded by American economic hegemony.

Chapter Three, "Economic Profiles of the United States, England and Australia 1967-1982", traces the economic decline faced by each of the nations being compared. 1967 marked the end of the economic prosperity which had lasted since the close of World War Two. Not all of the nations began the period under study in similar circumstances.

Britain's economy had consistently lagged behind the rest of the capitalist world during that postwar boom. The Australian economy, in a different pattern of lagged response characteristic of its structural composition and location on the international market periphery, began its decline somewhat later than the other two nations, although the pattern of decline and policy response is shown to be converging with centre nations. The United States entered the period under study following the longest general period of sustained growth in its history.

The period 1967-1982 is divided into three segments which correspond to stages of increased economic difficulty for the nations. These periods are 1967-73, during which the economic decline from the postwar boom is clearly apparent and is expressed chiefly in an imbalance of growth preceding declining growth. During the next period, 1974-78, the developing economic crisis escalated and included the actions of OPEC. It is, however, the contention of this thesis that the two oil shocks really served to mask an economic crisis within the international capitalist order which was well underway prior to the formation of OPEC. The last segment, 1979 to 1982, witnesses the deepening economic crisis and the evolution of policy responses in all three nations which are increasingly disciplinary and which are analysed under the concept of "economism".

Chapter Four, "The Policy Responses to Economic Crisis

in the United States, Britain and Australia", returns to the central hypothesis of the thesis that, faced with a growing economic crisis, the state's autonomy declines. As that chapter shows, each of the states under study was forced to place the maintenance of the capitalist economic system at the centre of its agenda and diminish its concern for political issues such as welfare, the environment, and public safety except in so far as they served profit-maximizing strategies and domestic economic stability.

Part II of the present work extends the empirical analysis in a theoretical investigation of power, interest and relative state autonomy. It does so by discussing two theoretical issues. Chapter Five, "The Bourgeois State and Enclave Government", illustrates the erosion of politics which takes place during a period of economic crisis through the example of the breakdown of the British constitution. What is observed and theorized is the ever-increasing institutional tendency for the power of government to become centralized and insulated from republican control. For example, one observes deterioration of long-honoured and cherished constitutional principles such as ministerial and cabinet responsibility. I refer to this situation as "enclave government".

The examination of theories of power and the capitalist state taken up in the second section of Chapter 5 provide a bridge from the discussion of enclave government to an

examination of political interest and the capitalist state which is the heart of my theoretical objection to the relative state autonomy thesis. The repudiation of politics (discussed in the first section of Chapter 5) is an exercise of fear and survival strategies induced by a circumstance of economic crisis. It is also an exposure of the fundamental character of power in a capitalist state. Power, misconceived in the abstract formulations of representative theorists from liberal and neo-Marxist autonomy perspectives but correctly understood by Lenin, is the signature of the anti-political bias of the capitalist state. The enclave state is anti-political not merely because it is a state in crisis but because it is a capitalist state ever prone to economic contradictions. Power reduces politics to a negotiation over the terms of coercion under capitalism. Power is also the exercise of economic compulsion in the governance of policy options. Power is the motive force in the reduction of political opportunity to economic choice. Under the autonomy perspective power is seen otherwise. It is misconceived as a commodity to be bargained for. It is therefore seen to be "relational" or a locus of authority - a site which may be bought or captured. Power is in fact the objective reality of domination. It is prior to the organization of government in a capitalist state or to any particular organization of the means of economic production: the capitalist state is not powerful because it is organized in a certain way. Rather, it is organized in a particular way because it is

powerful. While this may be true of all states, the capitalist state is powerful due to economic domination of a particular class. That class does not derive power from organization but employs organization to exercise power. At the same time class power is predicated upon an economic determination of political activity.

Part I
Economic Crisis and Public Policy

Part I of this work consists of three empirical chapters. The chapters to follow involve an explanation of the global economic context for the period 1967 to 1982; brief separate profiles of the United Kingdom, the United States of America and Australia for the same period; and policy responses to the economic events of the period under study and a comparison of policy responses across the three nations.

These three chapters present the central elements of a specific political-economic configuration, that of capitalism in crisis. The configuration is, by and large, a temporal expression of deepening crises viewed in terms of worsening economic conditions and inadequate policy responses within and across the United Kingdom, the United States of America and Australia. The terms of readjustment which characterize governments' efforts to remedy the situation of crisis are also presented as temporal phenomena, linked as a series of pragmatic policy responses co-linear with the global series of economic data.

The formal hypothesis under consideration is:

that the degree of state autonomy decreases in times of economic crises and that the extent of loss of autonomy exhibited by the state is dependent upon the severity of the crisis, and in addition is of course affected by such factors as historical development, the extent of national capital concentration, and political institutional arrangements.

A general consideration determining the choice and

method of presentation of the empirical data is as follows. Conventional economic statistics indicate a worsening of the economic conditions of each of the three countries under study, according to growth of national output, return on investment, rising levels of inflation and unemployment, a deterioration of the vitality of the global market (exhibited as skewed terms of trade and currency imbalance across nations) and a general slowing down of both growth potential and economic distribution of national surplus. These worsening economic conditions were recognized and articulated by all three governments of the countries under study throughout the decade of the seventies.

A considerable economic and political restructuring has occurred in response to the extended economic crisis. I consider this restructuring to be not simply a result of "system-maturation", but rather a specific response to the economic and political dislocations characterizing the 1970s. The need for increased discipline of national production has been necessitated by: increased supply problems, a rigidity of market responses (especially the demise of price-sensitivity), heightened competitiveness for market-shares among nations, currency imbalances, high levels of factor unemployment (capital and labour), and a massive global investment strike.

Furthermore, the policies of the three countries are described as an economic response to the period of crises and exhibit a strategy of insulation and discipline as a

means of "managing" political-economic crisis. Part I marshalls empirical data to indicate the extended temporal character of the economic crisis. I argue that a decrease in the relative autonomy of the state is an imperative consequence of economic crisis in a capitalist system.

Chapter 2

The Global Economic Context¹:

European / American Capitalism, 1967 - 1982

Many contemporary analyses have attempted to characterize the downturn of the economic fortunes of western capitalism, which appeared roughly towards the end of 1966 - early 1967 and has been sustained to the present.² The degree of optimism or pessimism attached to the analyses is a function of competing perspectives regarding the resiliency of the capitalist system following a seemingly abrupt halt to the progress which appeared as sustained growth with low unemployment for the first two decades of the post-war period in Europe, the United States and Australia. This chapter will provide a profile of the main economic events which have occurred since the "end of prosperity" was first widely acknowledged and commented upon, with a focus upon Europe and the United States. Succeeding chapters will integrate accounts of the domestic economic decline of Britain and Australia within the international context described in this chapter.

This material will be presented in a temporal sequence following the annual reports of national performance summarized in Organization of Economic Opportunity and Development publications. The use of OECD material provides methodological continuity through the time series under

study and ensures a consistent quality of data for the three nations within this comparative study. Thus, OECD reports will be employed to systematize the course of events and provide a summary of global context before moving on to the chapters dealing with in-depth country profiles, policy responses, and a comparison of the development of the political economy of the three countries under study during the years 1967-1982.

Academic and journalistic accounts of the global economic context can be divided into three discrete orientations: the view that economic sluggishness reflects problems of sustained and optimally distributed aggregate demand³; the view that "exogenous" shocks, such as the abrupt supply problems presented by the 1973-75 and 1978-79 oil crises and the generally rising commodity prices of the late sixties, project demand problems beyond expected period-adjustments, thereby necessitating discrete governmental intervention⁴; and the view that new patterns of rigidities in labour and product-supply require that governmental policy responses of a much more complex and coordinated nature than has been the case in "traditional" (post-war Keynesian) macro-economic policy be initiated.⁵

These three orientations in analysis and policy prescription also describe three sequences in the period 1967-1982 which are serial in time and which anticipate an eventual conjuncture of three fundamental problems of

capitalism in the decade of the 1970's. They are the problem of balanced growth, the problem of fragile international markets, and the problem of identifying the source and controlling the transmission of inflation. The effects of these problems and their unique constellation within domestic economies will be discussed in following chapters. An international context is presented here.

The Problem of Balanced Growth

From 1967 to 1973 the problem of domestic balanced growth became ever more apparent as demand pressures outstripped domestic capacity following the recession of the mid-sixties. The nature of the imbalance was exacerbated on a global level by increasingly lop-sided distribution of competitive market positions among capitalist countries. Key signals to these problems were the increases in rates of inflation among North American and some European countries and generally eroded balance of payment positions in Europe. During the early years of this period governmental policies seemed to prove effective in promoting a so-called "cooling-off" period without provoking a serious and cumulative recession. This may have been largely due to an economic expansion in the United States, Japan, and Italy, which appeared to act as a counter-weight to a potentially over-restrictive policy environment in global terms. However, as increased synchronization of restrictive policy across nations continued, the international community as a

whole began to exhibit extremely volatile growth imbalance.

The first hint of the inordinate cost of controlling an international capitalist economy in decline appeared on the scene. Relatively high unemployment rates as well as restricted labour mobility from the southern countries of Europe to the more prosperous economies of the north became increasingly apparent.⁶ Even so, it also appears that the policy posture of private business in the late sixties initiated a willingness to "hoard capacity" by permitting higher degrees of economic slack within domestic economies. Productivity declined.⁷ Consequences appeared under the guise of unused resources and in the decline of prospective-project investment decisions regarding either technology or so-called "human capital".

Another feature of the 1967-73 watershed is a potentially debilitating asymmetry of foreign and domestic demand patterns. During the period of post-war prosperity and until 1966, the global relationship between foreign demand and domestic demand patterns was inverse and virtually compensatory in larger European economies. At that time the dampening of domestic demand could be expected to be offset, in the near future, in a more vigorous export economy, as long as currency and interest rates remained relatively free of distortion. This situation, which changed in 1966 and is especially noticeable in the United Kingdom where a balance of payments deficit was not able to

stimulate competitiveness, will be more closely discussed in Chapter 3.

Efforts to establish international growth balance through currency manipulation ensued. In November of 1967 sterling was devalued by 14.3%, followed by a devaluation of the Danish, Italian, Spanish, and Icelandic currencies. Stagnant domestic demand could not stand as a remedy for trade imbalance and state intervention was required to correct the immediate imbalance and promote a repositioning of nations as competitors for international markets. At the time, an important caveat was added in the OECD policy prescription: along with currency devaluation there must exist "a sufficient margin of unused resources ... to enable exports to expand sufficiently".⁸ In nominal terms it was suggested that domestic expansion be restricted to under 3%.⁹

Generally, the devaluation of sterling was expected to have a temporary destabilizing impact as the volume of exports shifted in deficit countries which devalued from 1% to 1.5% increases over the preceding year. Some impact on capital movements was also expected. This was supposed to occur first as a shift out of the City of London, but with an eventual return as the economy strengthened and provided a magnet for returning capital. A subsequent restriction on domestic demand would then be necessary to maintain the benefit of a competitive place - the initial object of the

devaluation. Equilibrium would be re-established, as would confidence and a new cycle of prosperity.

State intervention, at this point, was beginning to be understood as the coordination and synchronization of techniques which were as disciplinary as they were stimulatory. The nature of the stimuli was countervale. Two major coordinates steering the course of policy were international competitiveness, which would sustain measured growth, and the avoidance of volatile domestic inflation.

Capital Mobility and Currency Instability: The Fragility of International Markets

One particular problem of weakness in the balance of payments situation in both the United Kingdom and the United States was their respective positions as reserve currency countries.¹⁰ Both speculation and capital flight involving gold and the currencies of the UK and the US increased the uncertainties marking the latter half of the 1960's. Lack of confidence in the reserve economies hit disproportionately, however, with the UK experiencing sharp net outflows of short-term capital, for example in the first six months of 1968.¹¹ Generally, international capital movements seemed to reflect an institutionally induced volatility, with strong nations capitalizing on their strength.

Capacities for mobility increased despite the efforts

of governments to restrain excessive outflows (e.g. the voluntary 1965 US programme of tax subsidies to stem outflow, and the tightening of monetary policy in 1968). Increased access to capital markets was institutional and formal. The initiation of an extensive Euro-bond market and the willingness and ability of individual countries such as Japan and Germany to extend liberal finance and credit guarantees opened up funding possibilities for a wide range of borrowers.¹² Funds acquired in this way, for example by US company subsidiaries abroad from local markets, could be used as speculative investment in short-term European money markets to be used for subsidiary expansion in the future. As the strictures of reserve currency status were shed by the UK and the US, and the maldistribution of prosperity and economic opportunities increased among European countries, capital movements became ever more difficult to predict and control.

During 1968 three major currency crises in sterling and franc/deutschmark, further gold crises, unusual international capital movement reflecting continued heavy speculation¹³, and the French general strikes contributed to "disequilibrium" within the global economic context. A yearning to return to equilibrium through a system of complementary demand policies throughout the OECD occupied much of the economic analysis of the OECD secretariat to 1973. A redistribution of economic benefit - meaning stable trade patterns and gradual equalization of foreign account

balances - is the general thrust of the policy prescriptions throughout the 1967-73 period. The advice given is a repetition of warnings against simultaneous placement of restrictive policies within national economies and a need to avoid the temptation of trade restrictions.

Inflation and the Rise of Financial Interdependence

The 1970s began with the largest increase in prices for western capitalist nations since the Korean War boom.¹⁴ That this development seemed to take individual governments and the policy analysts of the OECD by surprise is a measure of their refusal to discern the political and economic changes occurring in domestic economies in the latter part of the 1960s as something more than temporary disequilibria. The configuration of the global economy was demonstrating new patterns of economic interdependence.

Financial interdependence is perhaps the most fascinating example of change. The huge increases of international liquidity which had occurred included so-called "support operations", whereby creditor countries hold currency assets in order to provide a buffer for weak currency countries¹⁵. This occurred at a time when the provision of new instruments facilitated expanded liquidity. The introduction of Special Drawing Rights (SDRs), for example, in January 1970¹⁶ extended the scope and sophistication of financial interdependence.

The funding of this new pool of liquidity is of particular importance, in that official government funds provided the bulk of new investment. Investment in Eurodollar markets by central banks is an example: the impact of such official funding is to greatly increase the credit multiplier by 1) contributing to the expansion of international liquidity without registering a corresponding national deficit¹⁷; 2) resulting in net expansions of money in credit-taking countries thus setting off a stimulus for domestic credit expansion because of the increase of reserves; 3) allowing for redundant credit opportunities if a portion of an original Eurodollar investment is recirculated in the Eurocurrency market by a credit-taking country, thus expanding dollar reserves in central banks yet again. The expansion of credit is then accompanied by an expansion of reserves held in central banks, which is purely an artifact of strategic financing by governments. These are relatively short-term manoeuvres but their scale is very large. The uncertainty and instability thus created by these manoeuvres is far greater than would occur in the placement of private funds. Inflation and its continuing threat to stable and sustained growth remained the backdrop for attempts to establish some degree of equilibrium among national economies. But what appear to be highly opportunistic national financial manoeuvres, such as those amounting to official governmental speculation in international money markets, undermined confidence and growth potential.

Throughout the early 1970s, monetary and financial developments remained volatile with official policies beginning to combine a more aggressive but sporadic mix of monetary controls with fiscal policies. This was occurring at a time when capital movements continued to be very unstable. Sporadic but significant outflows from the United States affected the entire OECD.¹⁸ (The extended period of the 1960s and 1970s shows steady aggregate inflows to the US). International capitalism at this time exhibited huge swings of speculative movement which reflected the vulnerability of virtually all the leading European domestic currencies to external stimuli. The repercussions of such large-scale and uncontrolled capital mobility are considerable. The impact upon stabilizing institutions was unforeseen. For example, central banks were induced to adjust interest rates at a pace and scale determined by criteria other than carefully planned domestic performance. Central banks seemed to relinquish their function as financial stabilizers.

The use of financial gambits at this time proved inadequate as a means of re-establishing domestic equilibrium and the confidence necessary to compensate for the global instability surrounding domestic economies. What might be considered "external" or international economic disequilibrium coexisted with inflationary pressures at home. Indeed, the boundaries between national and global disequilibria disappeared as the term "interdependence"

became a symptom of global disorder rather than a term encouraging cooperation.

Inflation: The Fruit of Capitalist Success?

A very interesting summary of "The Problem of Rising Prices"²⁰ which appears in the OECD's Economic Outlook for July 1970 contains a typical and ideologically forthright statement of the OECD's perception of the new twist to an old problem:²¹

Price inflation is an old problem which has now acquired new dimensions and a new urgency. The last twelve months have witnessed the most pronounced and general price rise experienced in the OECD area since the Korean war. Prices have been rising in most countries by at least 5 per cent; that is more than double the average rate in the early 1960s. It is clear, moreover, that the strength of the inflationary forces generated over the last two or three years has been considerably underestimated. ...

In previous inflationary phases there have always been one or more important countries in which prices remain fairly stable. Now practically all countries are in the same situation: such islands of stability now hardly exist.... In the past, foreign markets have usually been more competitive than domestic markets since, at any one time, there was one or more major exporter which because of weak markets at home, acted as a check on other exporters. But with the generalization of excess demand and rapid cost increases, this has no longer been the case in the past year. The ability - and to some extent the will - of both governments and exporting firms to resist cost inflation has been thereby weakened, since they have seen other countries similarly failing to hold the tide.

The report also contains a number of now-familiar warnings about the wage-price spiral and the echoes of a Schumpeterian analysis which attributes the problems of capitalism to its very success (viz., high living standards

give rise to high expectations: income distribution is a social/political artifact not conforming to economic optimization; capitalist society is "open" and "decentralized" and increasingly burdened with group claims). Capitalist economic success has undermined social discipline according to this perspective. But more interesting, within the report, are the beginnings of a recognition of structural instability located in the transmission process of global capital movements.

Rather than the usual exhortation about labour discipline as an anti-inflation device, an awareness is evinced of the linkage between balance of payment problems and domestic inflation. Stress is put on two elements of the linkage:²²

First, greater success or failure in bringing inflation under control in any one country or another will, in time, bring renewed disequilibrium in international payments. Second, international trade and capital movements have been an important vehicle whereby both demand and cost inflation have been transmitted from country to country.

What seems a "damned if you do, damned if you don't" scenario also suggestss that structurally subversive relationships exist not only between international and domestic policy options, but between "successful" and unsuccessful countries. For example, countries which succeed in maintaining a strong external balance risk substantial undermining of their ability to contain domestic inflation. Not only rising import prices, which serve as one of the

transmission belts of inflation, but inordinately large capital inflows seeking opportunity and/or safe-havens create monetary imbalances. Restrictive domestic monetary policies are usually ad hoc and inadequate to counter monetary volatility. They may also clash with the domestic fiscal policies of the modern welfare state. The inflationary spiral extends in scope and sharpness with international institutions and techniques which provide accelerated capital mobility but do little to balance trade flows and rationalize pricing behavior.

A new dawn of global cooperation and institutional coordination at the international level could perhaps have provided a remedy. Certainly the policy prescriptions of the OECD secretariat during the late 1960s and early 1970s stress coordinated policy and huge doses of domestic economic (labour) discipline. One is skeptical about whether the problems of low growth, high inflation, accelerated and volatile capital mobility, speculative currency crises, and the partitioning of western economies into successful versus unsuccessful market competitors are amenable to discretionary policy control? A mixture of labour discipline, the promotion of increasingly sophisticated forecasting techniques, and targetted market intervention by national governments have been the preferred policy route of the OECD and most national governments during the period under examination. The presuppositions of this thesis offer an alternative view. The "new" problems encountered in the

late 1960s contain the germ of problems which constitute the crises of capitalism of the 1970s and 1980s. They are structural in nature in so far as they are determined not by discretionary policy or the absence of international cooperation, but by accommodation to profit maximization in a era of chronically restricted economic opportunity.

The source and transmission of inflationary stimuli are contentious topics in journalistic reporting and academic analysis. My thesis is that inflation is symptomatic of the insecurity which economic decline brings, rather than its cause. As such, the sources and transmissions of inflationary stimuli are viewed as multiple and varied. They contribute to the temporal extension of the contemporary global recession by prompting an international institutional response which, although intended to provide cooperation and control mechanisms, result in policies of accommodation. Private capital, which has always been accommodated by national bourgeoisie constitutions, is now accommodated by international compact. This will become especially apparent in the discussion of capital mobility presented below. One should ask, can any domestic policy response provide remedies, temporary or otherwise?

Capital Mobility: the Preemption of National Policy Remedies for Inflation

The inability of capitalist economies to sustain profitable

accumulation without distorting the very markets which drove the economic successes of the post-war period became apparent in the international capitalist economy of the West after the late 1960s. This section emphasizes developments in currency and finance in order to provide an example of the way in which the flexibility of form and circuits available to international capital can preempt government planning.

Several characteristics of the period 1967-1973 pertain especially to financial capitalist development:

1) Insecurity expressed itself as:

a) increased volatility of financial capital movements, as the trade imbalance of the US and the fragility of the UK economies disallowed reserve-currency status to those countries. (What is blithely termed the "breakdown of Bretton Woods" is in reality a breakdown of those "islands of stability" which were able to stand as proxy leader-economies in the post-war period);

b) financial protectionist activities undertaken especially by the United States to allow for regulation of capital flows pertinent to its own domestic monetary regulation;

2) Equilibrium-strategies, both private and state/national, were attempts to consolidate European financial and trade borders and systematize US/European economic transactions with the provision of new financial instruments in Europe (especially Eurobond and Eurocurrency instruments but also country-innovations such as the German and Japanese currency and tax provisions)²³. What was needed was a clearing mechanism to allow governments and international policy makers to chart the flow of financial funds in and out of Europe and to provide opportunities for European nations - especially the UK and Germany - to initiate policies which would to some extent counter the arbitrary fluctuations induced by US domestic policies having an impact on US foreign investment decisions.

3) Extraordinary liquidity preferences in investment behavior appeared, which was simply the pragmatic assessment of investors to withhold funds from long-term investment programmes until overall trade and currency balances improved or at least remained stable.

Capital Mobility: A Strategic Escape From Risk

The breakdown of an international trade and financial market among capitalist states prompted investor-choices and, subsequently, governmental policy which exacerbated rather than overcame the concentration/insulation tendencies of national systems approaching crisis. The breakdown of the international capitalist market has not been a collapse or shutdown of exchange but rather a redefinition of the terms of economic interaction.²⁴ "Interdependence" became entanglements rather than cooperation, as the domestic imbalance of individual countries became the "stagflation" of the system. And "competition" became less a process of price-determination through market-clearing activities than a division of strong versus weak economies on the basis of vulnerability to "exogenous" economic determinants such as US interest rates.

The terms of interaction have also been redefined regarding investment behavior. Before supply constraints, including so-called labour rigidities, came to the fore in the mid-1970s as explanations about the problems of economic growth and balance, a major concern among policy analysts was the investment response to the new uncertainties of the "post-Bretton Woods" era. It is my view that a chief input,

capital investment, exhibited extreme rigidity prior to the price and supply constraints of the mid-seventies. And indeed, that liquidity, speculative hyper-mobility of capital, and an "ungovernable" intrusion of discretionary capital funds into domestic economies and international financial circuits are the primary causes for the destruction of economic equilibrium in the 1970s - a decade of crisis. The paucity of state policy to deal with the new terms of interaction, except in the provision of political enclaves, is evidence of declining state autonomy.

Investment Behavior: The Tail of Capital Mobility

Investment behavior has long been of primary interest to economists - especially regarding the interaction of macroeconomic policy and investment decision-making. The extreme volatility of capital movements in the late-1960s prompted a major reassessment of the terms of that particular interaction. Perhaps the most provocative aspect of that development for purposes of the present discussion was the concern with seemingly "structural" characteristics of the determinants of capital shifts.

One such reassessment stands at the watershed of developments in a new financial order, and will be employed here to support my own argument describing investment rigidity as a major cause constraining policy options for governments. Two very respected mainstream analysts appraise

the adequacy of econometric analysis in an examination of that new order. William H. Branson and T.P. Hill presented a study in 1971 of capital movements in the OECD area. Because of what they consider "the massive scale" of capital flows among OECD countries in the late 1960's to early seventies, and the implications of volatile flows to international economic policy, they attempt to discover the new terms of financial interaction which explain the scale and shape of capital flows.²⁶

One indication of the change in volume of capital flows which substantiates the importance of capital movements in an analysis of the global economy of the period 1967-1973 is the following statistic regarding flows to the United States²⁷:

...there has been a rising trend in the inflows of foreign capital in the 1960's. From 1960I through 1964IV, the average quarterly inflow of short-term liabilities was \$192.2 million, and of the long-term non-direct liabilities \$62.5million. For the period 1965I-1969IV, the corresponding average inflows were \$912.6 million and \$580.0 million, respectively.

While the analysis of Branson and Hill does not purport to establish the cause of the trend, they do provide empirical support for a theory which refutes a primary reliance on interest rate-sensitivity in the determination of international capital flows. In favouring a "portfolio-stock adjustment" view they attribute a major role to risk assessment in investment behavior as the size

and scale of portfolios increase. Their analysis looks at international financial capital movements, defined as the flow of non-direct investment items in the capital account (and for the US, an omissions and errors category which is actually short-term claims on foreign capital).

In reviewing the standard theory of capital movements up to the middle 1960s, Branson and Hill question whether the relationship of capital flows to levels of interest rate differentials (the "flow theory" of international financial capital movements²⁸) could continue to explain contemporary movements of capital in the real world. Capital movement might alternatively be explained by a model of portfolio distribution linking interest rates and rates of return for alternative assets according to risk estimates.²⁹ The more expansive theory of the latter model posits rising rather than merely high levels of interest rates as the primary generation of capital flows, along with risk assessment regarding a universe of potential assets³¹:

the distribution of assets depend[s] on the rates of return and estimates of risk for the alternative assets. For any given set of interest rates and risk estimates, there will be an equilibrium distribution of assets in a portfolio (among domestic and foreign assets, for example); it is changes in interest rates that lead to changes in this allocation, or flows of capital, given the size of the portfolio. Applied to international financial capital movements this theory implies that, at any given point in time, raising domestic interest rates will produce a one-shot stock-adjustment inflow of capital as portfolios are redistributed... But once a portfolio equilibrium is reached, the flow will cease.

Thus it is not the level but the dynamic rise in interest rates which affects capital flows. Moreover, the sensitivity of international capital flows to interest rates will be progressively tempered by the size of portfolios and the risk assessments of investors following the logic of this theory of stock adjustment. Interest rates, then, considered as a discretionary policy tool, compete with the scale of financial capital and the universe of risk as determinants for capital flows. Rising insecurity and an increasing scale of assets would thus reduce the discretionary impact of interest rates. While this does not deny the responsiveness of capital movements to interest rates, it indicates that the type of response is of the nature of a threshold effect rather than a flow-effect. The implications for policymaking appear to me to be strictures. Both the increased scale of portfolio holdings and increasing risk factors of the period from the mid-sixties give added weight to the variables mirroring the general investment environment within a capital-flow determination: concentration of assets and risk-avoidance strategies. Interest rates decline as investment controls. That situation is reflected in a loss of control for policymakers.

The Rigidities of Investment Behaviour

The non-response of investment behaviour to supply-control in the form of interest rate manipulation by governments may

be regarded as a market rigidity. The implications of the shift in theoretical focus presented in the capital movement analysis of Branson and Hill coincide with the objective conditions faced by private investors and governments alike during the period under examination. Not only is policy constrained by a loss of discretionary impact, but investors are constrained by the size and scale of their own portfolio holdings and an environment of risk. Those rigidities are not simply decisional propensities aimed at profit-taking. They also reflect threshold requirements for balanced portfolio distribution.

But there is a further catch in the assessment of these strategic requirements. The interdependence of financial markets makes the necessity to maintain portfolio balance a highly protective strategy for gaining very marginal return advantages. Add to this the increase in liquidity on a global scale and the significance of huge increases in capital mobility during the 1960s and 1970s can be considered a structural dilemma. Moreover, the volatile and lop-sided distributional flows of capital among nations is far less a discretionary/demand phenomenon than an accretion of marginal advantage strategies.

With increased instability in the international marketplace and flagging growth in domestic economies, portfolio-balance strategies would seek security and marginal advantage from governments. The delivery of these

conditions by governments as inducements for long-term capital investment necessarily constrained government economic policymaking and, as will be demonstrated in Chapter 4, pushed governments to policies which were increasingly "captured" by the logic of supply-side economics. That capture is one part of the argument presented in the present thesis, which claims that state autonomy decreased during the economic crises of the general period under study. For now, I want to establish the global preconditions evident in investment strategies and capital flows which set the stage for the loss of relative state autonomy at the national level. Investment rigidity is the label I have given to these strategies.

Analytical Support for the Notion of Rigidities in Investment Behavior

The attempt by Branson and Hill to reconcile capital accumulation theories and portfolio distribution theories substantiates my own notion of rigidities in international investment behavior. They investigate the historical movement of capital inflow to the US 1960-1969. Based on conveniently segregated data in the US account of balance, the analysis relies on a five-fold definition of finance capital. The first category comprises short-term claims on foreigners, which reflect the trade credit-nature of a great deal of US short-term lending. (Given the importance of trade credit for the US in financing a given flow of trade,

it is important to consider the effects of levels of exports upon the stock of assets and the way in which changes in the level of exports generate capital flows in the United States). The second category consists of long-term portfolio claims on foreigners which are private claims exclusive of direct investment and long-term banking claims. Thirdly, there are long-term banking claims on foreigners, fourthly, short-term liabilities, and fifthly, long-term liabilities.

The analysis proceeds with country analyses of capital flows in the US, UK, Canada, France, Germany, Italy, and Japan, as well as an aggregate of "other" OECD countries. Their final section attempts to aggregate country results in a multiplier table which is meant to test the sensitivity of all capital flows to monetary variables.

Although largely a test of the efficacy of econometric methods in deriving significance from mathematical coefficients pertaining to competing capital-flow theories, the study produces empirical support for the ideas presented in the present thesis regarding structural rigidity in investment behavior and constrained government policy making. These supports are that financial crisis has resulted in a partitioned international economy which shapes capital flows in a highly constrained way and that the determinants of capital flows reflect locale-superiority established by the partition. (The other side of the concept of investment strikes is investment preference. I argue that

preference in investment behavior is primarily a matter of locale, that is, selection of locale depends upon places exhibiting security, marginal return advantages and a disciplined economic environment. Hegemonic centres like the US are superior locales because they not only meet the three criteria just mentioned, but are able to disadvantage competing locales through a variety of measures, including military threat, which smaller and less-developed regimes are not able to muster.)

For the present study three discrete locales produce asymmetrical patterns of policy responses aimed at influencing investment behavior. Major European centres aim to produce confidence and stem speculation. American finance capital aims to stabilize the balance of foreign portfolios within its national economy while maintaining financial hegemony. Thirdly, so-called, "passive" minor OECD centres aim to weather periods of profound instability by absorbing minimal amounts of shock.

The analytical method employed in the Branson and Hill study provides an interesting conceptual "map" of the tripartite configuration of global financial capital. Relying on the Eurodollar market as the pegging device for the monetary strategies of all OECD countries, the study creates a proxy of financial interaction. The analytical segmentation is: a) Eurodollar rate/US bill rate; b) Eurodollar rate/UK and German rates; c) passive receptivity

of the Eurodollar rates with expected impact upon domestic rates and no influence upon Eurodollar rates. The assumptions underlying this segmentation are that the domestic monetary conditions of major financial centres are determined exogenously, i.e. independent of the total Eurodollar rate. The Eurodollar rate movement, on the other hand is determined by changes in domestic monetary conditions in aggregate. Furthermore, it is assumed that the US exerts greater influence on the Eurodollar rate than any one of the other centres or all of them in combination. The US is sensitive to changes in the Eurodollar rate as well, and the source of that interaction will reside in centres outside the US.³¹

In attempting to provide a global model of capital movements, the Branson and Hill study moves from an analysis of US capital inflows, to net capital account movements in major OECD countries, and to an analysis of the multiplier effect of the combination of aggregates responding to changes in any monetary variable. However, it is only in analysing capital movements in the US balance of payments and net capital flows of the major OECD countries that plausible results are obtained. The plausibility is established by finding a mathematical "fit" in a temporal series 1960-1969 between econometric expectations and "real-world" events. Equations including different contextual variables for the different countries are tested to determine which achieve a stable and close fit. The

interaction among monetary variables other than interest rates provided support for the hypothesis that portfolio adjustment and the "one-shot" response discussed above established the closest mathematical approximations for temporal events in each country.

The second support for the notion of investment behaviour rigidities in the Branson and Hill study is very interesting and arises as a result of what the authors consider "disappointing" results in the final section on interest rate multipliers and capital movements. In this section all the estimates of the previous country surveys are brought together in a multiplier table which attempts to measure the sensitivity of aggregated capital accounts to changes in monetary variables. The multipliers are designated "stock-shift" indicators in that changes in stock assets and liabilities are recorded as responses to changes in the monetary variable. The table should record total effects of changes in monetary conditions on capital accounts. It fails to do so. The statistical results of the model are indeterminate except those for the United States, where the effects of a one-point increase in the bond rate (a more stable stimulus than the shorter term bill-rate from the standpoint of structural determination) plus a 0.1 increase in US velocity generate flows consistent with empirical evidence about capital inflows to the United States through the 1960s.

What the authors term a problem of "simultaneity" producing indeterminacy for all the other countries in the OECD may not simply be an artifact of the methodology but a real finding about the archimedian leverage which the US economy exerts relative to the rest of its market partners. Their model's indeterminacy results from US hegemony vis-à-vis financial mobility.³²

[T]he multiplier table is riddled with ambiguities and uncertainties in interpretation. These stem mainly from the facts that a) we are using aggregate net flow data in the non-U.S. estimates, and b) we have not dealt with the simultaneity of interest rates and capital flows. In the one case were we do have disaggregated data, and we can reasonably assume that interest rates are not determined simultaneously - in the US case, that is - we do get more clear-cut and sensible results...

What one can hypothesize about these findings is that there are differential structural determinants operating on national economies, the effect of which is to constrain global capital flows unidirectionally. Portfolio distribution may therefore predominate yet only apply in one area, that is, the flow of funds to a core economy, in this case the US. But in other peripheral or "passive" economies, interest-rate strategies may be determinate. These

countries may be left with the less effective interest-rate discretionary policy tool to attempt a marginal regulation of capital flows. They are structurally disadvantaged due to (in this case) a U.S. hegemonic superiority.

Although limited, econometric analysis may be able to offer us good indications of demarcation in its use of data sets. The Branson and Hill study has been used here in good faith, that is, the findings on determinancy and indeterminacy regarding capital flows are considered real and not as an artifact of an inadequate method.³³

In terms of the more substantive results of the study, the results supporting a stock-adjustment hypothesis based upon portfolio distribution versus a flow theory confirm the position of the present chapter that capital flows reflect structural rigidities of investment behavior. These are not simply or even primarily the result of discretionary policy tools such as interest rate manipulation, or any other behaviour-inducing strategies employed by contemporary states faced with economic instabilities. Rather, the size and scale of financial aggregation, combined with an absence of investment opportunity, increase the speed and liquidity of financial assets resulting in portfolio strategies which enhance hegemonic

relationships.

The period 1967-73 identified in the present chapter as a "watershed", is characterized, then, by economic instability which preceded the much-discussed oil-shocks of the mid-to-late seventies. This period demonstrates structural weaknesses and contains primary elements which became, during the course of the 1970s, a conjunctural incidence of crisis. The economic slowdown of the late sixties and the persistence, on an international scale, of the residual problems associated with uncoordinated balance of payments among nations and destabilizing capital flows made the problems of low growth, rising unemployment and chronic currency instability intractable. When supply constraints in basic food and energy commodities appeared in the seventies, virtually all capitalist economies were vulnerable to extreme reaction. The period of the early seventies is a transition to systemic decline.

Prelude to the 1973-1978 Period

The beginning of the decade of the 1970s signals attempts by policy analysts to understand the "end of prosperity" of the sixties. The interdependence of the capitalist nations continued to demonstrate the undesirable effects of trade and payments imbalances, widespread inflation and volatile capital flows. The search for an institutional replacement for Bretton Woods also continued,

with an expanding Eurocurrency market firmly in place as a new institution of financial mediation. Nevertheless, currency revaluations and devaluations continued on an ad hoc basis.

Some encouragement was to be found in improvements in the balance of payments positions of both France and England at the turn of the decade. The United States appeared to have stemmed volatile capital inflows in 1970 only to have massive speculative outflows in mid-1971 which were as volatile as they were grand in magnitude (reported to have been \$4 - \$5 billion in one week). As inflation and international payments disequilibria remained intractable problems, serious effects could also be observed in general trends in declining output and rising unemployment. It is these two economic indices of domestic well-being which competed with international market pressures for priority in the policy strategies of beleaguered governments. The beginnings of what were to become the full-fledged austerity politics of the late 1970s were being worked out in that competition.

The "diminished return" effect of over-restrictive economic policy, worsened because of the simultaneous use of restraint policies among nations, necessitated rapid reversals to expansionary formulae as governments attempted to respond to what were perceived as upswings in economic opportunity. "Stop-Go" in policy-making was largely an

effort to gear domestic economic performance to global economic opportunity, with the cumulative effect of exaggerating fluctuation. A persistent characteristic of the period, however, was high and rising levels of inflation. That became identified as a trend despite the remediation of other problems such as faltering growth or trade imbalances.

From Demand Management to Crisis Management

The introduction of price and income policies was perhaps the most important institutional response to the persistent and pervasive legacy of the 1960s, the incidence of high inflation in periods of restricted growth. While it was a price-freeze policy which kicked off the use of widespread programmes of restraint in 1970³⁴, the pattern of control quickly moved to wage-restraint policies, which sought as much to restrain anticipatory actions taken by workers hoping to protect wage erosion as to dampen down demand. Indeed, demand was preempted in a strategem of disciplinary control over wage rises, rather than "managed". The terms of stabilization and sustained growth changed from trade-off to show-down between the increasingly antagonistic facts of economic life: inflation and employment.³⁵ The 1971 recession, followed by the 1972-3 commodity boom, created an environment of uncertainty in domestic economies akin to the global capital environment of the second half of the 1960s. As organized labour responded to the clear trend of inflationary spiral, it confronted governmental postures of

"crisis management", which resulted in statutory prohibitions constraining the terms of wage negotiations.

The Continuing Problem of Balanced Growth

Decline in the GNP of the OECD nations, first evident as a widespread phenomenon in 1968, was alarmingly sharp in the key economy of the US by 1970, having reached a negative 1.5% growth from the previous year in GNP at market prices in the first half of 1970.³⁶ While growth, generally, was expanding, it was doing so at a rate well below potential, and with uneven distribution among nations. By 1972, the United States, through expansionary fiscal and monetary policies, appeared able to turn the economy around. But government expenditure and temporary reversals in the decline in stock-building did not provide more than a tenuous claim to longer-term growth. Generally, the OECD appeared to have been able to establish recovery with growth indicators stable in 1972. In the period directly leading up to the 1973 oil-shock, recovery seemed assured and forecasts were euphoric. The North American recovery appeared to have spread throughout the OECD, with an annual 6.5% growth in output forecast for 1973, following a similarly good performance in 1972 (Table 2.1).

Table 2.1
Growth of GNP in Select OECD Countries,
Percentage Averages: 1959-1971
Yearly % Changes: 1971, 1972, 1973

Growth of real GNP in seven major countries	Average 1959-60 to 1970-71	From previous year			From previous half-year					
		1971	1972	1973	1972		1973		1974	
					I	II	I	II	I	
Percentage changes										
Seasonally adjusted										
at annual rates										
Estimates and forecasts										
Canada	4.9	5.8	5.8	7½	4.9	5.3	9	6	5½	4½
United States	3.9	2.7	6.4	7½	7.3	7.5	7½	5½	4½	10½
Japan	11.1	6.4	9.2	13½	9.0	14.0	14½	11½	6	6
France ^a	5.8	5.5	5.5	6	4.9	5.8	6	6	5½	5½
Germany	4.9	2.7	2.9	6½	5.8	1.3	8½	7½	5½	5½
Italy ^b	5.5	1.6	3.4	4½	2.2	4.2	3½ ^d	7½ ^d	4½	4½
United Kingdom ^a	2.9	1.7	3.4	6½	1.3	6.1	7½	3½	5½	5½
Total of above countries ^c	5.0	3.3	5.9	7½	6.4	7.1	8½	6½	5½	5½

a) GDP.
b) The figures for GNP in 1971-72 have been partly estimated by the Secretariat.
c) 1970 weights and exchange rates.
d) Influenced by strikes in the first four months of 1973.

Growth of real GNP in other Member countries
Percentages changes; estimates and forecasts

	Average 1959-60 to 1970-71	From previous year		
		1971	1972	1973
Major seven countries	5.0	3.3	5.9	7½
Australia ^a	5.0	4.1	2.0	7
Belgium	4.9	3.7	4.9	5½
Netherlands ^a	5.3	4.5	4.5	5½
Denmark ^a	4.8	3.8	4.6	5½
Ireland	4.0	3.1	4.4	5
Other OECD North ^{b c}	4.7	2.9	4.2	4½
Austria	4.9	5.6	6.4	6
Finland ^a	5.2	2.5	5.6	6½
Norway ^a	5.0	5.5	4.3	4½
Sweden ^a	4.3	0	2.2	5
Switzerland ^a	4.6	3.9	4.8	4
Other OCDE South ^b	6.8	6.2	7.5	7½
Of which:				
Spain	7.2	4.6	7.5	7
Total OECD ^b	5.0	3.4	5.8	7½
Of which:				
Europe ^b	4.9	3.4	4.3	6
EEC ^{b d}	4.8	3.2	3.9	6

a) GDP.
b) 1970 weights and exchange rates.

c) Including Iceland.
d) Including Luxembourg.

(Source: OECD, Economic Outlook [Paris, 1973], p. 13)

Unemployment

A steady increase in unemployment is evident throughout the period, as in Table 2.2.

Table 2.2
Unemployment Rates in Select OECD Countries
Percent of Civilian Labour Force (seasonally adjusted)
1970-1973/ii
Numbers, in Thousands, of Unemployed

Unemployment indicators in selected OECD countries	1970	1971	1972	1972				1973	
				Q1	Q2	Q3	Q4	Q1	Q2
<i>Unemployment rates</i>									
Canada	5.9	6.4	6.4	6.1	6.1	6.7	6.7	5.9	5.3
United States	4.9	6.0	5.6	5.9	5.7	5.6	5.3	5.0	4.9
Japan	1.2	1.2	1.4	1.4	1.4	1.4	1.4	1.3	1.4
Australia	1.1	1.3	1.9	1.7	1.8	2.1	1.9	1.6	1.6
France ^a	1.7	2.1	2.3	2.2	2.3	2.3	2.3	2.1	2.1
Germany	0.5	0.7	1.0	0.8	1.0	1.0	1.0	0.8	1.0
Italy	3.1	3.1	3.6	3.4	3.6	3.8	3.7	3.5	4.3
United Kingdom ^b	2.3	3.0	3.4	3.5	3.4	3.3	3.1	2.7	2.4
Belgium	1.9	1.8	2.3	2.1	2.2	2.3	2.4	2.2	2.2
Netherlands ^c	1.4	1.8	3.0	2.8	2.9	3.2	3.0	2.9	3.0
Finland	1.9	2.2	2.6	2.5	2.5	2.8	2.7	2.5	2.4
Sweden	0.9	1.5	1.7	1.8	1.7	1.7	1.8	1.7	1.7
<i>Ratio: unemployed-unfilled vacancies</i>									
Japan	0.7	0.9	0.9	1.0	0.9	0.8	0.7	0.7	0.6
France	3.7	3.7	3.0	3.8	3.4	2.9	2.3	2.0	1.8
Germany	0.2	0.3	0.5	0.4	0.5	0.5	0.5	0.4	0.4
United Kingdom	2.2	4.2	4.3	5.5	4.7	4.2	3.2	2.3	1.7
<i>Numbers unemployed (thousands)</i>									
Total OECD ^d	7 279	8 664	8 960	9 006	9 052	9 102	8 681	8 070	8 027
OECD Europe ^d	2 149	2 498	2 860	2 783	2 907	2 957	2 792	2 507	2 558

a) Adjusted to take into account the extension of the National Employment Agencies.

b) Great Britain.

c) Including employment on special Government schemes, as a percentage of dependent employees.

d) Excluding Iceland, Luxembourg, Switzerland, Portugal and Turkey.

Sources: For sources and methods see Technical Annex.

(Source: OECD, Economic Outlook [Paris, July 1975])

The sparse commentary on the problem of unemployment relative to the OECD emphasis on inflation, trade balances and currency instabilities indicates the manner in which the economic assumptions of the period were structured. Labour

and unemployment is discussed in Chapter 4. What is interesting about unemployment in the sub-period immediately under discussion is its subtle relegation to the status of a non-issue vis-à-vis the overriding concern with inflation.³⁷

Inflation

Rates of price rises in domestic contexts were increasing in all nations by the turn of the decade, and continued to the first oil shock. Prices in world trade were rising at unprecedented rates (1969 saw a 4% rise in the average values of merchandise exports - the highest since 1957),³⁸ and the beginnings of a tortuous debate about the nature of cost-push inflation could be observed. Domestic labour costs as a function of lowering productivity performance, as well as of money increases in wages, also rose sharply. The roots of both these rises in the inflationary pressures of the mid-sixties onward were still considered transitory (cyclical), although the analytical emphasis put on rapidly rising foreign trade prices as indicative of the end of an era of competitive pricing demonstrates the ambiguity of reasoning about inflation. Is inflation and its transmission the product of disequilibrium (e.g. in trade balances, the relative health of competing currencies, policy environments) or a new equilibrium?

Now that increases in foreign trade prices for the first time in a decade appeared to match domestic inflation rates, questions arose about the structure of price and

competition in the world market and about the simultaneity of inflation across nations having an impact on that market. During the postwar years, foreign trade prices in the western capitalist countries showed growth trends which lagged well behind domestic inflation. The OECD designated three main reasons for the distinction between foreign and domestic price behavior. Firstly, productivity growth was generally export-biased, and following Hicks, the OECD Secretariate believed that discretionary improvements in productivity performance would be applied to areas of comparative advantage.³⁹ Secondly, as trade barriers were abolished competition in the world market was most likely more intense than in domestic markets inducing a shift to low-cost suppliers. Finally, supply schedules in the world market had been most likely pegged to supply conditions in major trading nations who have access to major world markets and are less restricted by cost constraints generated domestically. The use of the world market as an off-set to weak demand at home might presumably create more competitive pricing internationally. (This appears to be an innovative argument on the part of the OECD secretariate to support a practice in the early years of the seventies which later became known as "dumping".) These three fortuitous conditions characterizing the international trade markets of the post-war years were largely based on unsynchronized demand and price movements between world and domestic markets. When conditions changed and interdependence created synchronic movements the problem of simultaneous erosion of

competitive pricing emerged:⁴⁰

[W]hen demand and price pressures reached a peak in most countries of the area at the same time, competitive or differential pricing seemed to become less worthwhile, and in any case, less feasible. Demand pull and cost push fed on each other as in the traditional process of domestic inflation and the dichotomy between domestic and foreign trade prices tended to disappear.

In any case, domestic consumer prices rose steadily throughout the period⁴¹, as illustrated in Table 2.4.

Table 2.4
Inflation in Select Periods, 1948-1979
Average Annual Percentage Changes

	1948-52	1952-61	1961-69	1969-73	1973-79
France	14.1	3.3	4.0	6.2	10.7
Germany	0.4	1.3	2.5	5.3	4.6
Italy	3.4	2.0	4.1	6.5	16.1
United Kingdom	5.2	2.4	3.8	8.0	15.6
Spain	6.0	5.2	6.7	8.4	17.9
Austria	19.3	1.9	3.5	5.7	6.3
Belgium	1.6	1.2	3.2	5.1	8.4
Denmark	4.8	2.5	6.1	7.0	10.7
Finland	2.3	3.7	5.7	6.8	12.7
Ireland	4.6	2.6	4.6	9.3	15.0
Netherlands	7.0	2.1	4.7	6.8	7.2
Norway	7.3	2.6	4.0	7.9	8.7
Sweden	6.1	2.9	3.9	6.8	9.7
Switzerland	0.9	1.0	3.5	6.4	4.0
OECD Europe	5.1	2.3	3.7	6.4	10.9
Standard deviation	4.9	1.1	1.0	1.2	4.3
United States	2.5	1.3	2.6	4.9	8.5

^a Consumer prices

Sources: IMF, *International Financial Statistics* (1967/68 and 1980 Yearbooks).

(Source: Christopher Allsopp, "Inflation", in Andrea Boltho [ed], *The European Economy; Growth & Crisis*. [London: Oxford University Press, 1981], p. 72, Table 3.2, p. 79)

Capital Movements

A reversal of capital flows among developed capitalist economies was marked by a reversal of the east-west flow of capital which marked the beginning of the decade with an outflow of funds from the United States. This was due largely to speculation against the German Deutschmark following its revaluation in 1969, and repatriation of Canadian funds. The recession of the late 1960s in the United States having created a tight money supply and lowering interest rates seemed, temporarily, to have reversed the speculative flow. The UK took steps to prevent the reversed flow winding up in speculative pools within its own economy. Britain cut its bank rate by a full point (from 8% to 7%) in mid-1969 and attempted to bring interest rates into alignment with declines in the Euro-dollar rate. Interest differentials were still seen to be applicable to marginal flows of speculative capital in Europe.

With the sterling float of 23 June 1972, following the turbulent currency conditions precipitated by the US float of August 1971 and the attempt to provide a new parity alignment with the Smithsonian Agreement of 18 December 1971, another reversal in volatile capital flows presented itself. The Agreement resulted in a massive currency float among OECD currencies with the end result of stemming outflows from the United States and strengthening the US balance position consequent to an effective depreciation of

the dollar. Capital reflows which began again and continued to the US until January 1973 were suddenly reversed with such massive speculation away from the dollar that foreign exchange markets were closed twice in 1973, in February and March. The volatile movements registered the depth of uncertainty pervasive at the time.

International Liquidity

As noted earlier, with the deterioration of the United States balance of payments during the 1960s the validity of the US dollar as a reserve currency was undermined.⁴² Generally during the 1960s the entire system of international reserves was becoming increasingly tenuous as the "islands of stability" supporting a de facto Bretton Woods convention disappeared. When the US began to eliminate its deficit in the latter part of the sixties, and thereby reduce the growth of international reserves (in dollars available to be held by foreign central banks for the purpose of funding their own deficits), a problem of funding an international reserve pool presented itself. One attempt to remedy the situation was to contrive an artificial reserve asset system. This was done through the establishment of a new reserve asset, the Special Drawing Right (SDR), by the International Monetary Fund (IMF) in 1969.⁴³

When the SDR was implemented in 1970, a direct

transfer of central banks credits in the settlement of deficit was guaranteed by the IMF in the form of a gold-denominated unit of value. (The SDR is a book-keeping entry used to smooth out the functioning of the international payments system in the absence of a true reserve currency.) Holders of SDRs were restricted to central banks and treasuries of IMF countries. It was important that the new asset would provide confidence and a nominal value of account independent of any one country's domestic economic health. Moreover, the provision of multinational control over the size and supply of reserves could presumably stabilize liquidity and reduce inflationary pressures on a world scale. While the evolution of the SDR has demonstrated its low efficiency as a reserve asset, it has been useful as an international unit of account. (In quantity its contribution to total international reserves fluctuated around its initial allocation of 3% from 1970 to the end of the period under review here. For example, in 1976, at \$9 billion, SDRs represented only about 4% of total international reserves⁴⁴). The problem of stability of international currency exchange has not been remedied.

The beginning of the decade of the seventies anticipated the destabilization of the global economy that a slightly growing reserve/high liquidity relationship would imply and moved to an institutional remedy. The US balance of payments deficits of the seventies eventually undermined these early, well-placed institutional efforts with a

subsequent flood of dollars accumulating in foreign central banks, necessitating chronic flexible exchange rates and an era of currency floats.⁴⁵

The "Miserable 1970's" : The OPEC Decade, 1973 and Onward

In an end-of-the-decade review, The Economist published a journalistic account of the performance of global capitalism during the 1970s entitled "The OPEC Decade".⁴⁶ It based its commentary upon the failure of four beliefs which would certainly have appeared plausible to a reasonable person in 1970, but which were proven to have been false by the end of the decade. These were inflation as a soluble problem; the assurance of a growth and rise in world trade; the efficacy of Keynesian economics in handling "minor ups and downs"; and the assurance of world order through the domination of rich countries led by the United States. Such beliefs were proved to be the illusory struts of an optimistic edifice.

"By the end of these miserable 1970s", it is reported,⁴⁷ the very world order within which the shocks of the early seventies manifested themselves had changed. The Arabs controlled oil - a vital supply resource whose primary characteristic is its relatively inelastic demand. That shift of control was unthinkable in a world of "orderly" capitalist predominance. Interdependence among the Northern/mostly-Western core states of Europe, North America and Japan, while occasionally troublesome, was certainly a

well-appreciated development. Dependence upon a "Third World" cartel for a vital resource was "crisis".

The August 1971 dollar shock which revealed that "the American giant had feet of clay, and that world money was built on sand" was followed by the Club of Rome's "intellectual shock". The publication of the Club's book warning about the Limits to Growth⁴⁸ seemed to kick off the environmentalism of the times, prophesizing a doomsday consequence to the overexploitation of natural exhaustible resources. But the decisive shock came in 1973: price manipulation had been learned by Arabs.⁴⁹

A world spending itself silly on the 1972-73 commodities boom might have guessed the truth that when resources become or can be made scarce their prices can be raised. Now the truth was shoved down its throat.

The "world order" whose passing The Economist bemoans was an order of economic predictability and convention, fostered by assumptions in the post-war years of adequate supplies of production factors and an international market able to regulate the distribution of surplus and denominate its flow in stable currencies. The collapse of that order is not viewed in the present work, as in the quotation above, as the collapse of an illusion. Rather it is viewed as part of a developmental trajectory toward crisis - the product of concentration and the subsequent need to insulate capitalist political and economic institutions from risk, which had become proportionately more threatening as markets became increasingly fragile.⁵⁰

The events of the period 1973-1982 have been much discussed in journalistic accounts, academic analyses, and government policy statements. The literature on the global situation of the "miserable seventies" is enormous and the general outlines of the crisis well known. The treatment in the present work, therefore, will be to provide a summary of those events and the main debates surrounding an analysis of them.

My summary is intended to support the general argument of my thesis, linking the economic context of the late 1960's and seventies to a consideration of state autonomy. In terms of periodicity, I want to establish that fundamental structural weaknesses within the international capitalist system were well-articulated before the advent of OPEC. The preceding pages have argued that balanced growth, orderly capital transfers, currency stability, and most importantly, an efficacious pattern of international investment behavior experienced a sharp and synchronized downturn during the mid-sixties. The inability of policymakers, both in and out of government to exploit traditional stabilization policies to remedy the decline was neither a failure of nerve nor an adherence to policy illusions (viz., Keynesian growth prescriptions according to The Economist). Rather, the view of the present work is that a threshold of development had been reached. International capital had constructed a risk-minimizing/profit-maximizing institution of financial interaction, the basis of which was

formed by new instruments for capital mobility. Disequilibrium in international payments balances threatened to impair accumulation by promoting speculative impulses among shelter-seeking financial agents. Continued investment in capital formation projects declined. Marginal gains in international financial transactions were sought as a holding pattern sustaining profit margins until the period of uncertainty passed. Long-term capital projects were deferred in most of the key economies of the West or only cautiously initiated in the early seventies as equilibrium seemed likely to be reestablished following the commodity boom of 1971-1972. But stock building was always lagging far behind consumer-led and inventory replacement "recoveries".

Not only private capital owners and investors were playing the speculation margins in the early 1960s and late 1970s. When central banks joined the game (in the absence of a true reserve currency since 1967), the multiplication of inflationary pressures increased to reflect the scale of mobilized capital assets. In 1973, the overt refusal of a major production-factor supplier, the Arab cartel, passively to accept price determinations originating outside its own discretion confronted a system already faltering under the weight of uncertainty. What follows, then, is an account of how the circumstances of the seventies provided a path which both influenced and accommodated the trajectory of the late sixties. That trajectory was a synchronized condition of disequilibrium which has come to be termed crisis. The path

accommodating that condition, while purporting to remedy it, is attributable to a closing alignment of state and capital. State autonomy was decreasing. The political expression of that was the deformation of the bourgeois constitution, the economic expression was the distortion of capitalism's markets: factor, financial and labour markets.

While a more discrete observation of the state/capital alignment will be provided in the country-sections in the next chapter, it is timely to remind the reader that the context of global crisis is being used here, explicitly, to test the proposition that state autonomy decreases in times of crisis. Certainly, the indication that closing alignment of state and capital responses in an international context provides evidence supporting that proposition.

OPEC Oil: Exogenous Shock

When the terms "shock" and "crisis" begin to appear regularly in the journalistic and academic writing of the 1970s, they did so with the oil price increases following the 1973 Arab embargo as the touchstone. Earlier a number of currency "crises" gained some limited notoriety in specialty journals and the financial pages of newspapers. But it was the so-called exogenous nature of the oil shock which brought home the vulnerability of the established capitalist system to "outside" influences. That "outside" could be an unpredicted event, an unforeseen enemy, or a break in a

temporal trend which seemed to be the result of an arbitrary conjuncture of circumstance. The first Arab oil embargo following the Yom Kippur War, and subsequent price rises of 1973-74, brought forth all the definitions of shock and crisis which have become the summary definition of an exogenous economic shock. The second oil price rises and threats to supply in 1979-80 appeared as a deliberate consolidation by OPEC of "outsider" status, allowing the cartel to exploit its location on the periphery of the global capitalist economy. The second oil "shock" was in reality the establishment of a fair market price confronting the stagnation and inflation within capitalism which has been apparent from the late sixties. OPEC drove a wedge from the periphery to the heart of industrial capitalism in five years, using price and supply as its agents. Both the speed of penetration and the enormous repercussions of OPEC's activities have purchased them a decade of their own in popular accounts of the period.

The Contours of the First Oil Shock

Saudi Arabian oil (crude 34 API) rose from a posted or marker price (by which other crude prices are set according to quality) of \$1.30 per barrel at the turn of the decade (and \$3.00 just before the Yom Kippur War in October 1973) to \$11.65 by December 1973. That rise represents a 350% increase in price from the previous year.⁵¹ The price rise was accompanied by embargoes and production cut-backs taken

by the oil producing states during 1973 and 1974. Not only was the exercise of autonomous pricing a shock but the great dependency of the capitalist system upon "foreign" oil as a primary fuel presented itself in 1973 as an unforeseen consequence of post-war economic success. Between 1950 and 1973, Western oil imports increased more than 17-fold, and oil stood at more than half of total energy consumption at the later date, from being only a quarter of energy consumption in 1950.⁵²

Because the US support of Israel during the Yom Kippur War is generally thought to have been the trigger for the Arab decision to cut production and initiate an embargo against the US (and the Netherlands), the origin of the "problem of oil" was as crisis-ridden as the immediate price impacts. The political decision by the Arab nations to take an aggressive action in the realm of economic supply had extremely radical connotations. Supply action has been regarded as a most dangerous aggression since the invention of the general strike. That such action should be taken so precipitously by an outside cartel created wide spread panic in the West.

Imagining Oil

The collective memory of the capitalist world most probably recollects the oil events of 1973-74 as the natural disaster which "changed things". The recasting of the economic

problematic which accompanied the shock was indeed dramatic, and for that the cartel price actions of the Arabs might appear fortuitous. The problems and budding antagonisms of the late 1960s and early 1970s development of international capitalism could now be crystallized and a radical rethinking of policy options initiated. This is not to deny that the actions and price rises of the time were of great importance. The proportions of that crisis will be spelled out immediately below. But the view of the present work is that the capitalist system was vulnerable to an exogenous shock because endogenous decline had been exposed by the turn of the decade. To comprehend the oil shock entailed an imaginative construct on the part of capitalism - its policy makers and constituents - which was capable of masking sufficiently the structural causes of the preceding decline and of "re-educating" capitalism's republics to the new austerity.⁵³

The oil problem is the most urgent and baffling of those that governments are facing. The sudden intervention of this new factor of supply constraint, ... the uncertainty it entails ... the assumption about oil supplies ... totally arbitrary and require as much a political as an economic judgement...

The price, supply, and petrodollar effects of the oil shock were, and remained, the most important aspects of the oil shock. Distinctions among the three components of the shock were made on the basis of the defensive actions which might be taken by the capitalist core to protect its growth and stability. The price rises were thought to be

relatively easy to quantify and off-setting policies could be imagined, among them policies aimed to increase the substitution elasticities of this primary commodity, knowing that demand elasticities would be very low. Also the very nature of price stabilization remained a powerful myth even though at this early stage in the crisis it sounded like whistling in the dark:⁵⁴

there is a natural economic limit to how far price increases can go... [O]nce a certain threshold price for oil is reached, a process of research, development, and production of alternative sources of oil and, more generally, energy will set in, which may well prove to be irreversible. And, if past examples of major research efforts ... can be taken as a guide, there is every likelihood that accelerating technological progress would reduce the relative price of energy substitutes.

Supply, when independent of the mythology of price, presented nearly unimaginable dilemmas, and ideas of defensive action, short of military and "sphere-of-influence" maneuvers in the international context and economic measures at home, were confused. Supply prescriptions were short-term and called for rationalized supply-allocation within domestic economies and a search for demand management policies to preempt recession.⁵⁵

The prospect of massive amounts of "petrodollars" (so called because oil prices continued to be denominated in US dollars) in an internationally floating currency situation, with already volatile capital flows and a high degree of liquidity, was very puzzling. On the one hand the overall

balance of payments from the OECD to other blocs could be assumed to remain stable, with trade deterioration offset by the capital account as Arab nations would presumably seek investment outlets in the North (and primarily West). On the other hand, the size and timing of infusions of petrodollars would be at the discretion of the cartel. This further discretionary power could only enhance the economic strength of the cartel and threaten to destabilize the already fragile international financial system.

Commodity Price Rises Before the Oil Events

Immediately prior to the oil events of 1973, commodity prices had risen some two or three times faster than all other prices and accounted for almost the entire annual rise in the GNP deflator⁵⁶ - from 4.8% to 7% in the mid-year forecasts to 1973 for OECD countries. Food was by far the largest component of the rise. Farm incomes in the United States during the first six months of 1973 increased by an annual rate of 24% following an annual increase of 20% in 1972.⁵⁷ Australian farm profits increased during those periods 23% and 52% respectively.⁵⁸ While these profit rises reflect the top end of the range, it is nevertheless generally the case that farm incomes had risen sharply. When comparing prices received and prices paid by farmers in key OECD countries it is apparent that in spite of accelerating input prices for farm production, prices received outstripped the rates in Table 2.5.⁶⁰

Table 2.5
 Prices Received and Paid by Farmers
 % Change From Previous Years (Actual rates)

	1971	1972	1972	1973	Latest month over corresponding month in 1972	
			II	I		
Prices received						
Canada	1.8	10.7	7.4	14.1	27.0	July
United States	1.8	12.3	7.1	20.8	35.6	July
Japan	1.0	1.8	7.5	..	25.1	May
France	4.4	12.8	7.0	..	14.7	May
Germany	-2.1	12.7	6.8	5.7	3.5	August
Italy	2.2	10.3	8.6	16.8	31.6	July
Prices paid						
Canada	3.4	4.3	1.3	9.8	13.0	Q2
United States	4.5	5.4	3.3	9.3	16.4	July
Japan	4.9
France	7.4	4.5	2.6	3.6	8.7	June
Germany	4.9	5.8	3.0	8.5	14.6	August

(Source: Angus Maddison, "Western Economic Performance in the 1970's: A Perspective and Assessment", Banca Nazionale del Lavoro Quarterly Review, 143 [September 1980], 247, p.28, table 100).

Furthermore, it is farm-gate prices which seem to account for the rise in the general contribution of food to inflation, rather than processing or distributing profits which exhibit normally moderate price increases for the time. As agriculture is considered a "crude primary material" whose consumption-share is about 70% of total crude primary materials consumed in OECD countries, its sectoral price fluctuations are of key importance to movements in GNP deflators. OECD consumption of crude primary materials amounts to about 10% of its aggregate GNP,

(with processed primary materials amounting to about double that percentage).

The contribution of food price rises to the consumer indexes of OECD countries varies, but in all cases the contribution has risen when the annual rise 1972-73 is compared to the average price contributions of the preceding decade. Of a total rise in the consumer price index for the United States from 1960 to 1970, food contributed 0.6% compared to 2.2% contribution of non-food prices; for OECD Europe the figures are, respectively, 1.5% compared to 2.4% (1960-70). Between September 1972 and September 1973, the US consumer price index registered a rise in food price contribution of 4.2% of the total price rise in the consumer index, compared to a 3.2% rise for non-food prices. OECD Europe registered a 3.9% food contribution compared to a 4.9% non-food contribution to total rises in the consumer price index. For the OECD total the consumer price index registered a rise difference in the two periods (1972-73, and the preceding decade) of +5.2%, of which food prices made a 3.5% contribution.⁵⁹ Such was food's contribution to the 1972-73 commodity boom.

Other commodity prices showed marked increases during the year immediately preceding the oil shock. Industrial fuel prices had been rising in the United States, Germany and Japan, although with a range of some 15%.⁶⁰ Generally, the rise in overall industrial raw material price is thought

to have contributed about 1.5% to the total demand deflator, about 2.5% for the UK, and perhaps 0.5% for Germany.⁶¹ While these figures are far less dramatic, and even less reliable, than the figures for food (because of difficulties of cross-national comparability and the way that particular commodity mixes of these materials can affect an accounting of the price impact), it is nevertheless well accepted that the rise in input prices for industrial economies induced by these price rises is most certainly contributory to an overall inflationary pressure.

As with farm income, the boom years produced large profits in the non-food commodity sectors, especially in mining, forestry, and petroleum. For example,⁶²:

[T]he largest increases in second quarter profits in the United States were all found in the non-food basic material[s] industries. Post-tax profits for the paper industry advanced by 69 per cent over a year earlier, while building material profits increased by 66 per cent, metals and mining by 56 per cent and steel by 49 per cent. In Canada, 1973 second quarter profits in the base metals industries were 300 per cent up on a year earlier, petroleum 54 per cent and forest products 173 per cent.

Given that the commodity boom immediately preceded the oil events, and given its profit-taking character, it should be noted that during the first quarter of 1973, the seven big petroleum companies of the capitalist cartel (the so-called "Seven Sisters") increased their net profits by 26%.⁶³ We can assume that these commodity sector profit rises were observed by primary producers such as the Arab

oil states.

Not only the composition of the boom but its large and synchronized occurrence is notable. On an international scale, the aggregate GDP of the capitalist world experienced an expansion in 1972-73 not seen since the boom of 1950-51. Moreover, because the later boom followed on the heels of extraordinary increases in capital liquidity from the turn of the decade, easy credit financed huge exports. Angus Maddison has reported that "the boom was even bigger in the communist countries and parts of the third world" (with GDP rising in the Soviet Union by 7.6%, in China by 10%, and in Brazil by 13.9%).⁶⁴ The scope of the boom was very wide indeed, and occurred in a context of structural changes as have been discussed above.

Expansion and Boom: Precedents to the Oil Shock

While commodity prices were jumping, and inflation continued to rise, it appeared that an expansion was nevertheless underway from about late 1971. Indeed, the largest annual increase in GNP among the seven biggest OECD economies was recorded in the 1972-73(I) period. The 7 to 8 percent increase was matched by a similar percentage in inflation however, and commentary ranged from cautious to glowing self-congratulation⁶⁵:

to have eliminated stagnation - in circumstances which were not entirely conducive to business confidence - is in itself an achievement, and there seems no ineluctible

reason why governments should prove incapable of meeting the challenge of maintaining suitable growth rates after the exceptional recovery period comes to an end.

It is at this time, during the expansion and immediately prior to the oil shock, that the mechanism for enabling self-sustaining growth following the surge of expansion and boom activity continued to be sought in demand management. But the times are different from the 1950s when this primary tool of Keynesian macroeconomic policymaking seemed to yield such good results. Inflation is the primary context within which policy would now be formulated. High unemployment, volatile capital flows, unrestored trade and payments balances and lagging investor confidence necessitate a redefinition of the components of demand and the correct targetting of policy intervention to stimulate or restrain any one or the other of those components. A polar antagonism between two fundamental components begins to exhibit itself in the universe of policy decisions: broad consumer demand of goods and services versus investment.

One indication of the remarkable changes that have occurred since these years of the early seventies is the assumption at the time that government services and public expenditures would not be targets of restraint in demand management. While pro-cyclical spending by governments might be considered a phenomenon to monitor, it was nevertheless assumed that it was the revenue-side rather than the expenditure-side of management which offered the most

flexible policy arrangements. And even within the revenue areas the fear of a tax-push inflationary jump (the product of wage and cost-of-living pass-through to prices) constrained policy so as to affect consumption. It was imagined at the time that the restraint of investment behavior was a possible prospective action to facilitate growth and stabilization. The notion of raising corporate taxation and levying limited-duration taxes on investment goods was imagined to be a viable policy option.⁶⁶ The contrast of social consumption and private investment was not sharply drawn at the time, but the economic and policy tensions were beginning to be rediscovered.⁶⁷ When the "temporary" and volatile capital flows of the late sixties began finally to appear as the "investment strikes" of the 1970s and 1980s,⁶⁸ the contours of that antagonism would be more finely drawn.

The Recession of 1974-75

The contribution of the oil crisis to the recession of 1974-75 was primarily the prompting of a synchronized deflationary spiral as governments reacted to the new prospects of acute price uncertainty with policies of economic restriction. The accelerating demand of the boom years and the jump in oil prices triggered a policy emphasis on fighting inflation. The deepening recession saw OPEC reserve accumulation rise, while shrinkage in real income reduced purchasing power in almost all the major industrial

economies. All the while inflation rose. During 1974 and 1975, total real income in the sixteen OECD nations declined by 1.6% and average price increases for the respective years were 13.2% and 12.1%.⁶⁹ The differential impact on select countries is shown in Table 2.6.:

Table 2.6
Differential Impact of Inflation on Select Countries,
1973-1975

	Growth of real GNP (per cent)		Increase in consumer prices (per cent)		Current balance (\$ billion)	
	1973 to 1974	1974 to 1975	1973 Q4 to 1974 Q4	1974 Q4 to 1975 Q4	1974	1975
Total OECD	↓	↓	15½	11	-37½	-38½
United States	-1½	-2	12½	10	-3½	-7½
Rest of OECD	1½	2½	17	11½	-34½	-31
<i>Of which:</i>						
Japan	-3½	2	26½	11½	-4½	0
Germany	1	2½	7½	6½	9	6
France	4½	3	15½	11½	-7½	-6½
United Kingdom	-½	1½	17½	18	-9	-6½
Italy	4½	-½	25½	14½	-8½	-5½
Canada	4½	3½	11½	11	-1½	-3½

(Source: OECD. Economic Outlook [Paris, December 1974])

Of greater importance was the incidence during the recession of what is euphemistically termed "spontaneous recessionary elements", otherwise known as trends signalling

a halt in investment. "How can investment be induced in stagflation?", was the policy question of the day. To support demand on a synchronized and international basis risked heightening inflation, and appeared to fuel "inflationary expectations" (wage demands) which were already not responding to contraction in the desired manner. To adopt an even further restrictive policy stance on a synchronized basis would plunge the global capitalist economy into a depression, as the events of the thirties bore witness. The great debate about "acceptable slack" began. The prescription and chief policy result was cautious support for demand. Creeping restriction seemed to be the order of the day, however, at a time when it still was not clear what levels of "slack" could be sustained politically in an economic context which demanded economic responses, increasingly defined as the inducement of business confidence. So while, in fact, a measure of countercyclical fiscal policy was initiated in most countries when the full depth of the recession was apparent, it tended to be collectively cautious and certainly seemed unable to counter the spontaneous recessionary pressures which were increasingly sensitive to inflation.

The contrast between unacceptable inflation and tolerable degrees of slack informed the collective wisdom of policy making from the 1974-75 recession onward. The era of stag and slumpflation made inflation the common denominator to the progressively cautious numerators of productivity and

demand in the new policy equations.

The 1976-79 Recovery: An Evolving Definition of Inflation

When the recovery set in by the first half of 1976,⁷⁰ inflation as the "central problem" was fully entrenched. Now inflation was gaining a new and more elegant definition as an artifact of policy timing in the orchestration of the recovery. Of particular importance was the interdependent nature of recovery, and here, as in the discussion of financial interdependence earlier, the asymmetry between domestic policy and a smoothly coordinated international recovery was problematic. As the asymmetry seemed an intransigent fact of economic life, correct timing of policy began to be perceived as crucial. But paradoxical dilemmas were encountered: the timing of policies could sustain a partitioned international economy, whereby the strong-recovery nations consolidated their position against the weak-recovery nations, or it could allow synchronized recovery in all nations thus inflaming price tendencies. Not only were domestic economies to be restrained but the polar components of demand/consumption vs. investment were now poised in apparent opposition:⁷¹

the experience of 1972-1973 showed, that, even when there is a significant margin of unused resources, a sharp and synchronized upturn can lead quickly to a rapid acceleration of inflation, both domestically and internationally. The "smooth recovery" strategy, on the other hand, calls for careful demand management since it requires a gradual shift in the composition of demand away from public expenditure or consumption towards business investment.

The manner in which business investment could be induced was also a problem. The recovery in output existed along with bug-bears of uncertainty during the recovery. Of significance were the lop-sided distribution of recovery strength (the US and Japan foremost, with France and Germany experiencing a short lift and quick deceleration while weaker economies waited) and wide dispersion of inflation rates among nations with, in any case, only slight improvement overall (the rise of 7% for the seven major OECD economies during the first half of 1976 was only 1% better than the rise in the the second half of 1975). This is illustrated in Table 2.7.

Table 2.7
Implicit GDP/GNP Deflators
(average annual % changes)

	Mid to late 1960s ^a	Early 1970s ^a	1974 to 1975	1975 to 1976	1979 to 1980
Canada	4.4	7.6	10.7	8½	5½
United States	3.8	6.0	8.8	5½	4½
Japan	5.0	7.4	7.6	6½	6
France	4.4	7.4	12.0	11	6
Germany	2.5	6.2	8.2	3½	4
Italy	4.0	11.4	17.5	17½	7
United Kingdom	4.7	9.2	27.7	16½	6
Australia	2.8	7.9	15.6	14	5½
Austria	3.4	7.6	8.9	6½	5
Belgium	4.2	7.9	12.4	10	5½
Denmark	6.1	7.2	11.5	9	6
Finland	5.6	11.8	17.0	13	7
Ireland	4.6	8.8	23.0	17	6
Netherlands	5.6	8.6	11.0	8½	5
Norway	3.5	8.2	11.1	9½	5½
Spain	6.3	11.0	16.5	15½	7
Sweden	4.5	7.0	14.5	9½	5½
Switzerland	4.4	6.6	6.3	3	3½
Total	4.1	8.1	10.9	7½	5

^{a)} For exact periods covered, see Table 54.

(Source: OECD. Economic Outlook [July 1976])

Also a bigger than expected rise in commodity prices occurred almost simultaneously with the early stages of recovery (e.g. spot prices for industrial goods increasing by 25% in dollar terms in the first five months of 1975 despite large producers' stocks and continued excess capacity at this stage).⁷²⁾ Troubled international exchange markets were so problematic that official intervention was required frequently and was so massive that it rivalled the general 1973 float.⁷³ Finally, large swings into current external deficit overall, and many economies, including most dramatically the US moving into negative current account deficits. These "uncertainties" were no less than the expression of continued structural imbalance within the international capitalist system. Their persistence prior to and through recession and recovery could only have been stopped with massive political nationalization of key industries and finance organizations akin to a war-time mobilization of the economies of the OECD. That option remained, of course, outside the realm of possibility due to the structural constraints of the system whose very definition was private accumulation of even marginal surplus gains.

The timing element became ever more crucial in the ability of policy to address the problem of inflation, as it pertained to investment. The timing strategy might be termed "preservation of the golden goose". A single and most important element in recovery was perceived: consumer demand

was the golden egg upon which investor confidence could rest. The timing problem was clear: at what point and how long could consumer demand be stimulated to induce investment and hence an autonomous recovery? Failure of correct timing could result in an inflationary spiral involving consumer expectations and excess investment demand. Now that investment was not chiefly defined as fixed capital investment but as exploitation of short-run opportunity in services and distribution, and possibly inventory-building or hoarding, the impact of uncertainty was deep and very destabilizing. Thus occurred the elevation of "fine-timing" as a key policy prerequisite.

Business Confidence: An Unrecovered Resource

Throughout the recovery, from 1976 to 1979, the capitalist international economy seemed never to reach a threshold of security which would enable the illusive autonomous growth pattern of the pre-seventies to be achieved. Insecurity about supply, price, and balances in the international trade markets remained. Technological innovation prompted by the challenge of the search for new and alternative energy resources never materialized (although rationalization of petroleum consumption in automobile manufacturing did increase the already threatening Japanese surplus). Capital stocks remained low throughout the period, as did capacity utilization.⁷⁴ The disappointing results of "recovery" prompted a great deal of soul-searching in policy debates.

The advanced career of "cost-push" inflation was now poised to take off, which it did with a vengeance when commodity supply constraints were coupled with labour supply "rigidities" to form the explanation for structural decline.

Security-insuring investment could partly be accomplished by commodity price stabilization and wage restraint, but the need to gradualize recovery, as discussed above, would constrain an expansion of capacity utilization. In that case unit costs would not decline as productivity increases would remain lagged. Profits would therefore remain low and encouragement to invest would also be dampened. A remedy to that would be rapid price mark-ups as an attempt to capitalize on the recovery. The inflationary impetus of such a profit strategy is obvious. The attempt to control labour supply/wage demands and price was the point of the wage/price programmes of the seventies. The timing and orchestration of recovery lay at the heart of these programmes, whose aim was to reach the threshold of automatic growth stimuli. In any case, the upturn in output in 1974-79 was unevenly distributed among national economies, and when at its strongest in the US, was mainly a consumer and residential-investment led recovery. The key resource missing in those programmes was investor confidence - an absolutely decontrolled resource for growth since the late 1960s.

The Second Oil Shock

The poor performance of the aggregate economies during recovery form the context within which the second oil shock arrived, (Table 2.8).

Table 2.8
Growth Scenerio of the OECD Area,
1976 - 1980
(projections and likely outcome)

	Earlier trends			Recent trends and prospects		
	1973	1974	1975	1978	1980/1975	
	1960	1973	1974		1975	Projected in 1976
Average annual percentage changes						
GNP/GDP (volume)	4.9	0.3	-0.6	4.2	5½	3½
Gross fixed investment ^a	6.6	-5.4	-7.2	6.0	9	5
Labour productivity	3.8	-0.4	0.3	2.8	4	2½
Employment	1.0	0.7	-0.8	1.4	1½	1½
Final year of period						
Unemployment rate ^a	3.4	3.6	5.3	5.1	4	5½
Change in GNP/GDP deflator	7.6	11.9	11.5	7.5	5	8-9
Current balance (\$ billion)	9.6	-27.6	0.2	6.4	7½	-15 to -20

Note: The 1976-1980 projections were established by the OECD Secretariat in early 1976 and were presented in a special supplement to *Economic Outlook* No. 19. They were not conceived as forecasts but rather as an illustration of a growth path consistent with non-inflationary economic recovery.

a) Seven major OECD countries.

(Source: OECD. Economic Outlook [Paris, July 1979], p. 10)

These data do not take into account the lop-sided nature of the recovery, nor the very difficult problems maintained in trade imbalances. Most countries were experiencing a severe "fiscal crisis of the state",⁷⁵ as well, and sharpened political turmoil could be added to the insecurity of the system during the "recovery" years.

When the Iranian civil war and subsequent interruption of oil supplies from Iran occurred in late December 1978,

oil prices from the OPEC nations rose dramatically.⁷⁶ The 2 million barrel per day (mbd) decrease in supply instigated a massive price increase. A series of price rises from the OPEC Geneva decision of 17 December 1978 to June 1980 witnessed an increase of some 130%, (Table 2.8).

Table 2.9
Crude Oil Prices, 1978 - 1980

	Average official OPEC export price		Average OECD import price	
	\$ per barrel	% change annual rate	\$ per barrel	% change annual rate
1978	12.87	..	14.01	..
1979	18.80	46.0	19.08	36.2
1980 ^a	30.64	63.0	31.46	64.9
1978 II	12.87	..	14.02	..
1979 I	15.33	41.9	15.86	27.9
1979 II	22.27	111.0	22.29	97.5
1980 I ^a	29.90	80.3	30.26	84.3
1980 II ^a	31.37	10.1	32.66	16.5
1981 I ^a	32.92	10.0	33.94	8.4

^a) Projection on basis that oil prices increase twice yearly, in line with OECD manufactured export prices, in order to keep the real value unchanged from the date of the last major increase. The Saudi Arabian marker price for light crudes was \$ 12.70 a barrel throughout 1978 and then moved to \$ 13.33 in January 1979, \$ 14.55 in March, \$ 18 in June, \$ 24 in December, \$ 26 in January 1980 and \$ 28 in May (backdated to April).

(Source: OECD. Economic Outlook [Paris, July 1980], p. 116, table 31)

Although those increases were dispersed unequally among OECD countries,⁷⁷ the impact upon the fragile international capitalist economy was substantial. In the first place, while net imports of oil decreased somewhat in the OECD (from 27 mbd in 1978 to 25mbd in 1980), the import bill rose substantially (from \$140 billion to \$290 billion).⁷⁸ Prices

reacted with a +15% annual increase during 1979/mid-1980. Current balances moved quickly into deficit (from a surplus of \$10 billion in 1978 to a deficit of \$35 billion in 1979, and a deficit approximately double that in 1980). Exports to OPEC remained at a little over a half of that amount.

The second oil shock was considered to have induced a second global recession during 1981-82. Because the present work considers that recession to be an artifact of the US slump it will be treated in the country sections of the next chapter. For now, it is the crystallization of policy tendencies that seemed to be growing during the "recovery" of 1976-79 which will be emphasized.

The Challenge of the "Miserable Seventies": "Fostering the Will to Invest"⁷⁹

With the second exposure of the capitalist core to a shock which involved not only price controls exercised by "outsiders", but fundamental threats to supply, the turn of the decade ushered in a new resolve on the part of capitalism to restructure its economy. The talk of zero-growth, austerity politics, and the search for increasingly rationalized economic performance engaged policy makers in almost all core economies in a debate about the "sins of the past". Hindsight became the preferred policy posture. What was observed, thus situated, was the great fallacy of demand management, which fostered

unemployment and progressive wage rewards, supported in the broader social sphere by increased public expenditure of community services. The dreaded "inflationary expectations" syndrome was discovered to have its origin in that great liberal sop, Keynesian demand management. The "sins of the past" had led to the profit squeezes of the present, so the observation of hindsight taught. The antecedents of decline were found in the psyche of expectations, and so of course the remedy would be found, in hindsight, in the psyche of discipline. A decade and a half of recession and disappointment, of declining profits and decreasing productivity, of obsolete capital stock and increasing market demands for competitive product performance: all this within an international setting where interdependence was looking increasingly like the partition of the strong and the weak created a profound reassessment of political and economic "reality".

The new realism recognized an old master, the profit motive. If there had been some ambiguity throughout the 1970s about the prerequisites for economic growth within capitalism, they had been dispelled by the end of the second recession in 1982. By mid-1982, the OECD secretariat outlined the "structural problems" facing the OECD countries.⁸⁰ In the first place, social and political development of the last two decades had resulted in a loss of flexibility in the mobility of labour and the freedom of employers. Secondly, the share of aggregate income received

in wages was a structural imbalance which was responsible for reduced profit shares, and finally, social expenditures created a jump in public sector deficits whose financing depended not only on taxation but public investment. (The prelude to the mid-eighties theories of "squeezing out" began here, and would be subsequently developed to apply to both credit and investment markets.)

These "new realist" definitions of structural problems declared the end of a past golden age where:⁸¹

When growth was brisk and relative prices were changing only slowly, such adaptations as were necessary could be made fairly easily, through the allocation at the margin of growing output and income. Inflexibility and other structural problems did not appear as particularly serious.

The age of innocence was now lost, and would be surpassed only by "fostering the will to invest". The way to foster investment behavior was not entirely clear to the OECD secretariat at this time, but would be clarified by the conservative political regimes which were now being elected in major economic centres, particularly, Britain, the US, and later, Germany and Japan.

¹The international capitalist market is termed "global" in the comparative literature employed in this thesis. The label is a misnomer insofar as much economic activity is excluded from that market through political and military hostility. I shall employ the term for the sake of consistency and dialogue with mainstream analyses. See, for example, Andrea Boltho (ed.), The European Economy, Growth and Crisis (London: Oxford University Press, 1982).

²See, for example, Boltho, The European Economy, especially the introduction and, Jacques Mazier, "Growth and Crisis - A Marxist Interpretation", pp. 38-71; Andrew Gamble and Paul Walton, Capitalism in Crisis, Inflation and the State, (London: Macmillan, 1976); Raymond Grew (ed.), Crises of Political Development in Europe and the United States (Princeton: Princeton University Press, 1978); Bernard Loisseau, J. Mazier, and Marie-Brigitte Winter, "Rentabilite du capital dans les economies dominantes: de Tensions accrues", Economie et Statistique (February 1977), p.39; Angus Maddison, "Phases of Capitalist Development", Banca Nazionale Del Lavoro Quarterly 121 (June 1977), p.103; Ernest Mandel, Late Capitalism, translated by Joris De Bres (London: Verso, 1975), p. 474; Anwar Shaikh, "An Introduction to the History of Crisis Theories", in U.S. Capitalism (New York: Union of Radical Political Economics, 1978), p. 219; Sidney Weintraub, Capitalism's Inflation and Unemployment Crisis: Beyond Monetarism and Keynesianism (Sydney: Addison-Wesley, 1978); Thomas Weisskopf, "Marxian crisis Theory and the Rate of Profit in the Postwar U.S. Economy", Cambridge Journal of Economics, 3/4 (December 1978), p.25. For comparisons with the 1930s see, H. Bertrand, J. Mazier, Y. Picaud, and G. Podevin, "Les Deux Crises des Annees 1930 et des Annees 1970", Revue Economique, 33/2 (mars 1982), p.235; Alexander Field, "A New Interpretation of the Onset of the Great Depression", Journal of Economic History, 64/2 (June 1984), p.489; Daniel Fusfeld, "The Next Great Depression II", Journal of Economic Issues, 14/2 (June 1980), p. 493; Peter Alexis Gourevitch, "Breaking With Orthodoxy: The Politics of Economic Policy Responses to the Depression of the 1930s", International Organization, 38/1 (Winter 1984), p.95; Eugene Nelson White, "A Reinterpretation of the Banking Crisis of 1930", Journal of Economic History, 54/1 (March 1984), p.119.

³The growth formulae concentrating upon aggregate demand are neo-Keynesian. As in traditional neo-Keynesian paradigms an assumption of historic, rather than logical time paces development; and primarily endogenous (policy) determinants are assumed more crucial than exogenous events in analyses of growth problems. See, John Cornwall, "Economic Growth: Two Paradigms", Journal of Post-Keynesian Economics, 1/3 (Spring 1979), p. 69; _____, Growth and Stability in a Mature Economy (London: Martin Robertson, 1972); _____, Modern capitalism: Its Growth and Transformation (London: Martin Robertson, 1978); Burkhard

Strumpel, "The Changing Face of Advanced Industrial Economies; A Post Keynesian View", Comparative Political Studies, 10/3 (October 1977), p. 299.

⁴ Assumptions about the increased interrelation of capitalist economies inform this view. The role of multinational firms and international circuits of capital are usually the starting place for examining exogenous influence in the extension of crisis. For differing ideological representations surrounding this orientation see, for example, Elhanan Helpman, "Multinational Corporations and Trade Structure", Review of Economic Studies, 3/170 (July 1985), p. 443; Richard Peet, "Introduction: The Global Geography of Contemporary Capitalism", Economic Geography, 59/2 (April 1983), p. 105; and Robert S.J. Ross, "Facing Leviathan: Public Policy and Global Capitalism", Economic Geography, 59/2 (April 1983), 144.

⁵ This orientation has promoted a renewed interest in neo-classical analysis of domestic economic rigidities, particularly in labour supply. For early and seminal expressions of those ideas see, Edmund S. Phelps, "The New View of Investment: A Neoclassical Analysis", Quarterly Journal of Economics, 76 (November 1962), p. 548; Robert M. Solow, "A Contribution to the Theory of Economic Growth", Quarterly Journal of Economics, 70 (February 1956), p. 65; and T.W. Swan, "Economic Growth and Capital Accumulation", Economic Record (November 1956), p. 334. A general approach to the problems of trade and product cycle relating to new global economic interdependencies is evident in the representative writings of Robert R. Keller and J. Lon Carlson, "A neglected Chapter in Keynes' General Theory", Journal of Post Keynesian Economics, 4/3 (Spring 1982), p. 404; Paolo Sylos-Labini, "New Aspects of the Cyclical Development of the Economy", Banca Nazionale del Lavoro Quarterly Review, 148 (March 1984), p. 15; James R. Kurth, "The Political Consequences of the Product Cycle", International Organization, 33/1 (Winter 1979), p. 1; John Sutherland, "Corporate Autonomy and X-inefficiency", Journal of Post Keynesian Economics, 2/4 (Summer 1980), p. 549; and Lawrence A. Veit, "Troubled World Economy", Foreign Affairs (January 1977), p. 263.

⁶ For the trend of immigrant labour rates prior to the restrictions see Franco Bernabe, "The Labour Market and Unemployment", in Boltho, op. cit., p. 159; W.R. Bohning, The Migration of Workers in the United Kingdom and the European Community (London, 1972); E.G. Drettakis, "Donnees sur les migrations et sur la croissance demographique en Allemagne Federale, 1950-72", Cahiers de l'INED (Brussels, 1974). For the causes of restrictions, see OECD, Migration, Growth and development (Paris, 1979).

⁷ The labour-hoarding assumptions regarding the decline

of productivity represent an OECD perspective. For an inquiry into the determinants of productivity decline, aside from the highly speculative notion of labour-hoarding, see Donato Alvarez and Brian Booth, "Productivity Trends in Manufacturing at Home and Abroad", Monthly Labour Review, 10 (January 1984), p.52; Peter K. Clark, "Capital Formation and the Recent Productivity Slowdown", Journal of Finance, 33 (June 1978), p.965; _____, "Issues in the Analysis of Capital formation and Productivity Growth", Brookings Papers on Economic Activity, 2 (1979), p.423; Michael Harper, J.R. Norsworthy, and Kent Kunze, "The Slowdown in Productivity". Brookings Papers on Economic Activity, 2 (1979), p.333. For a critique of capital-output ratios as an explanation of productivity movements see Mazier. op. cit., pp. 45ff.

⁸Economic Outlook (Paris: Organization For Economic Co-operation and Development [hereafter, OECD], December 1967), p. 4.

⁹Economic Outlook, July 1968.

¹⁰See Fred Block, The Origins of International Economic Disorder: A Study of United States International Monetary policy from World War II to the Present, (Berkeley and Los Angeles: University of California Press, 1977; Michael Moran, "Politics, Banks and Markets: An Anglo-American Comparison", Political Studies, 32/2 (June 1984), p.173; J. Morris, "The Wierd World of International Money", Monthly Review (November 1975), p.6; Robert Solomon, The International Monetary System, 1945 - 1976 (New York: Harper & Row, 1977); Robert G. Williams, "The Political Economy of Hub Currency Defense: Sterling and the Dollar", Review of Radical Political Economy, 13/3 (Fall 1981), p.1.

¹¹Economic Outlook, July and December, 1968. In the first six months of 1968, the net capital outflow of banking and short-term non-monetary capital/unrecorded transactions was about \$1.3 billion (July, p. 35), while in the US the growth of private dollar balances was hardly affected at all. This occurred at a time of gold and sterling crises and extremely volatile speculative capital flows. The sale of gold was suspended by the Gold Pool countries on 15 March 1968. Following an early 1967 strengthening of sterling, the second half of the year saw a sterling crisis in spite of official intervention and high interest rates. Sterling was devalued in November 1967, yet a flight to gold began again in March 1968. The hoarding of gold was accompanied by a substantial switch to continental currencies as well. The US was able to take defensive action with a tight money policy which stemmed outflow in 1967 and it also benefitted somewhat from the 1968 short-term capital flight from France. The US, in general, was able to remain resilient during the numerous late-sixties "crises". The US had defensive mechanisms in place after 1965 with voluntary programmes to restrict US direct foreign investment

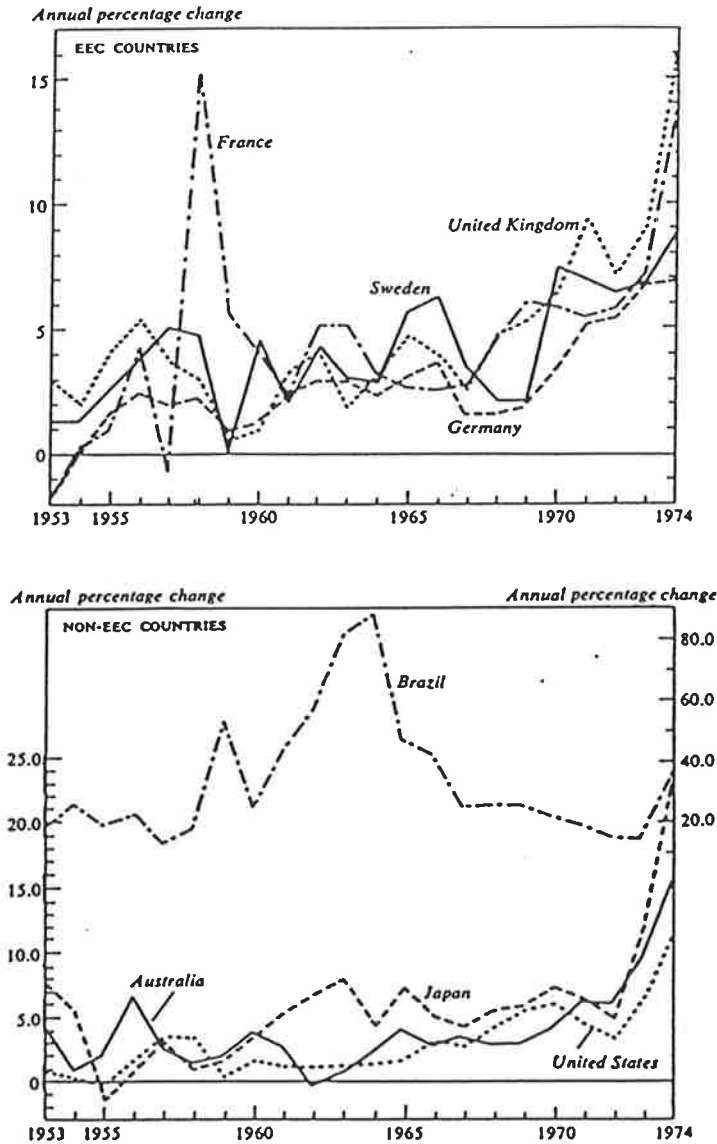
(especially the Interest Equalization Tax), and in 1968 introduced a balance of payments programme which further restrained investment abroad. Private developments such as the rise of the so-called "Delaware" companies have also allowed US capitalists to exploit local credit sources in foreign domestic markets in order to subsidize subsidiary company needs for funds abroad. In some cases funds raised in foreign bond markets were used to speculate in the short-term foreign money markets presumably for further financing of needs abroad (December, p. 34, and introduction).

¹²The creation of the euro-currency and euro-bond markets initiated massive structural changes in international finance. For concise analyses see Federal Reserve Bank of Boston, Key Issues in International Banking (Boston, 1977); Jim Hawley, "The Internationalization of Capital: Banks, Eurocurrency and the Instability of the World Monetary system", Review of Radical Political Economics, 11/4 (Winter 1979), p. 78; _____, "Protecting Capital from Itself: U.S. Attempts to Regulate the Eurocurrency System", International Organization, 38/1 (Winter 1984), p. 131; R.A. Johns, "Transnational Business, National Friction Structures and International Exchange", Review of International Studies, 10/2 (April 1984), p. 125; Helmut Mayer, "Multiplier Effects and Credit Creation in the Euro-dollar Market", Banco Nazionale del Lavoro Quarterly Review (September 1971), p. 35; R.M. Pecchioli, The Internationalization of Banking: The Policy Issues (Paris: OECD, 1983). For the structural impact on domestic banking of the new international finance see Phillip Wellons, "International Debt: The Behavior of Banks in a Politicized Environment", International Organization, 39/3 (Summer 1985), p. 441; Albert M. Wojniflower, "The Central Role of Credit Crunches in Recent Financial History", Brookings Papers on Economic Activity, 2 (1980), p. 277.

¹³Economic Outlook, December, 1968, pp. 29 ff.

¹⁴ Lawrence B. Krause, "Recent Experience in Eight Countries: Summary", in Lawrence B. Krause and Walter S. Salant (eds.), Worldwide Inflation, Theory and Recent Experience (Washington, D.C.: Brookings Institution, 1977), p. 248:

Figure 2.a
Annual % Changes in Consumer Price Indexes
Select Countries, 1953 - 1974



Sources: Brazil, supplied to the author by Antonio C. Lemgruder; other countries, International Monetary Fund, *International Financial Statistics*, various issues. Brazil: scale to the right; other countries: scale to the left.

¹⁵ "Developments in International Liquidity" Economic Outlook, July 1969, pp. 45-59.

Official liquidity trends had been influenced by a drying up of dollars available for foreign money authorities since 1967, and by gold hoarding which contributed to international liquidity. But liquidity created by support to deficit countries rose from an average of \$0.7 billion per year, 1961 to 1965, compared with a \$3.1 billion average from September 1967 to March 1969 (pp. 48 -49).

¹⁶ Douglas R. Mudd, "International reserves and the Role of Special Drawing Rights", Federal Reserve Bank of St. Louis, 60/1 (January 1978), pp. 9-14. SDRs are essentially accounting units created as a type of reserve asset which could be used to facilitate the international payments system. While originally seen as a means of increasing the world supply of reserves and creating a mechanism for smooth allocation among consenting countries, the SDR has been actually used merely as a unit of account (the quantity of SDRs among total reserve assets being too small, around 3-4%). The unit of account may refer to the pricing of international services (e.g. canal tolls). Their value is guaranteed by the International Monetary Fund (IMF) and holders of the units are central banks and Treasuries of IMF-member countries. Its actual value as determined by the IMF is a "basket value", computing the weighted average dollar values of sixteen currencies. The unit is relatively stable and its fluctuation is normally less than the exchange rate fluctuation among currencies. (A band of 2% points is common for the SDR.) For expanded discussions of debt and the IMF, see John H. Boyd, David S. Dahl, and Carolyn P. Line, "A primer on the International Monetary Fund", Quarterly Review, 413/10 (Summer 1983), p. 6; Alec K. Chrystal, "A Guide to Foreign Exchange Markets", Federal Reserve Bank of St. Louis Review, 66/3 (March 1984), p. 5; "International Banking Facilities". Federal Reserve Bank of St. Louis Review, 66/4 (April 1984), p. 5. See also, J.E. Nash, "The World Banking Debt Nexus", Policy Studies, 4, Part 2 (1983), p. 44; and Alexander Swodoba, Credit Creation in the Euromarket: Alternative Theories and Implications of Control (New York: Group of Thirty, 1980).

¹⁷ Economic Outlook, July 1971, p. 36.

¹⁸ Robert Triffin, "The International Role and Fate of the Dollar", Foreign Affairs, 57/2 (Winter 1978 - 79), p. 270.

¹⁹ P.J.D. Wiles, Economic Institutions Compared (Oxford: Basil Blackwell, 1977). See especially Chapter 12, pp. 319-321.

²⁰ Economic Outlook, July 1970, pp. vi-ix.

²¹ Ibid., p. vi.

²²Ibid., p. ix.

²³The Eurobond market was triggered off by the US Interest Equalization Tax of 1965 which restricted foreign direct investment by US capitalists. It quickly rose to become an important part of the international finance market, as its capacity increased enormously in the late sixties (around \$2 billion in 1967 and \$3 billion in 1968: roughly four times the American Market volume for non-Canadian issues) to rival national finance loci. See Economic Outlook, July 1968, p.42. The Eurodollar market is made up of short-term funds denominated in dollars and deposited in banks outside the US. In 1968, commercial banks operating in eight European countries, covered most of the market. During that time it is notable that the Eurodollar market expanded by some 40% between 1968 and 1969 (from \$17.5 billion to \$25 billion). While American and Canadian contributions to the increase stood at about \$1.9 billion (of the total \$7.5 billion increase), they drew funds of about \$4.4 billion. This sum represents over twice what US banks lent to their foreign branches, leading to the conjecture that the rest was lent directly to US residents (bank and non-bank). See Economic Outlook, July 1969, pp. 38-39).

²⁴See James M. Cypher, "State Autonomy and Economic Planning", Journal of Economic Issues, 15/2 (June 1980), 327; _____, "The Transnational Challenge of the Corporate State", Journal of Economic Issues, 13/2 (June 1979), p.513; Joanne Gowa, "Hegemons, IO's, and Markets: the Case of the Substitution Account", International Organization, 38/4 (Autumn 1984), p.661; Meindert Fennema and Huibert Schijf, "The Transnational Network", in Frans N. Stockman, Rolf Ziegler, and John England (eds.), Networks of Corporate Power (Cambridge, England:Polity Press, 1985), p. 250.

²⁵See Peter K. Clark, "Investment in the 1970's: Theory, Performance, and Predictions", Brookings Papers on Economic Activity, 1 (1979), p.73; Robert M. Coen and Bert G. Hickman, "A General View of Capital Formation and Economic Growth: Investment and Growth in an Economic Model of the United States", American Economic Review, 70/2 (May 1980), 214; Robert Dixon, "The Wage Share and Capital Accumulation", Journal of Post Keynesian Economics, 4/1 (Fall 1981), p.3; Folker Frobel, "The Current Development of the World Economy: Reproduction of Labour and Accumulation of Capital on a World Scale", Review, 5/4 (Spring 1982), 507; and Victor Perlo, "The New Propoganda of Declining Profit Shares and Inadequate Investment", Review of Radical Political Economics, 8/3 (Fall 1976), p.53.

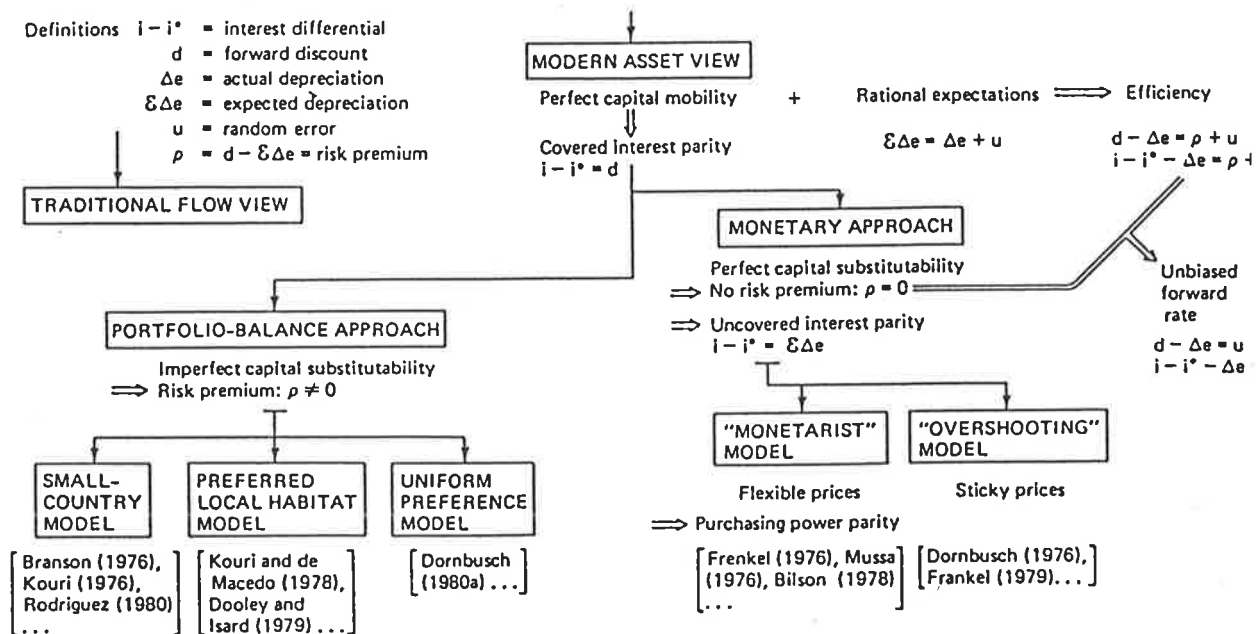
²⁶William H. Branson and Raymond D. Hill Jr., "Capital Movements in the OECD Area, an Econometric Analysis", Occasional Studies, OECD Economic Outlook (Paris: OECD, December 1971).

²⁷ Ibid., p. 17.

²⁸ Representatives of the "flow theory" are: Robert A. Mundell, "The Appropriate Use of Monetary and Fiscal Policy for Internal and External Stability", International Monetary Fund Staff Papers (March, 1962); _____, "The Monetary Dynamics of International Adjustment Under Fixed and Flexible Exchange Rates", Quarterly Journal of Economics (May 1960); and P.B. Kenen, "Short-Term Capital Movements and the U.S. Balance of Payments", Hearings Before the Joint Economic Committee, 88th Congress, 1st session, 1963, as cited in Branson and Hill.

²⁹ Representatives of the "portfolio-adjustment theory" are H.M. Markowitz, "American Monetary Policy and the Eurodollar Market", Brookings Institution, unpublished manuscript, 1971; J. Tobin, "Liquidity Preference as a Behavior Toward Risk", Review of Economic Studies (February 1958); and _____, "The Theory of Portfolio Selection" in F. Hahn and F.P.R. Brechling, (eds.), The Theory of Interest Rates (London:Macmillan, 1965); as cited in Branson and Hill. For an extensive taxonomical review of these models and a thorough bibliography see Jeffrey A. Frankel, "Monetary and Portfolio-Balance Models of Exchange Rate Determination", in Jagdeep S. Bhandari and Bluford H. Putnam, with Jay H. Levin, (eds.), Economic Interdependence and Flexible Exchange Rates (Cambridge, Massachusetts: The MIT Press, 1983), pp. 84-115, especially p. 85 for the schematic breakdown of contemporary models:

Figure 2.b
Schematic Representation of Portfolio Balance Models



For non-econometric alternative perspectives see Peter K. Clark, "Investment in the 1970's: Theory, Performance, and Prediction", op. cit.; Ernest Mand translated by Joris De Bres (London: Verso. 1980), especially chapters, 10, 13 and 17; and James O'Connor, op. cit., especially chapter 4.

³⁰Branson and Hill, op. cit., p. 6.

³¹Ibid., pp. 44-48.

³²Ibid., p. 48.

³³Ibid., p. 49. The authors discuss the main problems as "statistical limitations" of which the three most troublesome are: 1) homogeneous data across nations of liabilities and assets is absent (they had to resort to the use of scale variables to get minimum "fit" in the comparability of the data); 2) a capital flow matrix does not exist in reality and using GNP as a scaler proxy is unsatisfactory; 3) simultaneity affects all outcomes - interest rates depend upon capital flows and vice versa.

³⁴The Canadian Price and Incomes Commission of 1970 was the initial experiment: Economic Outlook, December 1971, p. 36. See also, Adolph Buse, "The Cyclical Behavior of the Size Distribution of Incomes in Canada, 1947 - 78", Canadian Journal of Economics, 15/2 (May/June 1982), 189.

³⁵Karl Olof Faxen, "Incomes Policy and Centralized Wage Formation", in Boltho, op. cit., p. 3

³⁶Economic Outlook, July 1970, p. 60. See also Alan Heston, Irving B. Kravis, and Robert Summers, "Insights Into the Structure of the World Economy", Review of Income and Wealth, series 27.4 (December 1981), p.339.

³⁷See, for example, OECD, A Medium Term strategy for Employment and Manpower Policies (Paris, 1978). For less apologetic analyses of the unemployment problem, see Robert Cherry. "What is So Natural About the Natural Rate of Unemployment?", Journal of Economic Issues, 15/3 (September 1981), 729); John Cornwall, "Unemployment and Inflation: Institutional and Structuralist Views, A Review Article", Journal of Economic Issues, 15/1 (March 1981), p.113; Manfred G. Schmidt, "The Politics of Unemployment: Rates of Unemployment and Labour Market Policy", West European Politics, 7/3 (July 1984), p.5.

³⁸Economic Outlook, July 1970. p. 6.

³⁹Ibid., p. 8, note 4.

⁴⁰Ibid.

⁴¹Christopher Allsopp, "Inflation", in Boltho, *op. cit.*, pp. 72-103, p. 81. In the context of a commodity boom, the following comparison from Allsopp is interesting:

Table 2.a
Comparison of Two Commodity Price Booms

	(indices)			
	OEEC Europe (1949 = 100)		OECD Europe (1972 = 100)	
	1951	1952	1974	1975
Terms of trade ^a	90	95	89	92
Import prices ^a - total	138	135	188	196
- extra-Europe	117	111
	(March 1950 = 100)		(August 1972 = 100)	
	March 1951 ^b	March 1952	August 1973 ^b	August 1974
<i>Memorandum item:</i>				
Commodity prices ^c	164	124	187	196

^a Goods and services

^b Peak month

^c *The Economist's* dollar index of spot prices

Sources: OEEC, *Statistics of National Product and Expenditure, 1938 and 1948 to 1955*, Paris 1957; OECD, *National Accounts of OECD Countries, 1950-1979*; *The Economist* (various issues).

⁴²For three different views on the relationships among trade deficits, dollar-liabilities, and the changing circumstances from the mid-1960s and the 1980s, see Bob Jessop, "Accumulation Strategies, State Forms, and Hegemonic Projects", *Kapitalistate*, 10/11 (1983), p. 89; Arthur A. Stein, "The Hegemon's Dilemma: Great Britain, The United States, and the International Economic Order", *International Organization*, 38/2 (Spring 1984), p. 355; Robert Triffin, "The International Accounts of the United States and Their Impact Upon the Rest of the World", *Banca Nazionale del Lavoro Quarterly Review*, 152 (March 1985), p. 15. See also, G. Wood and D. Mudd, "The Recent U.S. trade Deficit - No Cause for Panic", *Federal Reserve Bank of St. Louis*, 60/4 (April 1978), p. 2.

⁴³Mudd, *op. cit.*

⁴⁴Passim, note 16.

⁴⁵Dallas S. Batten and Mack Ott, "Five Common Myths About Floating Exchange Rates", *Federal Reserve Bank of St. Louis Review*, 65/9 (November 1983), 5.

⁴⁶*Economist*, 29 December-4 January 1980, pp. 39-60.

⁴⁷*Ibid.*, p. 39.

⁴⁸Donella H. Meadows, et al, *The Limits to Growth* (New

York: Universe Books , 1972.

⁴⁹Economist, op. cit., p. 39.

⁵⁰Michael Aglietta, A Theory of Capitalist Regulation, trans. David Fernbach (London: Verso, 1979), and, Harry Magdoff and Paul Sweezy. The Deepening Crisis of U.S. Capitalism (New York: Monthly Press, 1981).

⁵¹"Special Section: The Impact of Oil on the World Economy", Economic Outlook, July 1980. p. 114, and note 2.

⁵²Angus Maddison, "Western Economic Performance in the 1970's: A Perspective and Assessment", Banca Nazionale Del Lavoro Quarterly Review, 143 (September 1980), pp. 247, 267.

⁵³Economic Outlook, December 1973, p. 5.

⁵⁴Ibid.

⁵⁵Ibid., p. 7.

⁵⁶"Special Section, The Role of Commodity Prices in the Current Inflation", Economic Outlook, pp.99 - 110, 101.

"The GNP deflator ... shows the rate of inflation reflected in each country's domestic output (value-added), whereas the domestic demand deflator includes the effect of import changes and excludes price changes of exports. Thus it is the domestic demand deflator that reflects more closely changes in consumer prices (as well as prices for investment goods and government consumption) rather than the GNP deflator. The difference between the domestic demand deflator and the GNP deflator will therefore give some indication of the mechanical effect of the terms of trade on domestic prices before allowing for possible feed-backs and second-round effects." See Table 2.b,

Table 2.b
Impact:
Exchange Rate Changes & Trade Prices on Domestic Inflation,
1972 - 1973

		Effective exchange-rate change	Deflators for			
			Total domestic demand	+ Exports	- Imports	= GNP
Canada	1972	-0.7	4.8	2.9	3.0	4.6
	1973	-5.4	5.7	12.0	10.0	6.3
United States	1972	-7.5	3.4	3.3	7.5	3.2
	1973	-7.0	5.5	12.2	15.6	5.3
Japan	1972	9.6	4.2	-1.8	-6.6	4.6
	1973	6.6	11.1	4.2	9.8	10.4
France	1972	3.0	5.6	1.0	0.3	5.7
	1973	1.5	6.7	7.0	6.3	6.8
Germany	1972	2.8	5.6	0.9	-2.0	6.1
	1973	10.3	6.9	0.9	2.9	6.4
Italy	1972	-0.7	6.2	0.8	1.9	6.0
	1973	-10.9	13.0	10.7	20.3	11.1
United Kingdom ^a	1972	-4.5	5.6	8.7	4.0	6.7
	1973	-9.7	8.1	9.5	20.7	5.7
Australia	1972	(-1.2)	6.7	12.2	5.0	7.8
	1973	(8.8)	8.7	23.0	1.0	12.0
Ireland	1972	(-2.3)	8.8	14.0	8.0	11.0
	1973	(-4.7)	13.8	15.0	20.5	11.5

⁵⁷Ibid.. See also, Maddison, op. cit., p. 264, note 20, citing D.E. Hathaway, "Food Prices and Inflation", Brookings Papers on Economic Activity, 1 (1974), for a discussion of the change in US agricultural policy regarding stocking supports for agricultural surplus during the late sixties and the price impact of the wheat-detente deal with the Soviet Union in 1972.

⁵⁸Ibid., p. 100, table 28.

⁵⁹Ibid., p. 102, table 29.

Table 2.C
Contribution of Food and Non-food Prices
To the Rise in the Total Consumer Price Index
% Changes

	Average 1959-60 to 1970-71	Sept. 1972 to Sept. 1973	Above- average (2)-(1)
	(1)	(2)	(3)
United States			
Total	2.8	7.4	4.6
Non-food	2.2	3.2	1.0
Food	0.6	4.2	3.6
OECD Europe ^b			
Total	3.9	8.8	4.9
Non-food	2.4	4.9	2.5
Food	1.5	3.9	2.4
Japan			
Total	5.8	14.6	8.8
Non-food	3.0	7.7	4.7
Food	2.8	6.9	4.1
OECD Total ^b			
Total	3.4	8.6	5.2
Non-food	2.4	4.1	1.7
Food	1.0	4.5	3.5

a) The contributions of food and non-food prices respectively are their percentage changes times their weight in the index.

b) 1970 private consumption weights and exchange rates.

⁶⁰Ibid., p. 103. In the US, July 1972-July 1973 prices had risen 25.6%, while in Germany, prices increased by only 10% over the year August to August.

⁶¹Ibid.

⁶²Ibid., pp. 103-104.

⁶³Ibid., p. 104.

⁶⁴Maddison, op. cit., p. 264.

⁶⁵Economic Outlook, July 1973, p. 5.

⁶⁶Ibid., pp. 6-7. Further, "This might be held unfortunate where the aim is to raise investment ratios. But temporary measures can be expected to have temporary effects, and steps to postpone investment decisions may well represent the smaller evil where higher taxes on consumers are likely to be counter-productive. Indeed, given the tendency for fixed capital expenditure to be particularly buoyant in the later stages of a boom ... action to smooth out the course of investment might well be an appropriate means of stabilizing certain economies at the present stage of the cycle" (p. 7).

⁶⁷Magdoff and Sweezy, op. cit.

⁶⁸For the context of this crisis see Jacques Mazier, "Growth and Crisis - a Marxist Interpretation", in Boltho, op. cit., pp. 38-71.

⁶⁹Maddison, op. cit., p. 268 The income loss is calculated as: a combined real output loss of 0.3% plus a reduced income due to terms of trade loss of 1.3, giving a 1.6% total loss.

⁷⁰The notion of the recovery was based on the rise in GNP for the OECD area from an annual rate of 4 1/2% in the second half of 1975 to approximately 6 1/2% in the first half of 1976, and a change in the stock cycle from decumulation to accumulation especially in the US. Economic Outlook, July, 1976.

⁷¹Ibid., p. 128.

⁷²Ibid., p. 7.

⁷³Ibid., p. 8.

⁷⁴Ibid., p. 132, note 8, "If the gap between actual and potential GDP in 1975 were as much as 10 per cent, and if the growth of potential output (which, between 1965 and 1973 was of the order of 5 per cent per annum) were put at 4-4 1/2 per cent for 1975-1980, elimination of the "gap" by 1980 would require an average growth rate of 6-7 per cent, per annum. At no time, however, has the OECD achieved such a high rate over more than one or two years, and it seems certain that such a fast pace of expansion would in time lead to bottlenecks in labour and commodity markets and to the re-emergence of unacceptable inflationary pressures".

⁷⁵Ibid., p. 10, as in James O'Connor, The Fiscal Crisis of the State, op. cit.. The OECD secretariat recognizes the political nature of the fiscal crisis, "And in many countries budget deficits have now reached proportions where, despite recognition of the counter-cyclical role of

fiscal policy, governments see little room for tax or expenditure changes to support aggregate demand".

⁷⁶For the series and timing of price rises see "Special Section, The Impact of Oil on the World Economy" Economic Outlook, July 1980, pp. 114-130, especially pp. 115-116.

⁷⁷Ibid., table 32,

Table 2.d
Real Price of Imported Crude Oil
(1972 = 100)

	1973	1974	1975	1976	1977	1978	1979 ^c
United States	115	305	272	275	278	265	320
Japan	105	237	267	288	279	232	302
Germany	121	238	222	235	230	215	276
France	95	216	213	227	227	204	231
United Kingdom	120	270	254	278	263	226	245
Italy	113	271	265	277	254	230	277
Canada	124	265	265	258	268	268	337
Seven major countries ^b	113	267	259	271	262	236	287

a) Import price of oil divided by export price for OECD manufactures.
b) Weighted by 1977 final energy demand.
c) Estimates.

This table registers the movement in oil prices and their dispersion due to differing exchange rate movements among the nations vis-a-vis the dollar, as well as true differences. While some distortion is therefore contained in the data, the dispersion does nevertheless account for unequal spread.

⁷⁸Ibid., p. 121.

⁷⁹Economic Outlook, July 1982. p. 8. See also, Eric Davis, "The political Economy of the Arab Oil-Producing Nations: Convergence with Western Interests", Studies in Comparative International Development, 14/2 (Summer 1979), 75; Matthew Edel, "Energy and the Long Swing", Review of Radical Political Economy, 15/3 (Fall 1983), p. 115; Martin Landsberg, "Oil and the Eurocurrency Market: Out of the Frying Pan into the Fire", Review of Radical Political Economy, 8/4 (Winter 1976), p. 42.

⁸⁰Ibid., pp. 6-7.

⁸¹Ibid., p. 7.

Chapter Three

Economic Profiles of the United States, Britain and
Australia
1967-1982

The economic profiles to follow are presented in order to extend the analysis of the previous chapter on the international economic context of the years 1967-1982. Following the method of the previous chapter, the data contributing to the country profiles will follow a temporal sequence roughly in tandem with the international data. That is, the entire period 1967-1982, will be segmented into three parts. Recalling the previous chapter, the parts will be three. The first stretches roughly from 1967 to 1973, the period of acutely imbalanced economic growth prior to the first oil shock with its primary characteristics of extremely volatile capital flows and international currency crises. The second is from 1975 to 1978 and characterized by the increased search for stabilization policies which tolerate ever higher levels of inflation, and the general partition of international finance discussed in the previous chapter. Finally, 1979 to 1982 is characterized by a synchronization of disciplinary economic policy and the ascendancy of the "new conservatism" in politics.

Economic Profile of the United States, 1967-1973

As economic expansion appeared increasingly unpredictable from the mid 1960s onward, and political stability even less reliable¹ the policies of the federal administration of the



United States assumed a "stop-go" character. Fiscal policy became increasingly responsive to demand pressures without a reciprocal response in inflation. As a consequence, monetary restriction became an ever more apparent "back-up" to fiscal attempts to provide economic stability. The broad contours of the combination of monetary and fiscal discipline in general policymaking were beginning to assert themselves by 1967 when the first significant post-sixties slowdown emerged. The stimulus/restraint seesaw in fiscal terms was accomplished at this time through a manipulation of tax law for the purpose of controlling disposable income, with only a secondary emphasis on manipulation of federal expenditure preceding the huge cuts in defense spending at the conclusion of the Vietnam War.

Demand

The shape of things to come in economic matters appeared in the guise of a slowdown in consumption in the United States. Although the general demand indice increased in these early years, as military spending increased in the second half of 1966 throughout 1967, private demand weakened. Residential construction led the decline with business and industrial construction following. The decline in auto sales deepened and there also occurred a marked rise in savings during these years. Inventories bulged as the lag time between output and final sales remained traditionally long. By the time inventory sales caught up, and a stock adjustment

finally occurred (completed by the third quarter of 1967), industrial production was declining and the GNP registered the slack. (GDP decline from 1966 to 1967 was three full points, from 5.8% average annual rate of increase in 1966 to 2.8% in 1967: please refer to the appendix, Table 3.1'). Inventory accumulation resumed in the second half of 1967 but was not followed by increased consumer spending in spite of the rise in personal income during these quarters. At the time, this was all thought to be an unexpectedly strong residual response to an overly restrictive monetary policy which had been in force until the autumn of 1966. In mid-1967 a marked change in policy occurred. General monetary expansion coexisted with ad hoc attempts to provide monetary stimulus through 1967. But confusion made all such policy moves very tentative and therefore weak in impact.

It became clear that business fixed investment was becoming very cautious and that military expenditures were compounding the current account deficit, which was already in trouble due to slack in the overall trade exchanges and volatile capital flows. The financial situation in Europe was very unstable. Talk of a recession further confounded strategies for domestic stabilization. Similar to the international situation described in the previous chapter, the beginning of the period under study in the US exhibited instability. Policies were tentative, assuming a posture designed to allow for flexibility. In the event they succeeded in exacerbating waning business confidence in the

ability of governments to secure predictable markets.

Liquidity

From 1967 it is also evident that liquidity preferences asserted an influence upon behaviour in US domestic finance not unlike that described in the previous chapter's discussion of international financial arenas. State and local government and non-financial corporations were able to issue and sell record amounts of securities as demand in the private sector increased. The relatively expansive monetary policy of the administration was thereby offset by strategic positioning of private investors who appeared to be registering a general hedge, even at this early stage of the period under study.² But, at the same time, the consequent push in interest rates also seemed to register an anticipation of some degree of economic expansion. Market behavior was ambiguous.

Relatively easy credit affected nearly all economic sectors. Treasury borrowing reached \$12.7 billion in 1967. Using the securities markets, corporations raised \$16.5 billion (\$5 billion more than borrowed in 1966), and savings and loans associations were taking on mortgages at a \$10 billion per year rate by the second half of 1967. Banks improved their liquidity positions through security purchases, while households were able to increase money holdings by some \$24 billion in 1967, compared to the \$14

billion holdings of 1966. The money supply rose by 6.5%, or three times faster than in 1966.³

Inflation and the Secondary Use of Monetary Policy

As the balance of payments continued to deteriorate through 1968, domestic demand pressures accelerated. The stimulatory fiscal policy of 1967 (easing in the second half, but nevertheless regarded as a stimulus) moved toward restraint in 1968. Legislation was proposed which included a new tax package incorporating a 10% surcharge on corporate and personal income. The payment schedule of corporate tax liabilities was also to be moved up. Restrictions in government spending for non-Indochina war allocations included a cutback in federal civilian employment and directives to the president to assume a disciplinary posture toward congressional appropriations. But fiscal policy proved to be slow and cumbersome. Overruns in the Vietnam War expenditures (some \$2.5 billion, estimated in 1968⁴) were recognized as delaying the restrictive impact of the 1968 budget, and monetary policy was again brought in as the expedient back-up to fiscal policy, chiefly to offset fiscal drag. Banking discount rates were increased (to 5% in March following the previous rate-rise to 4.5% in November 1967, and again to 5.5% in April).

Balance of Payments Problems

Restrictive money interacted with a new balance of payments

programme at the time immediately following the sterling and banking policies of the United Kingdom, whose currency devaluation and increased bank rates continued to have an impact upon the US current account. As 1967 was the third year in a row to witness a deterioration of the balance of payments position of the United States, a definite resolve to halt the erosion of the US balance was evident. A programme was designed essentially to control capital outflows:⁵ mandatory control of direct investment in Western Europe was accomplished by absolute suspension of new investment and limitations of foreign earnings which could be reinvested to 35% of the average of direct investment to Western Europe during the year 1965-1966. A strategy for attracting bank credit funds was designed by the Federal Reserve Board for financial institutions which would reverse the outflow of 1967 and achieve a \$500 million inflow. Programmes to stimulate exports through improved promotional and financial planning were introduced by the administration, and a reconsideration of trade and travel arrangements was invited. The policy emphasis remained, however, on the size of capital transactions affecting the overall current account, and the desire of the administration was to secure both a reversal of capital flows and a strategic advantage for financial capital.⁶

The emphasis on strengthening the current balance by shoring up the financial position of US capital was less a choice than an imperative. During the early years covered by

the study, growth in Western Europe was declining, reducing the crucial export markets for US agriculture. Demand pressures were rising on the domestic front, and military expenditures increased the burden for economic stabilization. The trade surplus declined as the current balance fell into deficit. The New York dock strike in March 1968 indicated broadening industrial relations destabilization. Early monetarism became the desired expedient to supplement fiscal policy, acting as a kind of emergency steering mechanism for both an international and a domestic economy which were beginning to understand the parameters of stagflation⁷. The recourse to financial protectionism appeared as a necessary adjunct to stabilization policy. The implications for an economic response to crisis would not appear until later, but even in these early years the financial gambit began to emerge as options narrowed, and a new kind of economic discipline asserted itself.⁸

The early results of the attempts to stem long-term capital outflows were registered quickly. Net inflows of bank lending and reduction of direct US investment abroad, coupled with a strategy of overseas borrowing to fund subsidiaries' financial requirements and increases in the sales of U.S. overseas equities, played an important part in initial correction of the basic American balance in 1968. The trade balance, however, continued to deteriorate, and by 1969 was worse than that of Germany, the United Kingdom,

Italy, Canada, and Japan⁹.

The increase of demand pressure despite restrictive monetary policies initiated in 1967 was directly linked to the persistent deterioration of the American trade balance through 1969. Fiscal discipline in the guise of reduced government spending for non-military programmes (e.g. cutting civil service recruitment) was becoming a priority as tax increases met resistance across a broad spectrum of both corporate and personal lobbies and interests. Unemployment rates by the end of the decade of the sixties began rising sharply and by the second half of 1969 rose to around 4%, while the rate of overall wage increases declined. Productivity was also declining. Profits continued their 1968 decline through 1969, as prices continued to rise. While this pattern became all too evident throughout the decade of the 1970s, the confusion at the time was largely a result of assumptions about the temporary nature of this new economic "imbalance". Questions arose as to whether to designate the "downswing" as a recession. Rapid changes in international currency parities, the Vietnam War, the incidence of major transport strikes at the end of the decade, and general political and social unrest became variables which clouded economic analysis. Most importantly, demand management policies appeared to be working only intermittently, if at all, and persistent inflation coupled with unpredictable behavior in the market by investors and consumers made economic forecasting extremely tentative.

Declining economic growth was still referred to as the "slowdown", and considered capable of yielding desirable consequences by stopping the inflationary spiral.¹⁰

The Terms of Recovery in the Early Years

It was not until the end of 1971 that a "recovery" in the United States economy was registered, partly through an economic rebound from a major automobile industry strike early in 1971. GNP rose from a -0.6 annual rate of change in 1970 to a 2.7 rate in 1971.¹¹ This "recovery" was, nevertheless, accompanied by a worsening unemployment record, increasing from an average rate of 4.9 in 1970 to 5.9 in 1971. (Wage rates and consumer prices improved, however. Wages rose by .6% to a 6.5% annual increase, and the price index fell to an annual rate of 4.3% in 1971, from 1970's 5.9%), (Table 3.1),

Table 3.1
 United States Trends in Prices, Earnings, and Employment
 1970-1971
 (% change, seasonally adjusted @ annual rate)

	1970	1971	Aug.	Nov.	Oct.
			1971	1971	1972
			Dec.	Aug.	Nov.
			1970	1971	1971
Consumer price index	5.9	4.3	3.8	1.7	3.5
Wholesale price index	3.7	3.2	5.2	-0.8	5.2
Average hourly earnings (private non-farm)	5.9	6.5	6.9	2.3	7.2
Average unemployment rate in period	4.9	5.9	6.0	5.9	5.7

(Source: OECD. Economic Outlook [December 1972], p. 55)

The introduction of a wage/price controls programme in August 1971 was designed to exploit the strength of a political consensus appearing at the beginning of the economic upswing, so as to ensure a sustained and balanced recovery thought to be essential for correcting the still deteriorating foreign balance of payments. With the trade balance having lost its traditional surplus and reaching a negative state in 1971, domestic recovery would aid a strategic repositioning of the American economy in international exchange if inflationary behavior was seen to be controlled for the long term. Domestic economic recovery was increasingly seen to be a fundamental requisite for recovery of a strong international position.

Even assuming effective wage/price controls, however, problems with the balance of trade would occur because of an unsynchronized recovery vis-a-vis major trading partners in Europe. The American recovery was appearing ahead of a European economic recovery with severe implications for continued deterioration of the trade balance. The period from 1966 to the first oil shock in 1973 demonstrated the domestic economic cost of an international economy acutely deregulated in finance areas since the breakdown of Bretton Woods and suffering imbalance in growth. The absence of those "islands of stability" discussed in the previous chapter resulted in an economic cost for national economies. Recession loomed more threatening and recovery less within reach because of the antagonistic relationship between a robust domestic economy and a debilitated international market. The antagonism could be made worse by the advent of an era of protectionism, and warnings to that effect abounded in OECD analysis.¹² Alternatively, the resolution of the antagonism would certainly not be found in "open and free" exchange. The suspension of international investor confidence signalled a search for a new hegemonic arrangement which would provide an equilibrium point positioned within a new universe of market forces.

A New Equilibrium

The mobility of international financial capital accelerated greatly from 1966-67 onward, as volatile flows of capital

appeared in search of marginal gains from short-term and long-term money markets. It became apparent that the profit yields from production and labour factors would need to accelerate as well, in order to draw investment capital out of its retreat to marginal financial gains. Income and prices policies were the initial steps in exploring a national policy of economic discipline in the US as in other national economies. In essence, these policies were aimed at a behavioural modification, the chief aim being to educate producers and consumers to certain market "realities", the most important of which was identified as securing a competitive place in the international market place.

Monetary policies, first designed to augment and later to surpass fiscal policy, were created to provide structural discipline, chiefly around credit and banking activity. These policies were used somewhat haphazardly in the US, as the discussion in the next chapter will explain. As long as fiscal policy remained at the forefront of economic policy making, behavioural manipulation was paramount. It was realized that behaviour would respond quickly to the structural discipline of monetarism, and that "fiscal drag" could be repudiated through a combination of new political centralization and austerity economics. A new point of equilibrium (viz. the unemployment/inflation/growth balance) could then be successfully positioned outside the traditional Keynesian universe, whose centre was demand-management. Supply-inducement would overtake policy

orientations in most countries of the West. Early supply-side economics not only shifted the point of equilibrium from broad consumption to focussed investment but refashioned a universe of economic imperatives which became the tenets of the new "economic realism". This process of re-education was begun in the late sixties when the United States encountered the "exogenous" impact of price determination by the Arab oil cartel in 1973. The impact was expressed as an early ad hoc enactment of austerity economics rather than as an attempt to address the deeper causes of the decline of the sixties. In the event America's response to the first oil shock seemed to alter the trend line of economic decline very little, as examination of the aggregate measures below will indicate.

Economic Profile of Britain, 1967-1973

The sterling crisis of July 1966 seems a watershed marker for the economic decline which ensued and which continues to the present. Unlike the economies of the United States and Australia, the British economy's decline appears as an inexorable process of economic failure. Even in popular explanation, it is often treated as a "post-wars" phenomenon, and more recently, as a short-term recession superimposed upon a "long term crisis"¹³ reaching back to the re-ordered global market of the early twentieth century, if not to the competitive decline since the 1870s/1890s.

This study will not engage the long series of historical economic data brought to these discussions,¹⁴ nor the alternative views expressed regarding the root causes of the British economic decline. I argue that it is the acute crisis of the period from the mid-sixties forward which has demonstrated the most extraordinary conjuncture of a distortion of political arrangements and an extreme distortion of the economic market. That conjuncture has provided a determinate context of crisis, within which the British state has exhibited a steady loss of autonomy. The economic profile of England which follows is an attempt to present the stark contour of the further economic decline of the period.

Trade Imbalance and Sterling Devaluation

The imbalance in growth and acute fragility of the British economy marks the beginning of the period under study. Declining trade competitiveness and growing domestic demand pressures produced increasing financial insecurity in a nation whose claim to economic leadership within the West depended upon a credible financial stature. The volatile capital movements discussed in the previous chapter had a great impact on the economy of England from 1966 onward, when capital swings became larger than the swing in the current account due to the government's direct intrusion, via monetary policy, to stem capital outflow. The strong pull by the tight-money policies of the UK resulted in

strong speculative movements against sterling, which yielded, for example, a \$1.6 billion inflow to the UK in only six months to March 1967.¹⁵

When sterling was devalued on 18 November 1967, the attempt to improve trade prospects and gain economic stabilization appeared as a bold and promising stroke of economic policy warranted by extreme conditions. Sterling fell from \$2.80 to \$2.40, and was expected to produce a 14.3% devaluation of export prices and a 16.7% increase in import costs.¹⁶ It was thought that the sterling devaluation might secure an increase in the faltering balance of trade by something between \$1 billion and \$1.5 billion and generally strengthen the economy when coupled with domestic measures: the bank rate was raised by 1.5% (from 6.5% to 8%); bank loans were to be held at present levels; a programme of export rebates was abolished; the Selective Employment Tax Premium was abolished; the corporate tax rate was increased from 40% to 42.5%; and defense expenditure was reduced by 100 million pounds sterling.¹⁷

The actual gains in export performance, however, were sadly disappointing. Throughout the first period 1967-1973 Britain was continually searching for a way to "trigger" the effects of the currency devaluation, but to little avail. The government's "stop-go" policies were an ad hoc mixture of monetary and fiscal manoeuvres designed to promote those effects whilst stabilizing domestic demand. The dock strikes

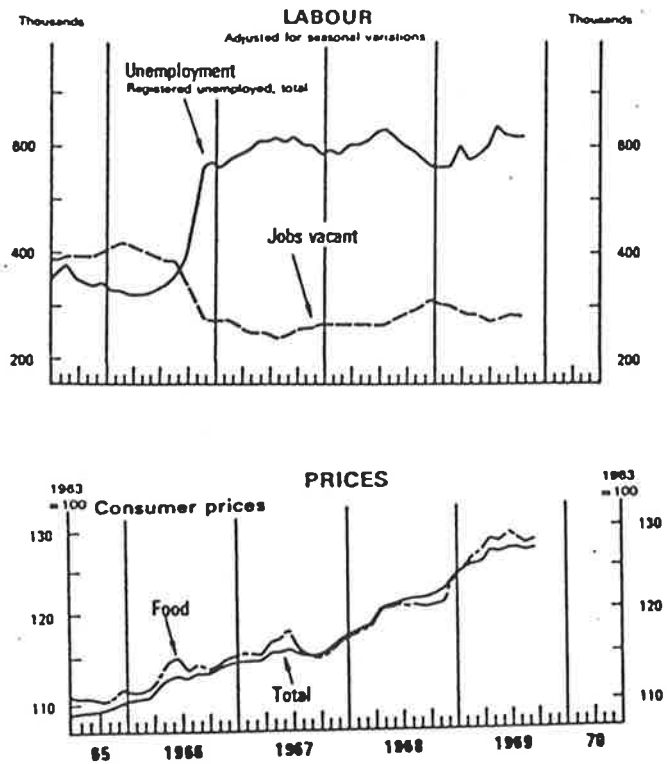
and the Suez Canal closure of 1967 only exacerbated the problem.

Export prices declined (on an average of 9% from devaluation to mid-1968)¹⁸, in response to the devaluation, but export volume was not improving sufficiently to make up for the value losses. The turbulence in the economies of Britain's main trading partners contributed to Britain's balance of trade problem. By 1968, the French were experiencing major economic dislocations. Their May/June strikes coincided with American dock strikes in the first half of 1968 and also with the American anticipation of major industrial disputes in the steel and mining sectors as collective bargaining agreements became due for negotiation in the latter part of the same year. Global and domestic insecurity exacted an economic cost in unstable growth patterns, the remedy for which was not to be increased competitiveness through cheaper export goods.

Unemployment

Unemployment had been steadily rising, shown in Figure 3.1,

Figure 3.1
Labour and Price Movements in Britain, 1966-1970/ii



(Source: OECD, Economic Outlook [December 1970])

Wage and price freezes (under statutory authority after the Prices and Incomes Act of 1966), coupled with the devaluation, should have reduced demand and moved the domestic economy toward some stabilization. Yet domestic demand was only slightly eased following tax increases in December 1968. Import demand remained high, and generally, domestic demand appeared more impervious to policies of fiscal restraint than was expected. The inability to

structure a demand-management policy which, in timing and targetting, could rely upon a consumer behaviour responsive to government manipulation became extremely worrying and eventually led to the extremes of monetarism and punitive slashing of social programmes. At the time, with investment fleeing into international paper, currency speculation or minimal service sector investments, consumerism became an extremely important demand factor. To discover the "perverse" character of a consumer behaviour unresponsive to fiscal design (demand-management) compounded an overall economic uncertainty.

Personal savings ratios were declining in the apparent funding of consumer demand, but as imports still absorbed a larger share of those funds than expected, the effects on inflation and continued balance of trade problems were not leading recovery. Moreover, long-term capital outflows were continuing. For example, one very significant outflow resulting from the subscription of the rights issue of Royal Dutch-Shell to its American subsidiary resulted in a nearly \$200 million outflow which significantly destabilized an already deteriorating current account.¹⁹ Portfolio investments such as those exploiting the Australian mining boom contributed to the outflow.

Inflation throughout the general period under study was gaining a place as a central determinant of "crisis". But it had its definitional genesis in the first period immediately

under discussion here as the economic problem and has had significant implications for political and economic analyses since. As one text succinctly put it:²⁰

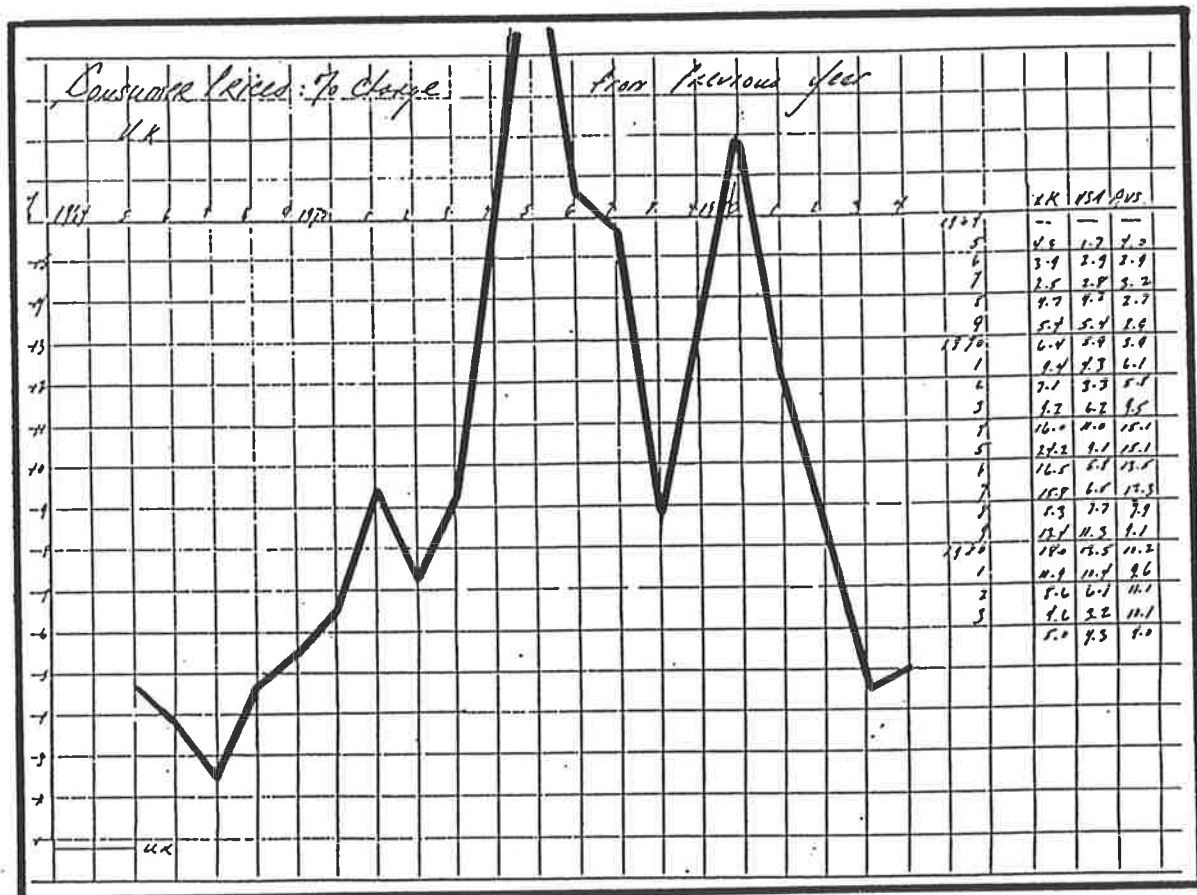
In search for quick solutions and easy scapegoats inflation has been singled out and blamed for the end of the Boom [in Britain]. If inflation is not brought under control, dire consequences are threatened.... The problem and the crisis have been labelled.... But inflation is not the real crisis. It is only its expression. The real crisis is the threat of slump which haunts the capitalist economy. The threat grows out of the impasse of the post-war 'mixed economy'. Inflation postpones this real crisis by warding off slump.

The means of "warding off the slump" through counter-inflation policies have resulted in a bizarre dualism which both accommodates inflation and periodically combats it - chiefly through traditional demand strategies. Alternate accommodation and combat have produced the political and economic structure of a "new" austerity politics which appears to maintain enough inflation to legitimize a centralized economic policy regime (sometimes corporate, sometimes strictly monetarist) while applying incremental "cures" to specific consequence of inflation, like the erosion of wage values. The initial expression of the dualism was a "stop-go" policy which certainly expressed as much confusion as design. But the early efforts to define and to confront inflation as the key economic problem had quickly developed into the rationale of monetarism, first as an adjunct to a relatively inflexible fiscal policy-making, then as a dogma of no-nonsense economic reform, the policy objectives of which are discussed in greater detail in the

next chapter.

The data expressing the inflation trend for Britain from 1966 to 1973 present prima facie evidence to support the view that places inflation at the centre of Britain's economic woes. Figure 3.2 demonstrates the extraordinary rise of consumer prices as average annual rates of increase.²⁰

Figure 3.2
Consumer Prices in the United Kingdom
1965-1984
(% change from year to year)



(Source: Chapter 3 Annex, Comparative Historical Figures and Statistical Summaries: The United States, Britain, and Australia, 1967-1982, Figure 3.10)

Economic Profile of Australia, 1967-1973.

The average annual rise in consumer prices between 1967 and 1973 was 6.4% (the low year was 1967, 2.5%; and the high year was 1971, 9.4%) That figure compares to a rate of 4.6% during the last five years of the decade of the 1960s (low: 1967, 2.5%; high: 1970, 6.4%). Moreover, inflation became worse during the entire period under study. The average annual increase in consumer prices during the years 1974 to 1983 was 13.7% (low: 1983, 4.6%; high: 1975, 24.2%). The lowest point during that period, in 1978, at 8.3% was only 1 point below the high peak of the initial period (1971, 9.4%). From 1967 to 1982, the average annual rate of rise in consumer prices was 11.3%. Even leaving out the oil inflation years of the first shock (1974 to 1976 inclusive), the average annual rate is over 10%. These data are understandably dramatic, and indicate the depth of economic malaise which compelled such counter-cyclical, or "anti-slump", activity. The comparative analysis to follow will confirm the extent to which all the economies under study exhibited the symptoms of inflation.

Economic Profile of Australia, 1967-1973

The economic profile of Australia will be considered with two major characteristics of the Australian economy in mind. Firstly, Australia is a "small economy", at the periphery of the western international market.²¹ As such, Australia has had to employ economic strategies which an open economy -

one especially vulnerable to exogenous determination - will use to mitigate the economic turbulence which is imported to its domestic economy via the international market.²² Both distance and the relative size of Australia's economy vis-à-vis Europe, Japan and the North American economies, make it more sensitive to global change and less able to determine events than either England or the United States.²³ Secondly, the composition of Australia's economy is unlike that of England and the United States in composition.²⁴ At the beginning of the period under study (1967-1968), the share of economic sector in GDP was as follows: agriculture (including fishing, forestry and hunting), 6.1; construction, 8.8; manufacturing, 26.0; mining, 2.2; services (including electricity, gas and water; entertainment, recreation, restaurants, hotels, and personal services; finance, insurance, real estate, business services; public administration; and transportation, storage, and communications), 35.0; ownership of dwellings, 5.9; and wholesale and retail trade, 16.0. At the end of the period (1980-1981), the relative proportions were similar, with agriculture and construction and domestic trade declining slightly (-.5; -1.5; and -.7 points, respectively); manufacturing declining 3.3 points; mining and ownership of dwellings rising (+1.3 and +1.1, respectively); and services rising +3.6 points (table 3.2)

Table 3.2
 Industries in Australia as a Proportion of GDP,
 Comparing Selected Periods @ 1974-1975 Prices

Industry	1967-68	1980-81
Agriculture	6.1	5.6
Construction	8.8	7.3
Manufacturing	26.0	22.7
Mining	2.2	3.5
Other services	35.0	38.6
Ownership of dwellings	5.9	7.0
Wholesale/retail trade	16.0	15.3

(Source: Derived from Norton, Garmston, and Brodie, Australian Economic Statistics, p. 120, and National Economic Summit Conference, "Information paper on the Economy", April 1983, p. 10, as presented in, Richard E. caves and Lawrence B. Krause (eds.), "Introduction", The Australian Macroeconomy: A View From the North [Sydney: Gorge Allen & Unwin, 1984], p. 6)

While Australia has followed other developed economies in expanding its service sector, its composition is uniquely characterized by a relatively high profile for the agricultural and mining sector in terms of proportion of GDP and percentage employed by sector, as well as a relative stability in those sectors over time, (Table 3.3)

Table 3.3
Employment by Industry in Australia Comparing Selected Years

Industry	1967	1981
Agriculture	8.7	6.5
Construction	8.1	7.4
Manufacturing	25.6	19.4
Mining	1.3	1.5
Other services	36.0	45.2
Wholesale/retail trade	20.4	19.9

(Source: Derived from Norton, Garmston, and Brodie. Australian Economic Statistics, p. 120, and National Economic Summit Conference, "Information paper on the Economy", April 1983, p. 10, as presented in, Richard E. Caves and Lawrence B. Krause (eds.), "Introduction", The Australian Macroeconomy; A View From the North [Sydney: Gorge Allen & Unwin, 1984], p. 6.)

The comparable statistics for employment and value-added contribution to GDP in agriculture for the three countries are shown in Table 3.4.

Table 3.4
 Comparisons of Value Added in Agriculture
 (as a percentage of GDP),
 and Variations in Yearly Civilian Employment in
 Agriculture:
 Australia, the United Kingdom and the United States
 1968-1983

	Value added	Average Employment Variations
Australia	6.35	- .02
U.K.	2.34	-1.97
U.S.A.	3.02	- .63

(Source: OECD, Economic Outlook Historical Statistics, 1960-1980 [Paris, 1985], derived from tables 1.8, p. 27 and 5.1, p. 58)

Australia has lost less of its civilian population from agriculture, on the average, than the United Kingdom and the United States, and has maintained a significant value-added contribution in the agricultural sector relative to those countries.

Commodity-producing countries are characterized as open economies due to their vulnerability to the vagaries of the global commodity markets and capital flows.²⁵ Australian exports of goods and services comprise about 15% of GDP, 80% of which are natural resources.²⁶ Therefore, its exposure to fluctuations in the world commodity markets is relatively high in terms of demand fluctuations. The composition of commodity exports is set out in Table 3.5,

Table 3.5
Composition of Australia's Commodity Exports,
1981-82

<i>Period</i>	<i>Wool</i>	<i>Other rural goods</i>	<i>Coal</i>	<i>Iron ore</i>	<i>Alumina^a</i>	<i>Other metals</i>	<i>All other goods</i>
1965-66 to 1969-70	24.3	33.7	3.1	4.2	...	14.3	21.3
1970-71 to 1974-75	13.8	33.4	5.6	7.7	2.7	15.2	21.6
1975-76 to 1979-80	10.3	31.0	10.8	7.1	5.0	15.8	19.9
1980-81 to 1981-82	9.9	n.a.	11.3	6.4	n.a.	n.a.	n.a.

(Source: Rudiger Dornbusch and Stanley Fischer, "The Australian Macroeconomy" in Richard E. Caves and Lawrence B. Krause (eds.), The Australian Macroeconomy; A View From the North [Sydney: George Allen & Unwin, 1984, p. 31])

Being a peripheral economy, Australia is also subject to price determinations established exogenously. Add to this the high degree of foreign capital involved in developing key sectors like mining, banking, and manufacturing,²⁷ and the flows of short-term capital in and out of the Australian economy, and the dependent nature of the Australian economy becomes clear. The boom/bust nature of Australian economic adjustment to exposure is a unique characteristic which will be discussed at some length in the next chapter. For the present, Australia's economic profile for the first period of the general time-frame under study will be traced in its development, along the same lines as for England and the United States during the years 1967 to 1973.

The growth of GDP in Australia during the period of the

first phase, 1967-1973, was relatively high compared to the rate of growth for the UK and the US during the same period. For this first phase of the general period the average annual increase was 4.06%, compared to a UK rate of 3.34% and an American rate of 3.39%.²⁸ The slowdown from the averages of the last half of the sixties decade was about 1.5% for Australia, (4.06%, down from 5.73%), compared to a slight rise in British GDP of .5% (3.34%, up from 2.84%), and a slight fall in U.S. GDP of almost a half percentage point (3.39%, down from 3.79%). But whereas most countries in the OECD had begun a deceleration of growth in the second half of the sixties, Australia had not. (Overall, the combined OECD average for Australia, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, the UK, and the US fell from 5.2% in 1960-1965 to 4.5% in 1965-1970.)²⁹ While the US fell from 4.8% to 3.2% when comparing those periods, and the UK fell from 3.4% to 2.2%. Australia gained, from a 4.9% combined average in the five years 1960-1965 to 5.3% in the last five years of the decade. That national gain was surpassed only by Italy and Japan (0.3% and 1.6% respectively). Stagnant growth and acute imbalances which characterized the international situation of the first phase of 1967-1973, are therefore less apparent for Australia, who would nevertheless approach the decade of the seventies with traditionally cautious policies of industry protection.

Although the growth pattern for Australia appears

fairly good in aggregate terms for this period, the per capita pattern gave less cause for confidence when measured against the ten-nation averages listed directly above. Australia's per capita growth for the sixties decade is a 2.90% average annual change, while that of the ten countries combined is 3.4%. Nevertheless, Australia exceeds the per capita growth of both the UK and the US during the decade of the 1960s. The American per capita growth for the decade is 2.4%, and the UK rate is 2.5%.³⁰ The differential between the aggregate annual growth averages and the per capita averages, however, is telling. The difference for Australia is 2.20%, while for the UK it is 1.70%, and for the US it is 1.30%. (For the ten-country OECD averages listed above, the differential is 1.20%.)³¹

The explanation for the gap between aggregate GDP performance and per capita averages in Australia would appear to be that high population growth reduced rather than prompted productivity gains. Comparatively inefficient employment of both labour and capital factors in Australia may be the result of the necessary absorption of a low-skilled migrant population combined with an underdeveloped internal market, and low rates of investment targetted to productivity-yielding innovation in manufacturing and industry. The very marked shift of sectoral contribution to the service sector throughout the period under study would help to explain some of the low yield in productivity, and hence the GDP/per capita gap.

The penalty for relative inefficiency in the employment of economic factors is a much heavier burden of competition for small open economies than for large hegemonic ones.³² The Australian economy is very permeable in terms of international market fluctuation and the movement of economic factors. Market fluctuation is exhibited in external demand for primary products, and domestic demand for finished goods. The impact of volatile market behavior can often be offset by short-term adjustments of domestic demand policy and protective strategies involving, for example, manipulation of the Australian dollar and tariff policies. These strategies are opportunistic. They seek to minimize destabilizing influences and events (e.g. speculative capital inflows) and maximize market opportunity (e.g. meeting demand for minerals and grain/wool in rapidly developing economies such as Japan).³³ A large part of the opportunistic posture relies upon aligning domestic economic behaviour with a competitive position in international markets, primarily with regard to the disciplining of the trade balance. Such discipline has been interpreted in Australia, as in most capitalist economies, as a demand function, where the primary components of demand are manipulated through the behaviour of the three primary demand sectors: broad popular consumption, governmental expenditure, and private investment.

The demand function in Australia is unique among the three countries under study because the component sectors

are poised with regard to each other in a way that allows very little intermediation among the sectors themselves. Intermediation is, rather, imposed by government institutions, of which the Conciliation and Arbitration Commission is the most highly profiled in comparative literature. The imposition of a sophisticated judicial mode of governmental intermediation at both state and commonwealth levels interacts with a primary goods market for export which is extremely "free" - i.e., subject to a high degree of commodity price-elasticity and the vagaries of a huge global market (not to mention weather and crop uncertainties) - and with a domestic market which relies upon import goods whose prices are often subject to monopolistic rigidities with the difficulties of shipping distance compounding price behavior. When the demand picture is further confused by protectionist policies used to effect import substitution or nurture infant industries, the development of a market-integrated domestic economy becomes extremely retarded. Finally, the productive sectors of the Australian economy are themselves "naturally" insular, as primary production in agriculture and minerals serves the export economy and does not presently contribute to an extension and integration of the domestic market.

The mobility of factors is another characteristic which is of importance in profiling the Australian economy. The smallness of the labour force in relation to the potential for exploitation of the country's resource wealth has been

much commented upon. A characteristic immobility of labour factors is heightened when one recalls the absorption of labour in the service areas, discussed above, as well as the general distribution of skills in the absorption of immigrant labour during the 1960' recruitment: the highest average distribution of migrants by occupation was in the "craftsman" category, with a distribution rate of 31.3% average for the years 1962-1971. This rate mirrored the rate of the general population in 1966, which stood at 30.8%. The combined categories of "labourer" and "services" made up 25.6% of the migrant distribution, compared to 12.1% in the general population.³⁴ Nearly three-fifths of the migrant population during the 1960s, therefore, was distributed by occupation in highly immobile sectors, unless one imagines a vigorous programme of re-skilling and education which is not apparent in the Australian system.³⁵ The absorption of population does not appear to have contributed to a flexible pool of labour factors, (simply by definition of skill and independent of the question of labour rigidities through wage and labour market distribution). The commitment to increasing the efficiency of labour factors through education and general up-grading of training in technological literacy or job-specialization has not been apparent. Its absence must be considered as a contribution to factor immobility.

If factor immobility in labour has been a problem for productivity and economic growth, the mobility of capital

factors has presented a different problem. Another of the unique characteristics of the Australian economy relative to the United States and Britain is that it is a net borrower in the world capital market and that external sources contribute significantly to domestic savings and investment. Capital inflow in the post-World War II period has been private and concentrated in UK/US investment in companies. Between 1958 and 1973, the average share of capital inflow into Australia by private companies was 96.75% of all capital inflow (with governments's share, in comparison, at only 2.95% of the total).³⁶ The UK's total share of foreign investment in Australia for the same period was 39.7%, and that of the United States 39%, with US investment representing a jump from the previous decade of the fifties (when the UK invested about 65% of total investment while the US invested only about one-quarter of the total).³⁷ About 60% of these capital inflows was in the form of direct investment between overseas companies and their Australian subsidiaries, of which about 80% were accounted for by American and British capital.³⁸ Until the 1972 Companies (Foreign Take-overs) Act, restriction of the flow of overseas capital, with all its implications for foreign ownership and control of Australia's economic development, was virtually non-existent (the 1968 establishment of the Australian Resources Development Bank, and the 1970 creation of the Australian Industries Development Corporation, being relatively inconsequential except as initial moves in the direction of national control over sectoral distribution of

foreign investment).³⁹ Table 3.6 summarizes foreign direct investment for the periods 1967-1973 and 1974-1980,

Table 3.6
Foreign Direct Investment in Australia
(in dollars)
Selected Periods

total period	% inflow	(% change)	domestic investment	(% change)	domestic investment
1967-73	666		4109	9	16.6
1974-79	961		8010	15	11.8
1967-68	561	10	3044	7	18.4
1968-69	599	7	3434	13	17.4
1969-70	728	22	3674	7	19.8
1970-71	897	23	4302	17	20.9
1971-72	870	- 3	4551	6	19.1
1972-73	391	-55	4564	.3	8.6
1973-74	618	58	5191	14	11.9
1974-75	657	6	6103	18	10.8
1975-76	578	-12	7022	15	8.2
1976-77	1081	87	7738	10	14.0
1977-78	1052	- 3	8735	13	12.0
1978-79	1437	37	10455	20	13.8

(source: Lawrence B. Krause. "Australia's Comparative Advantage in International Trade", in Caves and Krause, p. 301)

The average annual change in total domestic investment lagged behind the increase in percentage share of domestic investment represented by foreign inflows in the first period up to the year 1973-1974. In the second period total domestic investment consistently outstripped foreign direct investment, except for the remarkable 1976-77 inflow which represented an 87% increase over the previous year's foreign direct investment and outperformed total domestic investment

by 4 points. The erratic nature of percentage increases of foreign direct investment is evident in the column showing the percentage change in inflow over the previous year, with swings of as much as around 100% in some cases. The more stable flow of total domestic investment annual changes may be compensatory but would not eradicate the insecurity of highly mobile and discretionary external investment flows.

The decline in foreign direct investment between the two periods given in the table is roughly a decline of 5% in average (and 6.12 points if 1972-1973 is dropped from the average as an anomaly). What these figures do not reveal is the shift from direct investment to debt-financing which occurred in the mining sector. Because much of this financing is foreign, it is reported that as much as 60% of mining is in fact foreign-controlled (with an estimate of about 40% of total equity in manufacturing also foreign-owned).⁴⁰

The fungibility of capital movements is alarming not only for its temporal effects, the inability to gear domestic fiscal coordination to rapid shifts in external factors, but also for the magnitude of shifts vis-à-vis incremental growth patterns. Australia is especially vulnerable to the slings and arrows of capital in that its factor mobility is crucial to both internal development and a competitive external position. Because of the nature of domestic labour factors, the sectoral composition of the Australian economy, the nature of demand and its

composition, and the degree of foreign capital influencing the economy, the position of Australia in the years of the first period under study (1967-1973) was one of dependent cooperation with its powerful economic allies, the United States and England. The extent to which more regional integration could at that time have gained both independence and regional opportunity is a dead issue and one not dealt with in the immediate treatment of domestic economic profiles. As an analytical counterfactual, however, such an alternative path underscores the emerging national problems for Australia of control and mobility of its economic factors. On the one hand, labour factors, unless induced to efficiency by re-skilling and a concentrated educational push, could not be easily moved to enhance or create productive sectors which would promote development of a mixed economy. On the other, the hypermobility of capital flows would always threaten speculative instability and the diseconomy of short-term investment preferences over long-term investment.

Finally, an important component of Australia's economic profile is the impact of inflation. The average annual rise in consumer prices between 1967 and 1973 was 6.4% (the low year was 1967, 2.5%; and the high year was 1971, 9.4%).⁴¹ That figure compares to a rate of 4.6% during the last five years of the decade of the 1960s (low: 1967, 2.5%; high: 1970, 6.4%). Moreover, inflation became worse during the entire period under study. The average annual increase in

consumer prices during the years 1974 to 1983 was 13.7% (low: 1983, 4.6%; high: 1975, 24.2%). The lowest point during that period, in 1978, at 8.3% was only 1 point below the high peak of the initial period (1971, 9.4%). From 1967 to 1982, the average annual rate of rise in consumer prices was 11.3%. Even leaving out the oil inflation years of the first shock (1974 to 1976, inclusive), the average annual rate is over 10%. These data are understandably dramatic and indicate the depth of economic malaise which compelled such counter-cyclical, or "anti-slump", activity. The comparative analysis to follow will confirm the extent to which all the economies under study exhibited these symptoms of inflation.

Comparative Economic Profiles in the Period 1973-1982

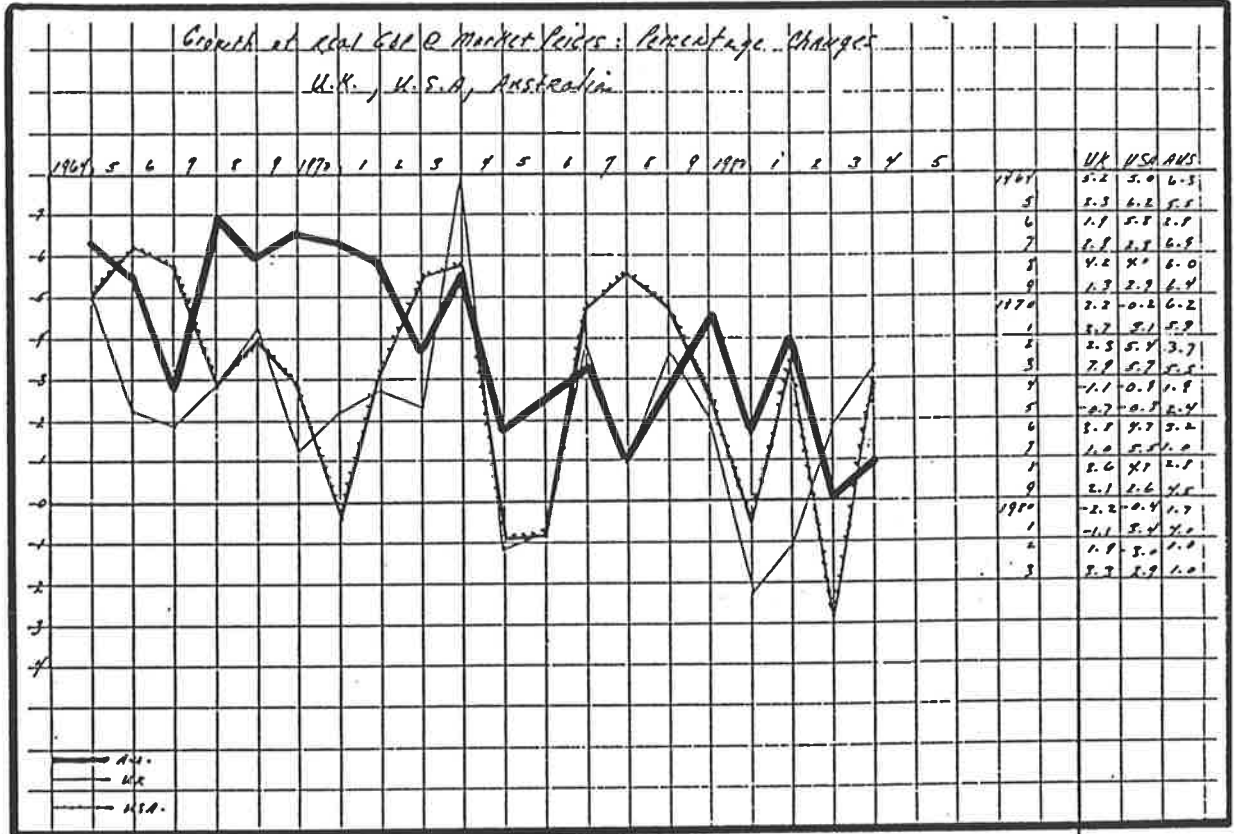
The period following 1973 to 1982 shows, in policy terms, the evolution of a posture of economic discipline. I characterize that posture as an increased "economism" of capitalist policymaking as the crisis of the general period 1967-1982, deepened. (A formal definition of that phenomenon is provided in the next chapter and the terms of the definition are operationalized for each country.) Within the years 1973-1982, there is a break at the time of the second oil shock. The years 1975-1978 are characterized as the period of the search for stabilization policies which tolerate increasing levels of inflation, while the years 1979-1982 are discussed as the watershed years of the ascendancy of the "new conservatism" in the politics of the

three capitalist countries under study, bringing a crystallization of discipline and the synchronization of domestic policies with a demand for market performance in the international arena. The substantive policy expression of those years will be discussed in the next chapter. For the present, I shall provide comparative economic profiles of the United States, the United Kingdom, and Australia, with the evolution of deepening economic crisis in mind.

The Pattern of an Unstable Decline of Growth Shared Among the National Economies of the United States, The United Kingdom, and Australia.

Figure 3.3 demonstrates the growth patterns of the three countries under study throughout the general period 1967-1982.

Figure 3.3
 Growth of Real GDP @ Market Prices
 dom, and Australia
 1964-1983
 (% changes year to year and period averages)



(Source: OECD Historical Statistics, Paris, and successive publications of Economic Outlook from 1967)

Following the periodization employed throughout the present work, one notices several obvious characteristics in the comparison of the development of the three countries' patterns of growth vis-a-vis each other. In the first period, the relative disparities of the patterns are apparent, especially in the case of Australian development. Not only the volume of growth, but the distance from the volume and movement of both the United States and the UK, of Australian development of GDP is demonstrated in this graph.

Throughout period I, Australia averaged a 4.40 annual growth rate (low year: 1967, 3.7; high year: 1972, 6.9). This is impressive compared to the average annual GDP rates for the United States of 3.39 (low: 1970, -0.2; high: 1973, 5.4) in this period, and of 3.34 for the UK (low: 1969, 1.3; high: 1970, 7.9).⁴² The "ratchet" effect which expresses the volatility of most of the aggregate economic data throughout the general period for all countries does not begin to become apparent for Australia until 1971. Australia's location on the periphery of the international capitalist market may have provided the insulation which allowed buoyancy in the late 1960s and delayed the transmission of the stagflation which brought most capitalist growth patterns into synchronic and volatile movement from the late-sixties recession onward. From 1973, all countries move into relative synchrony, with an overall declining rate of growth marked by sharp peaks and troughs. The response of the Australian economy to the beginnings of the US recovery prior to the second oil shock provides some maintenance of GDP-growth lead through 1969 to 1972, but with declining national resiliency in the third period.

The GDP growth of the UK demonstrates a ratchet without strong pick-up to carry through the troughs for the entire general period, except for the 1972-1973 peak which surpassed both the US and Australia and reached the nearly 8% annual growth average which was the highpoint of the entire general period for all countries. In any case,

without that anomalous jump, which appeared to do nothing to preempt the slide of 1973-1975, the average growth pattern of the UK for the general period would have been only slightly lower than the 1.91% average annual rate overall. (Putting the 1973 rate for the UK at a hypothetical 4.2%, based on a trend projection and not surpassing the 1968 rate, the decrease in the overall rate would be only 0.2%, bringing the general rate down to 1.69%.)⁴³ The general period average for the US is 2.47%, and for Australia it is 3.88%. (OECD Europe had a general period rate of 3.09 with a similar pattern of declining and uneven growth rates: refer to figures annex, figure 3.1'.)

The United States economy was never able to provide an engine for recovery in Europe and Australia. Its growth rates exhibited the same ratchet effects as the other two economies, with growth rates becoming progressively volatile and exhibiting sharper peaks and troughs through the general period.

The Australian economy demonstrated consistently better growth rates than the US, the UK and the OECD Europe performances in the general period except for the years 1976-1978, and for the pick-up in 1982. The averages for the three disaggregated periods are also the best of the countries under comparison in the present work. Table 3.7 represents comparative national averages of the three countries to summarize the decline in growth.

Table 3.7
 Comparison of GDP Averages for Select Periods
 The United States, the United Kingdom, Australia
 (% changes year by year)

	1967-73	1974-78	1979-8	general period 1967-82
U.S.	3.39	2.64	.65	2.47
U.K.	3.34	1.32	.18	1.91
Australia	4.06	2.25	2.55	3.88

(Source: Chapter 3 Annex, Comparative Historical Figures and Statistical Summaries, derived from figures 3.1, 3.9, and 3.19)

Prices

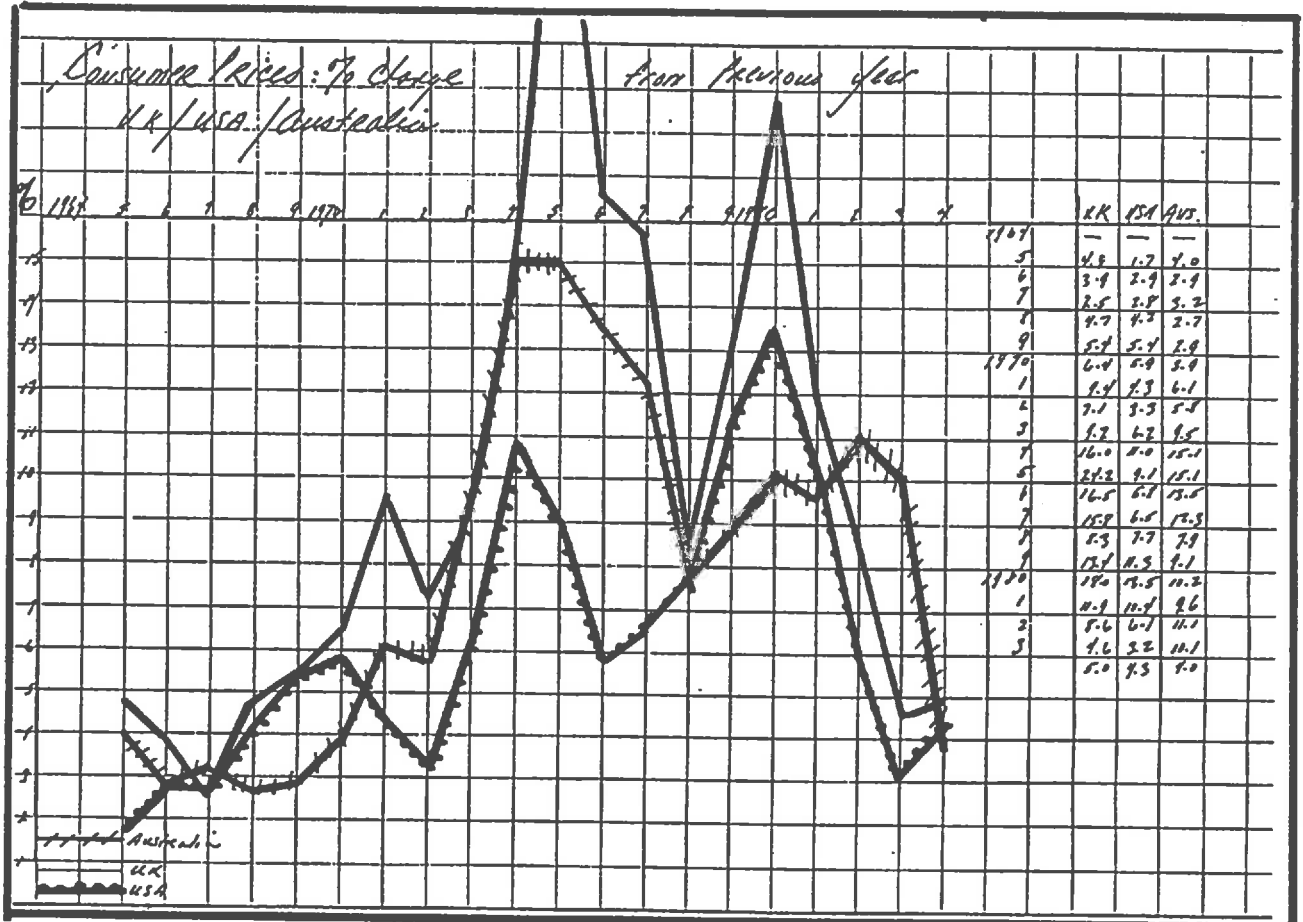
The persistence of price rises in the depth of recessionary trends is a characteristic of the general period under study. Mounting inflation in these circumstances, although poorly understood, has been much discussed, and is generally referred to as "stagflation". As dealt with in the previous chapter, the transmission of inflation is a set of complex interactions within the dynamic of profit-seeking capitalist economies. This dynamic has increasingly relied upon currency and paper speculation to support downtrends in corporate profitability. Money instruments in domestic economies fight fire with fire by controlling the volume and velocity of money within national economies. They have also been used as an adjunct to fiscal policy because of the relatively quick but short-term market responses which interact with monetarist manipulation.

The strategic use of money by national governments

vis-à-vis trade balances and opportunistic manoeuvres to soften the domestic effects of large financial deficits have also been dealt with in the previous chapter. What concerns us in the present chapter is the overall configuration of price behavior within domestic economies. The profiles presented below show extraordinary rises in prices during the general period, with a volatility demonstrated in upward-tending ratchets for all economies. A profile of disaggregated price components, both consumer and producer, will indicate the breadth of the inflationary net.

Figure 3.4 demonstrates the burden on consumers which rising prices enforced from 1967 to 1982.

Figure 3.4
 Consumer Prices
 The United States, the United Kingdom, Australia
 (% changes year by year)



(Source: Chapter 3 Annex, Comparative Historical Figures and Statistical Summaries, Figure 3.28')

As Figure 3.4 demonstrates, both Australia and the UK have had a far more substantial intrusion of inflation within their economies, with the steepness and volatility of the UK consumer price rises showing spectacular movement. The United States has had relatively moderate inflation in consumer prices as Table 3.8 demonstrates with comparative averages provided for the select periods under study.

Table 3.8
Comparison of Consumer Price Averages for Select Periods
The United States, the United Kingdom, Australia
(% changes year by year)

	1967-73	1974-78	1979-82	general period 1967-82
U.S.	4.58	8.02	10.33	6.52
U.K.	6.4	16.16	12.98	11.3
Australia	4.87	12.78	10.00	8.63

(Source: Chapter 3 Annex, Comparative Historical Figures and Statistical Summaries, derived from figures 3.2, 3.10, and 3.20)

The 1970-72 decline in prices in the United States was against the trend for the rest of the OECD, as well as in comparison to the UK and Australia. (The OECD-less-US average for 1970-72 was 5.87 as opposed to the US average of 4.40. Australia's consumer prices rose at an average rate of 5.27 in those years, and the UK rates rose by an average of 7.63 following a trend of steep rise which had been apparent since 1967.)

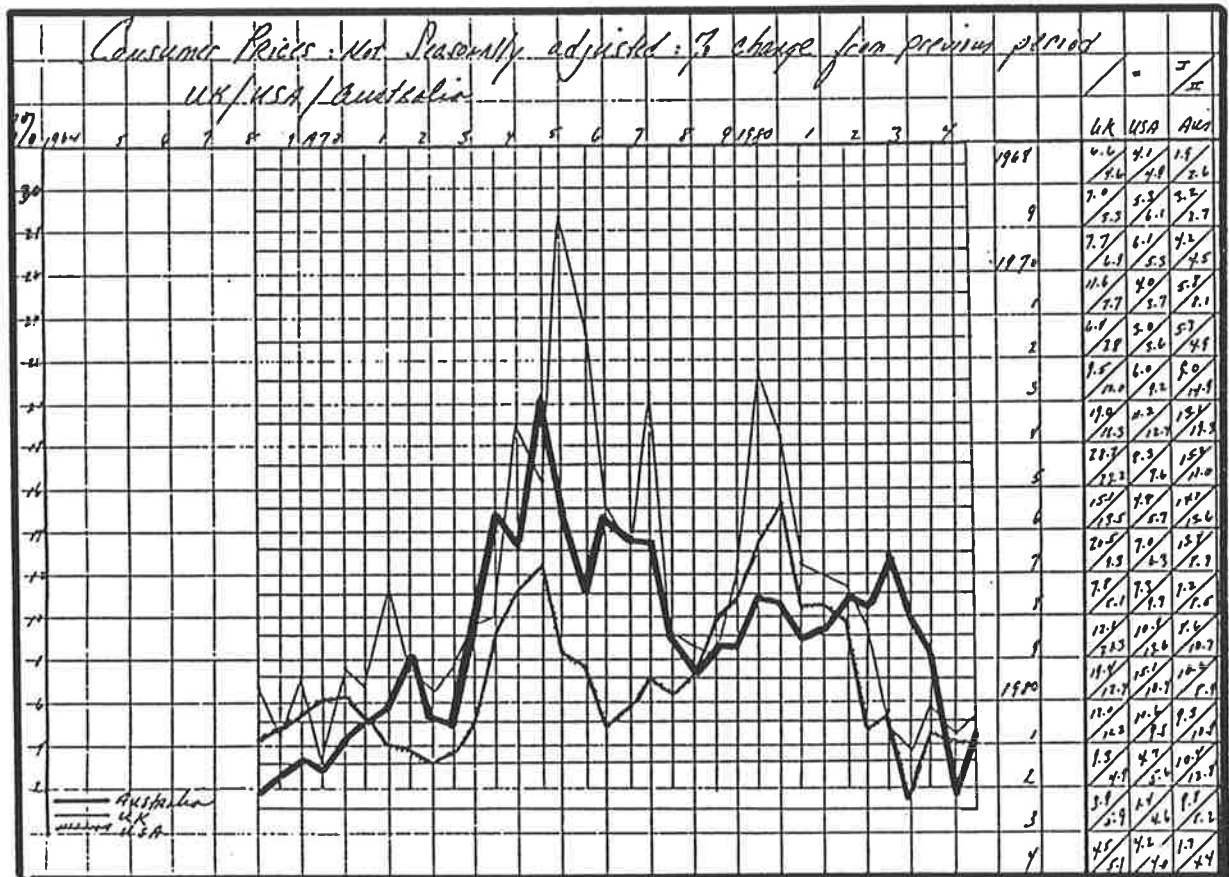
From 1973 to 1982 none of the three countries under

study was able to regain anything like the price rates which marked the beginning of the period, and for most of the time these countries lived with double-digit consumer price inflation. Australia was able to moderate the consumer price yearly rate rises after 1978, but suffered the most significant burden of price rises in the five-year period from 1972 to 1977. Even so, its performance was better than Britain's during those years.

Figure 3.5 and Table 3.9 demonstrate more clearly the relative smoothness with which the US economy absorbed the consumer price rises of the general period before 1978-80 (discounting, to some extent, the shock reaction of the first synchronized global recession of 1974-75 which contained an exaggerated effect: the bursting of the preceding commodity boom and the introduction of OPEC oil which interacted and perhaps exaggerated the price effects in domestic economies beyond a "normal" response).

Figure 3.5

Consumer Prices Not Seasonally Adjusted:
 The United States, the United Kingdom, Australia
 (% changes from previous period)



(Source: Chapter 3 Annex, Comparative Historical Figures and Summary Statistics, Figure 3.29')

Table 3.9
 Comparison of Consumer Price Averages for Select Periods
 Food/Energy
 The United States, the United Kingdom, Australia
 (% changes year by year)

	1973-78		1979-82	
	food	energy	food	energy
U.S.	9.47	10.53	7.85	15.38
U.K.	17.47	10.65	10.65	18.80
Australia	11.90	10.47	10.90	15.80

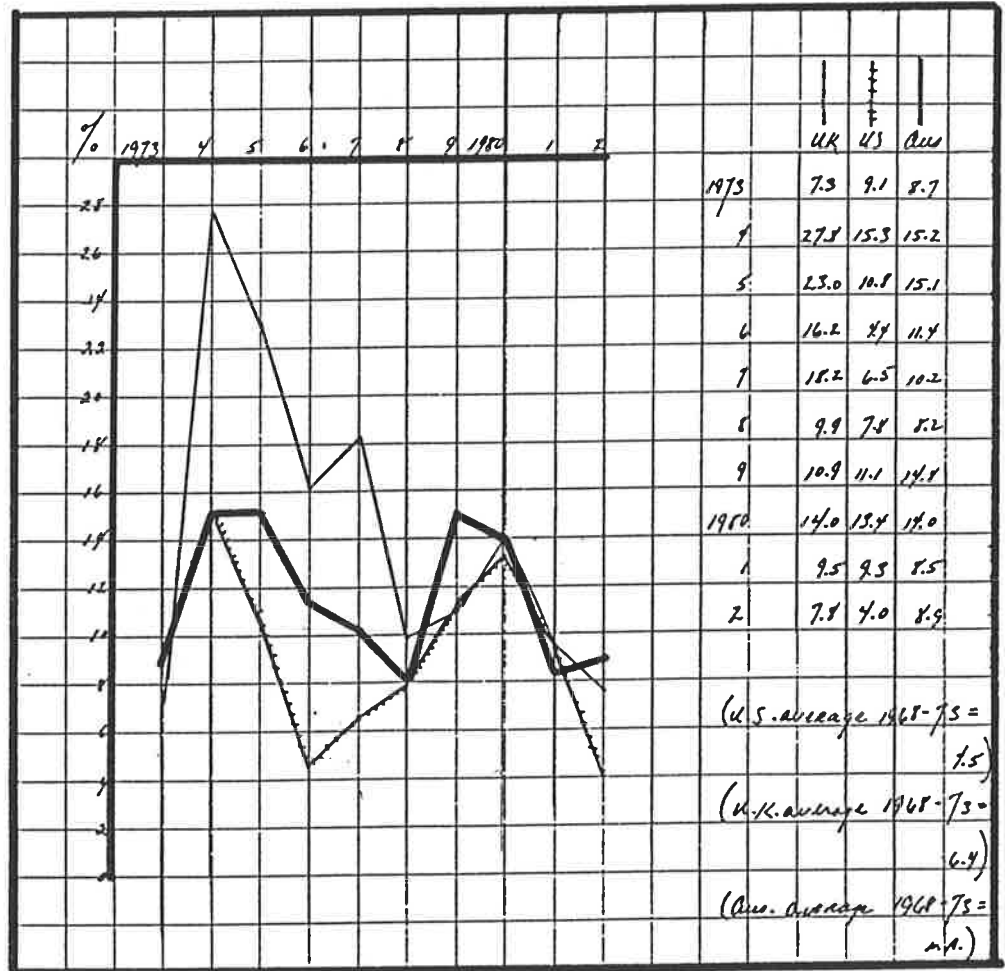
(Source: OECD, Economic Outlook Historical Statistics, 1960 - 1983 [Paris, 1985])

Table 3.9 demonstrates, again, how the burden of consumer inflation hit the UK with comparatively more strength than either the US or Australia. The Australian economy stayed remarkably close to the US performance except in the category of food, where it remained some 2.5% to 3% points above the US in average increases.

Producer Prices

The producer price indices and export/import implicit price indices provide a picture of the distribution of the burden of price inflation across producing sectors within the economies of the United States, the United Kingdom and Australia.⁴⁴ Figure 3.6 demonstrates the comparative burden experienced in manufacturing for each of the countries under study.

Figure 3.6
 Producer Price Indices: Manufacturing
 The United States, the United Kingdom, Australia
 1973-1982
 (% changes from year to year)



(Source: Chapter 3 Annex, Comparative Historical Statistics, derived from Table 3.45)

The clear maldistribution of inflation in the manufacturing sector on a comparative basis is indicated in Figure 6.e, with the gap closing among the three countries after 1978. The UK's cost of producing manufactures is the greatest during the 1973-1978 period, with Australia less resilient than the US in adjusting producer prices, and suffering abrupt producer inflation in the 1979-1981. Australia's exposure to imported producer inflation through manufacturing imports is understandable, but the sectoral share of manufacturing in the Australian economy allows it to absorb that inflation better than the economy of the UK.⁴⁵ In value-added terms UK manufacturing averaged 24.9% of GDP in 1973-1982. While Australian manufacturing averaged 20.6% from 1973 to 1980. (Although UK manufacturing share of GDP in value-added terms dropped a little over 7% in those years, while Australian manufacturing dropped only a little over 3% in the years measured above.) The US manufacturing value-added share of GDP average over the late crisis period 1973-1982 was 23.5%, and had dropped only 5% of its share in those years.

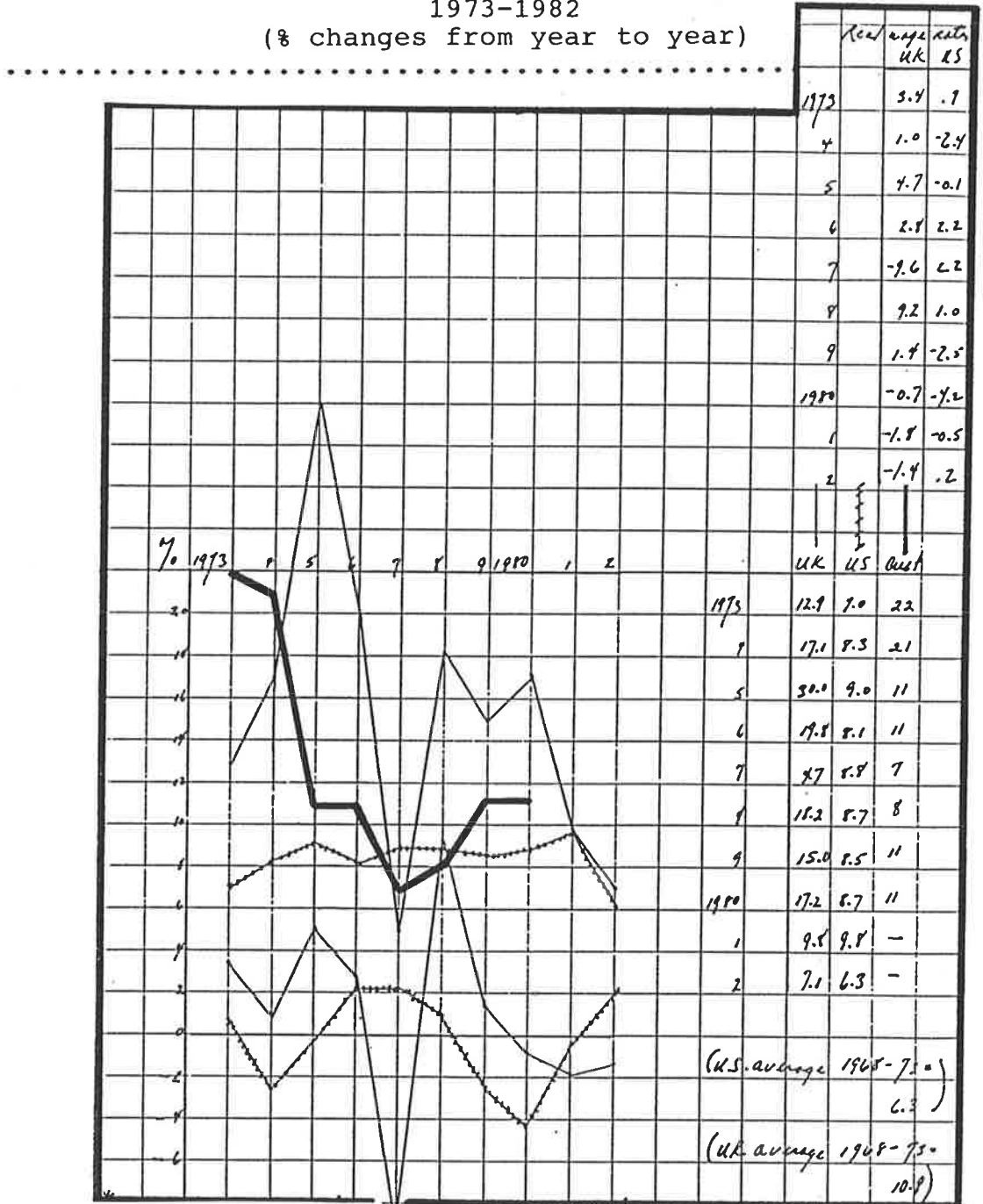
Other producer price averages demonstrate the burden on the UK in even broader terms. On the "Food, Beverages, and Tobacco" indices, the UK averages yearly producer-price rises between 1973 and 1979 of 17.7%, as compared to the Australian average rise of 10.6%, and the US rise of only 6.3%.⁴⁶ For textiles, clothing and leather, the UK averages 14.1% increases during those years, compared to the US

increases of 5.3%.⁴⁷

A comparison of the industrial structures of the three countries indicates that some adjustment should be made for the relative weight of the manufacturing sector upon the economy as a whole, but not as much as might be expected.⁴⁸ For the period 1973-1982, the average value added in manufacturing as a percentage of GDP for each country was: the United States, 23.5%; the UK, 24.7%; and, Australia, 20.60% (average for 1973-1980). Moreover, the gap in value-added manufacturing share as a percentage of GDP was closing for the three countries, as all countries were reducing their manufacturing share within domestic economies. But while the UK domestic share dropped from 28.5% in 1973 to 21.3% in 1982, the US dropped from 24.9% to 20.9% in those years - a difference of shedding the manufacturing share by 7.2% points in the case of the UK compared to a US equivalent drop of only 4% points. Australia dropped from 22.5% in value-added for manufacturing as a percent of GDP to 19.3% in 1980 - a drop only of just over 3 points. Poor performance in the manufacturing producer price indices for the UK occur during shrinkage of the manufacturing sector as a producing component of the overall British economy.

Wages in the manufacturing sectors of the three countries provide an interesting picture of volatile and disparate movements. Figure 3.7 demonstrates the movement of wages in manufacturing for the years 1973-1982.

Figure 3.7
 Hourly Wages in Manufacturing/
 Real Hourly Wages in Manufacturing:
 The United States and the United Kingdom
 1973-1982
 (% changes from year to year)



(Source: OECD, Economic Outlook Historical Statistics, 1960 - 1983 [Paris, 1985], derived from tables 9.3 and p.4. Australian figures are derived from Australian National Accounts "National Income and Expenditure", ABS cat.#5204.0, Canberra, 1983, Table 26.)

Figure 3.7 clearly demonstrates the relatively smooth and disciplined wage rates of US compared to those of the UK in manufacturing. The averages for the periods are 8.3% average annual increase for the US and 15.2% average increase for the UK from 1973 to 1982. However, real wage rate average annual increases for the period were US, -0.34% and UK, 0.9%, indicating the extent to which producer prices do not reflect wage inflation. Wage increases during 1976 and 1977 in manufacturing in the United States coincided with the low-point of producer price rises in manufacturing for the period 1973- 1981, and the large wage increase in the manufacturing sector in the UK which occurred in 1978 similarly coincided with a low-point in manufacturing producer price inflation of the same year. In fact, a comparison of Figures 6.e and 6.f shows an inverse relationship between rises in the producer price indice for manufacturing and the wage rate rises in manufacturing since 1976 for both the US and the UK. Producer prices rise and wages fall coincidentally, and since the data seems to exhibit no lag-time, but rather a symmetry in terms of yearly coincidence, it is unlikely that these price behaviours are causally interactive.

On comparing countries, it is interesting to note the increasing similarity of UK/US wage behaviour in manufacturing after 1978, as both countries move into the final period under study when national policy became a more articulate expression of economism. Demand pressures in

international markets exert rises in producer prices which show up in an inverse statistical relationship to the politically-determined fall in wages. This inverse statistical relationship, however, is an artifact of the real-world antagonism between selective market determination (in this case for manufacturing goods) and political discipline pertaining to labour markets. The price behaviour for each is therefore highly distorted: in the case of labour market prices (wages), because of a political restriction of that factor mobility; and in the case of certain goods markets, because of the partition of the international market discussed in the last chapter and because of the intrusion of finance capital strategies within general price/profit movements. What must be emphasized is that these distortions are not so much interest or choice motivated as compelled by economism, which is itself the result of a breakdown of the system of capitalism.

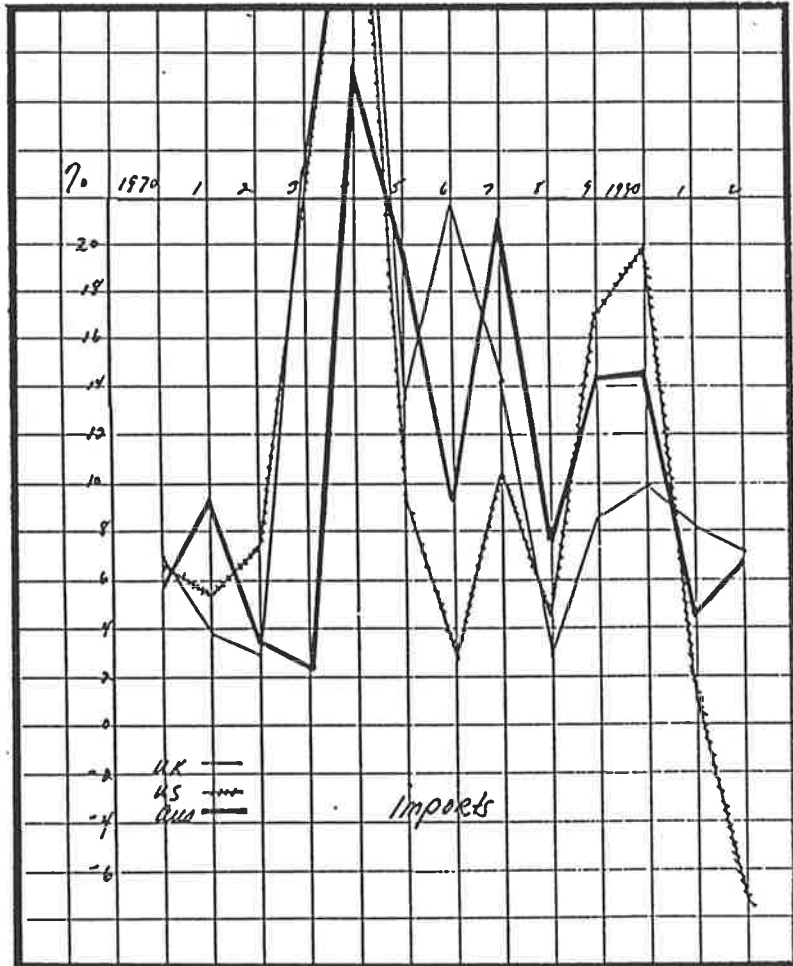
To return to the point of the specific relationship between the data of Figures 3.6 and 3.7, my analysis is that in the particular instance of producer price indices for manufacturing as related to the movement of wages in manufacturing for the years 1973 to 1982, wages are benignly related to falling inflation of which producer prices are a significant part, when comparing the US and the UK. The register of "real" wage rises, when they subsequently occur, is a gratuitous effect of reduced inflation coupled with

increased unemployment. In other words, depressed general economic indices exaggerate wage rate increases primarily because of lags in wage adjustments to recession. But high wage rates were not the primary cause of inflation nor the trigger for contractionary policies to remedy inflation. Moreover, wage rates, in the specific case being observed, can be interpreted as benignly related to an inflation pushed by producer price rises. When labour is shed as a reaction to the statistically registered wage rises, unemployment obviously increases and "stagflation" occurs. Although wages are benignly related to a crisis condition whose chief symptom is rising inflation, they are targetted by policymakers and employers as causal. When labour is shed as a disciplinary method of dampening wage demands there occurs no remediation of rising inflation. "Stagflation" is an apology for the crisis rather than a legitimate concept describing an economic condition.⁴⁹ The section below on unemployment will indicate more clearly the burden on workers that unemployment has enforced.

Prices in Import/Export Goods and Services

This final section on prices deals with the implicit price index relating to exports and imports of goods and services. Figures 3.8 and 3.9 provide a graphical description of the comparisons among the three countries in regard to price movements for the years 1973 to 1982, with the turn of the decade years included.

Figure 3.8
 Imports of Goods and Services: Implicit Price Index
 The United States, the United Kingdom, Australia
 1973-1982
 (% changes from year to year)



(Source: OECD, Economic Outlook Historical Statistics, 1960-1983. [Paris, 1985])

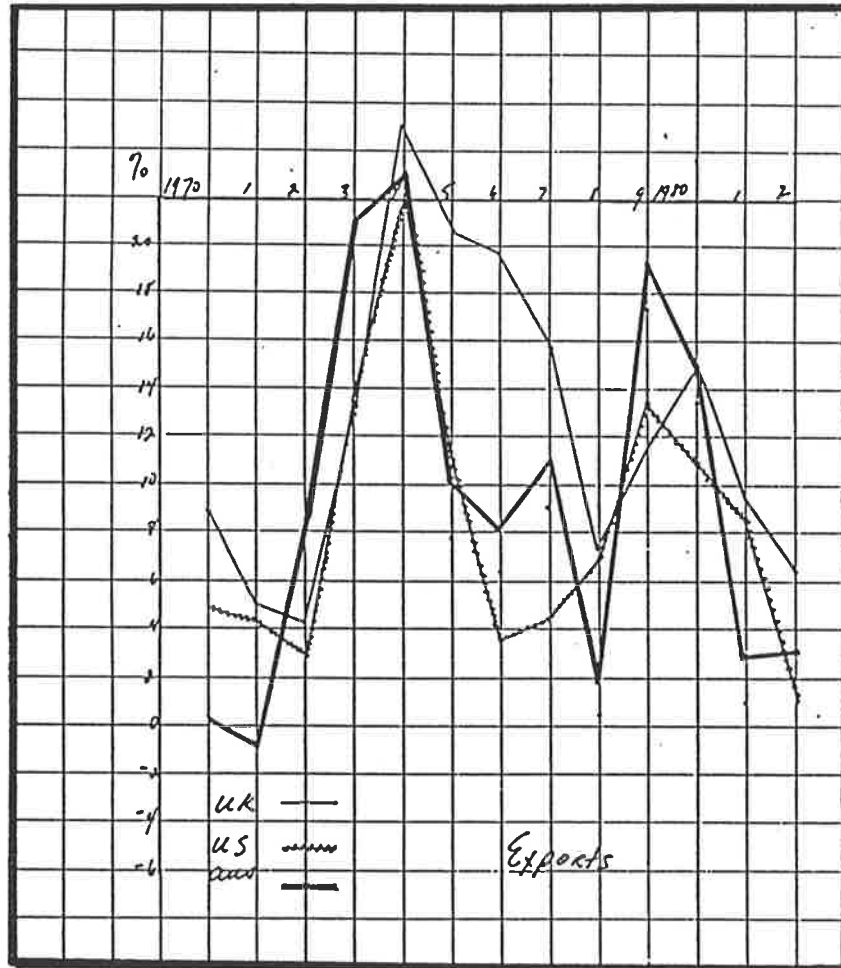
Between 1968 and 1973, the first phase of the general period under study, the average import price rises for the three countries are: US, 7.7%; UK, 7.7; and Australia, 4.5%. During the years 1973-1982 the price of imports according to the implicit price index rose. The United States average for those years is a 12.09% average annual increase (low year: 1982, -6.3%; high year: 1974, 44.1%; second highest year: 1980, 20.0%). However, excluding the anomalous year of 1974 which reflects the once-for-all adjustment for oil prices,

the average is 8.53%, or merely a 0.8% increase in import prices for the decade 1973-1982.

The UK averaged 15.19% for the 1973-1982 period (low year 1968, 3.0%; high year: 1974, 41.9%; second highest year: 1976, 21.8%). Again, excluding 1974, the average rise for Britain is 12.22%, or an increase of 4.52% on average.

The Australian case is a 12.81% average for the 1973-1982 years (low: 1981, 4.5%; high: 1974, 27.6%; second highest year: 1977, 21.2%), and excluding 1974, the average is 11.17% - only a 1.6% point adjustment. The rise in import prices for Australia for those years represents a 6.67% average rise, the highest differential for the three countries between the first and second period being compared. The burden of small domestic economy scale, transport costs in an era of high fuel prices, and an inability to exploit indigenous fuel reserves for domestic use/substitution explains that burden. Furthermore, the swift intrusion of import price rises into the Australian economy negates the periphery buffer which had allowed Australia both lag-time and relative softness of impact from global price-storms in earlier years. The export price picture compounds and reinforces the burden imposed by import prices (Table 3.9).

Figure 3.9
 Exports of Goods and Services: Implicit Price Index
 The United States, the United Kingdom, Australia
 1973-1982
 (% changes from year to year)



(Source: OECD. Economic Outlook Historical Statistics, 1960-1983 [Paris, 1985])

The equivalent averages as discussed in the import comparisons are presented in table 3.10 to allow a more succinct comparison of import/export price movements for the three countries.

Table 3.10
Comparison of Exports and Imports of Goods/Services:
Implicit Price Index
The United States, the United Kingdom, Australia
1968- 1982: Period Averages
(annual average % change)

	US		UK		Aus	
	(exp)	(imp)	(exp)	(imp)	(exp)	(imp)
(1) 68/73	5.6	7.7	6.6	7.7	6.9	4.5
(2) 73/79	10.0	14.0	16.5	16.6	12.2	16.4
(3) 73/82	9.5	12.1	14.27	15.2	11.8	12.8
(4) 73/82 x - '74	8.1	8.5	13.1	12.2	10.5	11.2
(4)-(1) =	2.5	.8	6.5	4.5	3.6	6.7
(4) - (1)						

(Source: Chapter 3 Annex, Historical Statistical Tables, Table 3.51)

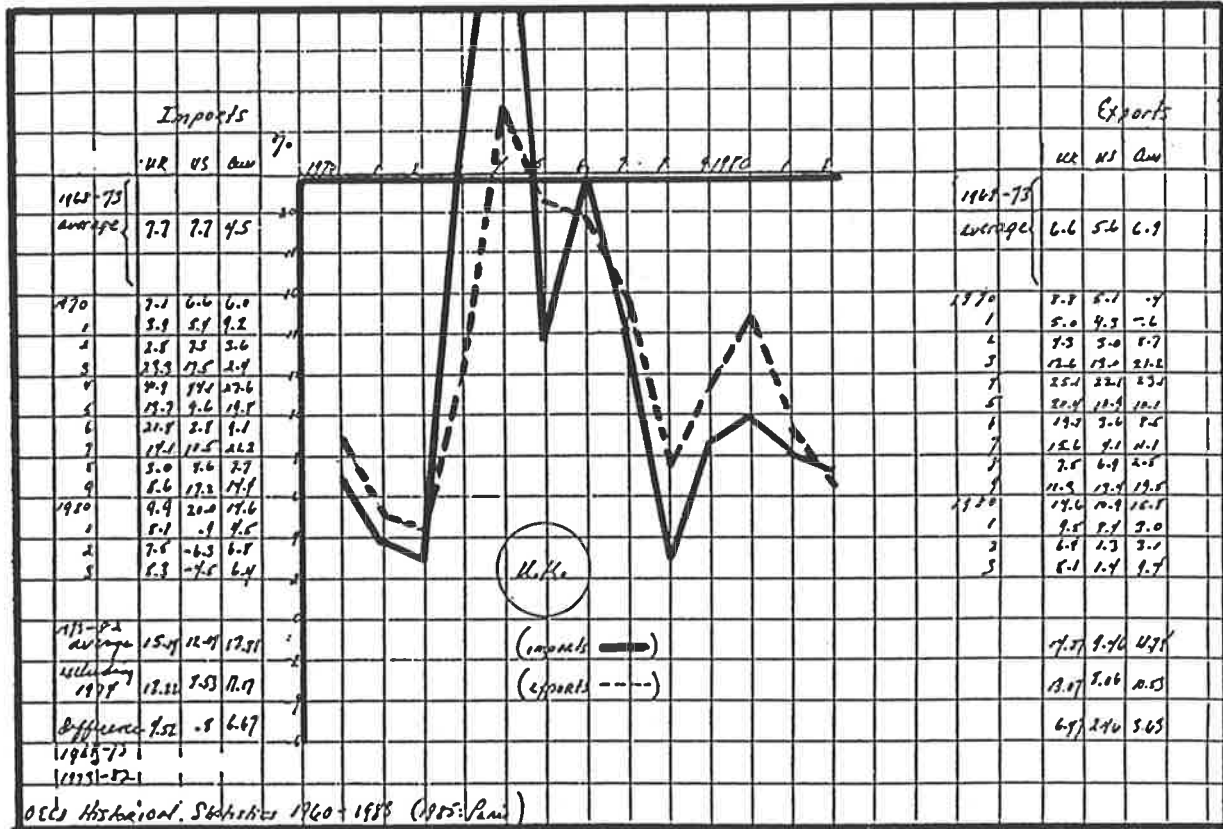
The loss of competitive pricing positions by the UK and Australia measured by the implicit price index rise for exports from the averages of the 1968-73 period to the 1973-82 period is graphically illustrated. Following the commodity boom/oil price rises of the 1972 to 1974-1975 period, the competitive pricing distance between the US and the other countries is, on the average, quite clear. However, the UK certainly fares worse than Australia in overall averages. What the timing on the graph for export indicates, moreover, is that the US position on export price declines earlier than the other two, thus assuring

competitive margins for the US during the early phases of recoveries, and when the pricing peaks, there appears to be more simultaneity, thus assuring that the loss of competitive market position via pricing will not damage the American position. This, of course, belies the general international picture of very poor trade balances for the US vis-à-vis major trading partners in Europe and Japan and in terms of competitive market positions measured by capture of global margins. But the comparative data here for the US, UK and Australia demonstrates a severe liability for the latter two countries vis-à-vis the US, whose importance as a core international economy is undisputed. The disjunction of performance for export pricing between the UK, Australia and the US, if it is growing, will indicate a long-term liability for these countries, especially when specific markets are in contention, for example, the Japanese steel market competition between the US and Australia. But in any case, general economic strength will rely upon incremental gains in external markets. As long as margins are consistently spaced, even with small increments, economies with relatively weak or small-scale export performance will suffer in unstable international markets.

The country figures for import/export price comparisons indicate somewhat predictable patterns of the reinforcing effects of import/export price rises, although resiliency in export price adjustment following import price "shocks" is clearly important. Figures 3.10, 3.11, and 3.12 demonstrate

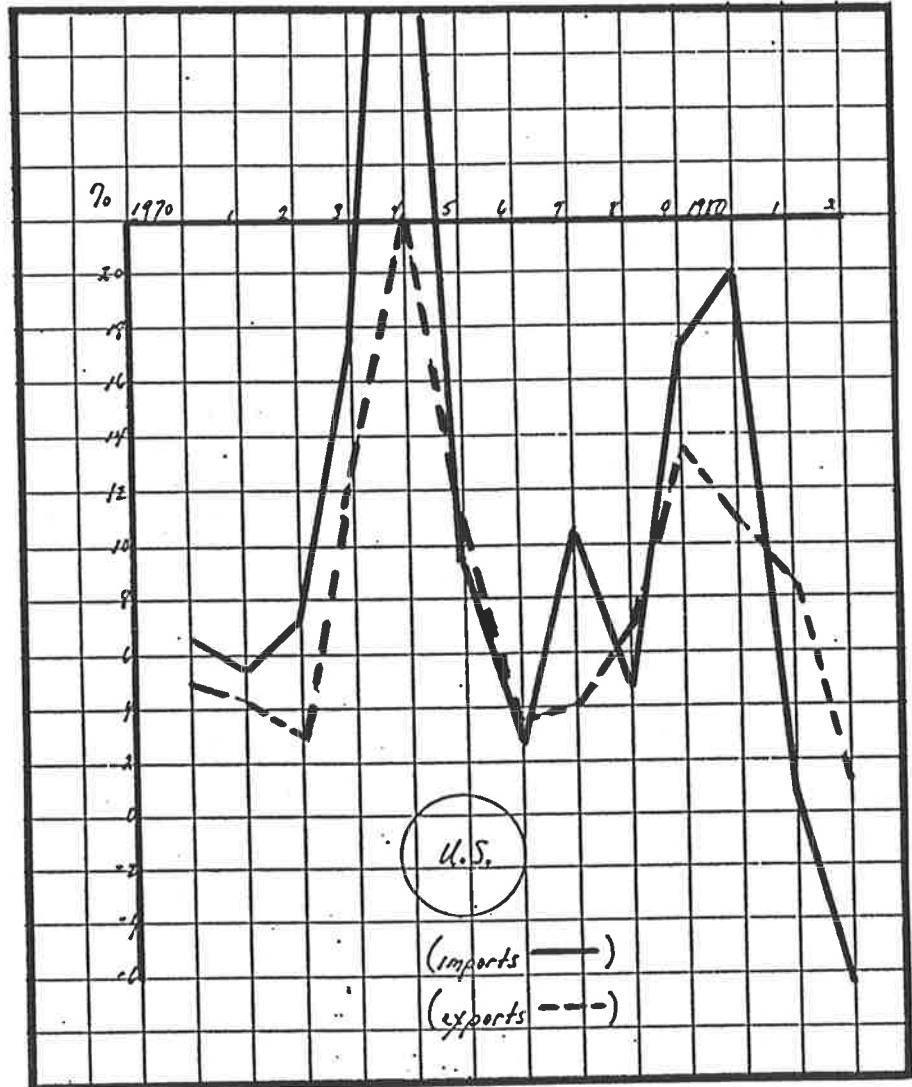
the country performance of import/export price comparisons.

Figure 3.10
Exports/Imports of Goods and Services: Implicit Price Index
The United Kingdom
1973-1982
(% changes from year to year)



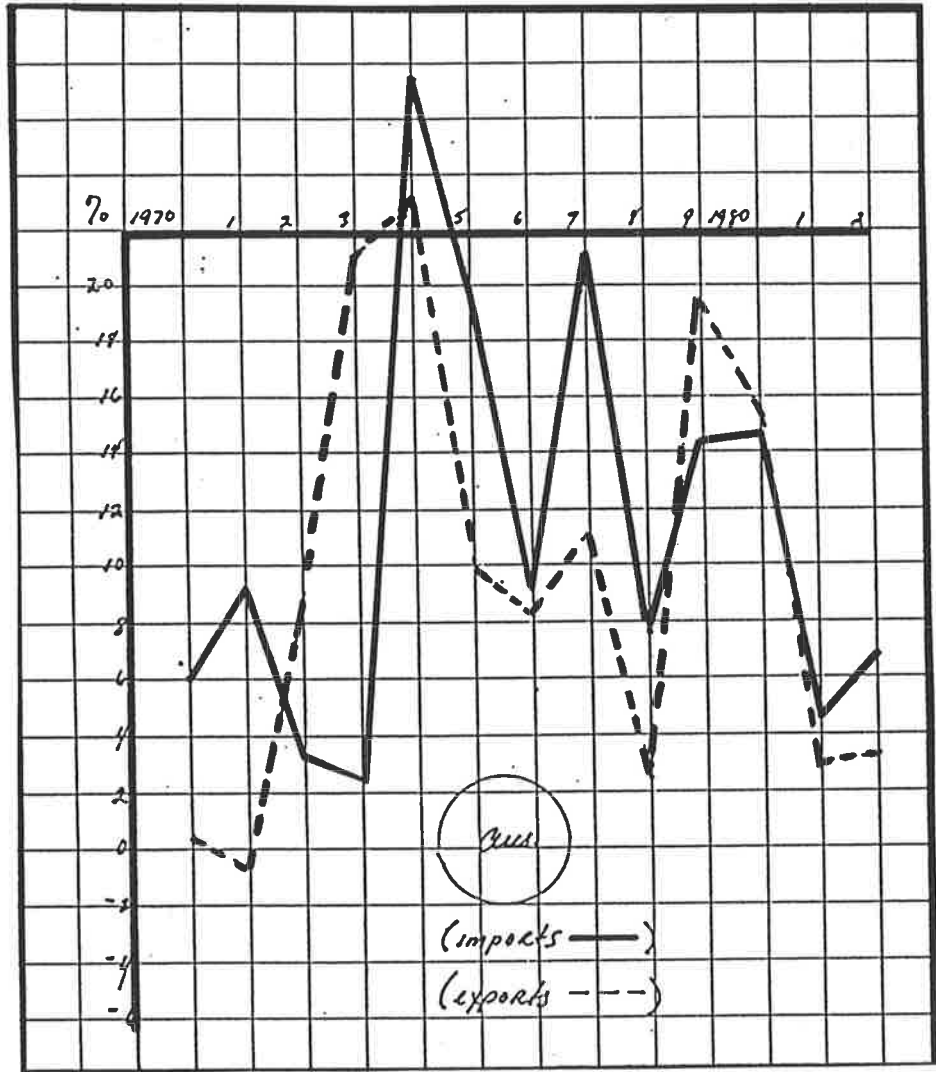
(Source: OECD, Economic Outlook Historical Statistics, 1960-1983 [Paris, 1985])

Figure 3.11
 Exports/Imports of Goods and Services: Implicit Price Index
 The United States
 1973-1982
 (% changes from year to year)



(Source: OECD, Economic Outlook Historical Statistics, 1960-1983 [Paris, 1985])

Figure 3.12
 Exports/Imports of Goods and Services: Implicit Price Index
 Australia
 1973-1982
 (% changes from year to year)



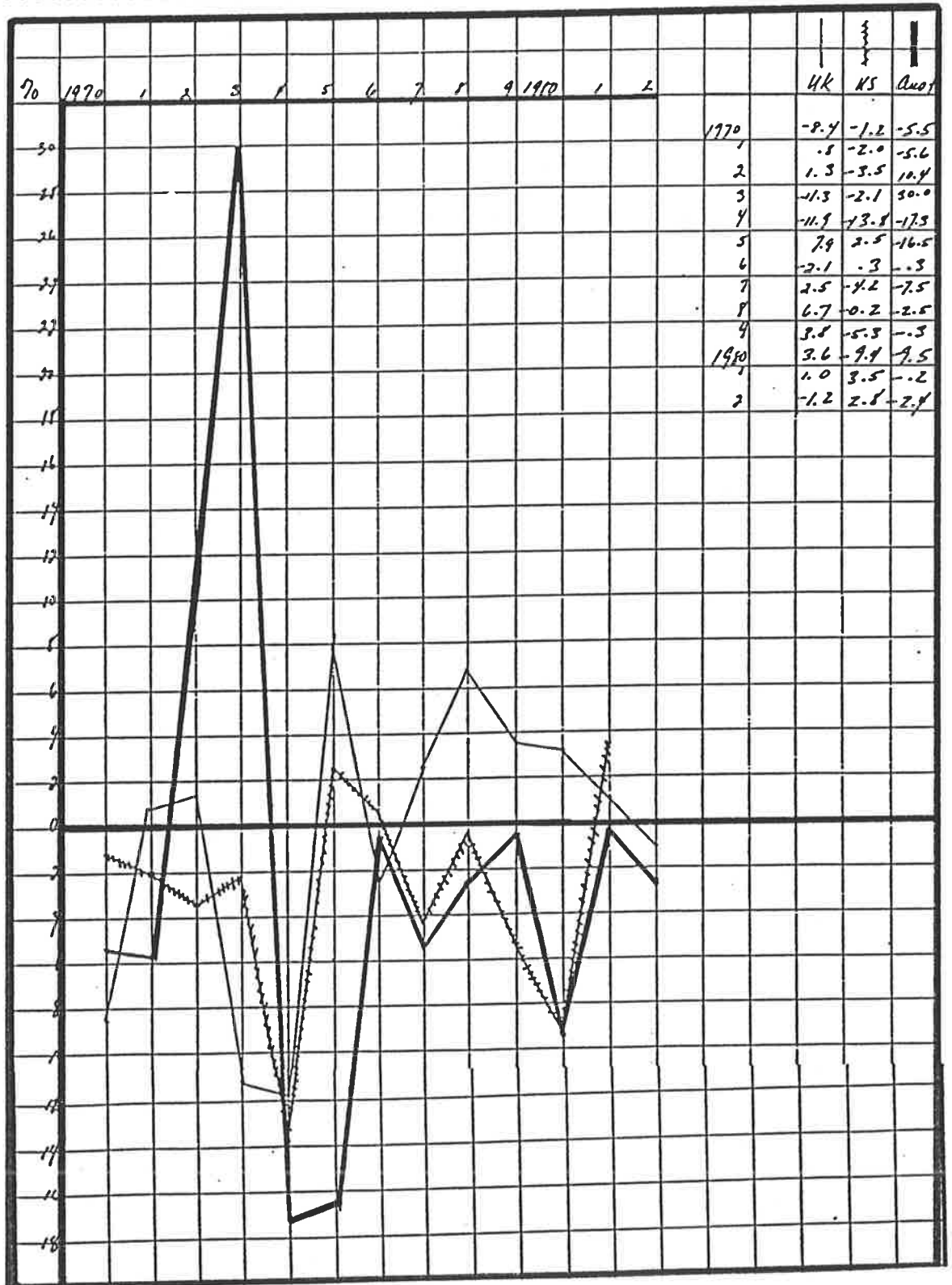
(Source: OECD. Economic Outlook Historical Statistics, 1960-1983 [Paris, 1985])

The comparative resilience of US export pricing as it interacts with import price rises is increasingly demonstrated after 1976, although Australia outperforms the US in that regard during 1978. US export prices stay well below import prices during 1979 and 1980, but lose ground in 1981 and 1982. The volatility of export pricing for Australia in 1979/80 at the time of the second global shock distorts the downtrend in export pricing, which appeared to promise a very substantial achievement from 1978. Export price performance for the UK throughout the period 1973-1982 is very poor. The increment of difference in comparative price performance for price inflation is especially poor if one considers that while on average Australia suffered an import price liability about one and a half times greater than that of the UK during the years 1973-1982 (discounting 1974), Australia outperformed the UK in export pricing by almost double. If the 1979-1980 export price inflation was discounted from the average for Australia and replaced by average trend figures equivalent to the US rates of those years, the Australian average would be within almost 1% point of the US average, while a similar adjustment for the UK would produce only a fractional decline of its recorded average (0.2%).⁵⁰ Thus the most exposed of the three economies, while suffering the blows of import price intrusion, has demonstrated intermediate performance vis-a-vis the other two countries, and has been closer to a competitive edge with the US than has Britain.⁵¹

Terms of Trade

The discussion above addresses the ability of the countries under study to withstand the impact of import price rises as a function of export pricing competition. The ability to create a distance between the two rising increments is an indication of how well domestic production can meet price thresholds for international competition. This section will briefly provide data on the comparative importance of import and export markets for the countries under study so as to assess how deeply pricing liabilities will affect overall economic performance. Following the general view of this work, the crisis of capitalism which characterizes the years 1967-1982 compels economic solutions in domestic and international policymaking. The relative gains and substantive expression of that economism will, however, depend upon the extent to which a country can exert efficient discipline regarding production and pricing activities within its own economy. The more exposed an economy is to exogenous influences, the less able it is to exert opportunistic control of its own resources. The extent to which domestic economies are exposed to global trends may be measured in the export/import share of GDP on comparative terms. Table 3.13 demonstrates the extent of exposure, and the general performance of trade among the United States, Britain and Australia.

Figure 3.13
 Terms of Trade:
 The United States, Britain, and Australia
 1970-1982



(Source: OECD. Economic Outlook Historical Statistics, 1960-1983 [Paris, 1985], Table 11.5)

Of the three countries under study, the UK is the most dependent on trade for economic well-being. When measured as a percent of GDP, the export of goods and services amounts to an average of 27.63% of GDP for the years 1973 to 1982. The average from 1968-1973 is 22.8%.⁵² Equivalent averages for Australia are 15.95% and 15.0% for the respective time-frames. Export trade is an obviously important part of the economic activity of both the UK and Australia. On the other hand, the United States is far less dependent on trade. From 1973 to 1982 the US exported only an average of 8.6% of GDP, having increased its trade share of GDP from an average of 5.7% during the 1968-1973 period. Import percentages of GDP follow a similar pattern. The average shares for those years are shown in Table 3.11.

Table 3.11
Imports of Goods and Services as % GDP
The United States, the United Kingdom, Australia
(averages for select periods)

	1968-73	1973-82	
U.S.	5.7	9.89	U.K. 22.8
	27.5		
Australia			14.7
16.79.....			
.....			

(Source: OECD. Economic Outlook Historical Statistics, 1960 - 1983 [Paris, 1985])

The share of imports as a percent of GDP increased more in Australia and the US compared to increases in export trade during the years 1973-1982 than in the UK, but the rough distributions of trade shares remain the same

throughout the entire period. The increase in price inflation through trade is therefore a much lighter burden on the US than on either of the other two national economies.

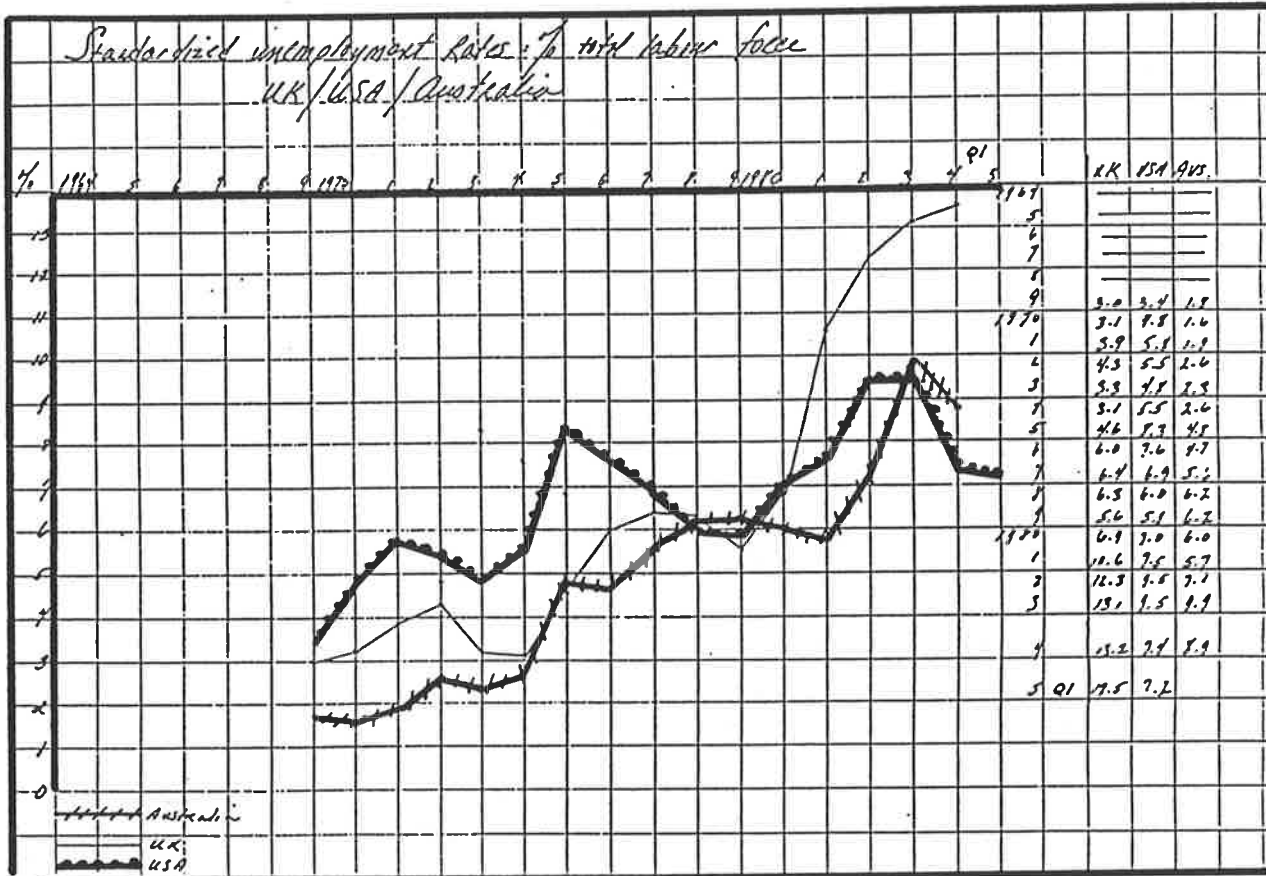
Unemployment

Section 1 in the annex, presents tables summarizing statistical comparisons and appended to this chapter, and contains a breakdown of labour distribution by productive sector, gender breakdowns, age distributions, and growth of the labouring population. These data relate to the present construction of economic profiles in so far as the distribution by sector changes and the total ratios of unemployment rise. Employment is being treated here as factor employment, that is, as merely a surplus-producing factor whose direct equivalent is the employment of finance and capital goods. This status is of course a fiction, as the labour factor is unique in its ability to create value, thus attributing economic vitality to economic production. The labour factor is also unique in the manner in which the productive capacity is embodied in persons (for example, a technical skill possessed by a person is distinct from a technical capacity possessed by a machine or an organizational design). Finally, labour establishes the point in the economic process where production and consumption intersect, thus generating the unique configuration of classes within capitalism.⁶¹

Nevertheless, the fiction which reduces labour to a mere productive factor in the construction of these present profiles will be employed for two reasons. Firstly, I want to look at the overall configuration of economic decline in the three countries under study. I want to substantiate the impressions of crisis that are expressed in popular accounts and governmental policies. The maldistribution and inefficient employment of labour as a productive factor certainly is a major part of that substantiation. Secondly, I want to distinguish the highly structural account of economic decline from the discussion in the next chapter on policy. The derivation of policy from the circumstance of economic decline is important to my examination of directionality in the proofs pertaining to the state autonomy question. While it is also the case that policy and the circumstance of crisis interact, I am attempting to establish that for reasons of periodicity and the depth of economic recession, policies within crisis are derived from structural decline.⁵⁴ The importance of labour and unemployment to the politics of crisis within capitalism will be further discussed in the following chapter.

Figure 3.14 provides a graphic illustration of the rise in unemployment during the period under study.

Figure 3.14
 Standard Unemployment Rates:
 The United States, the United Kingdom, Australia
 1969 - 1982
 (% total labour force)



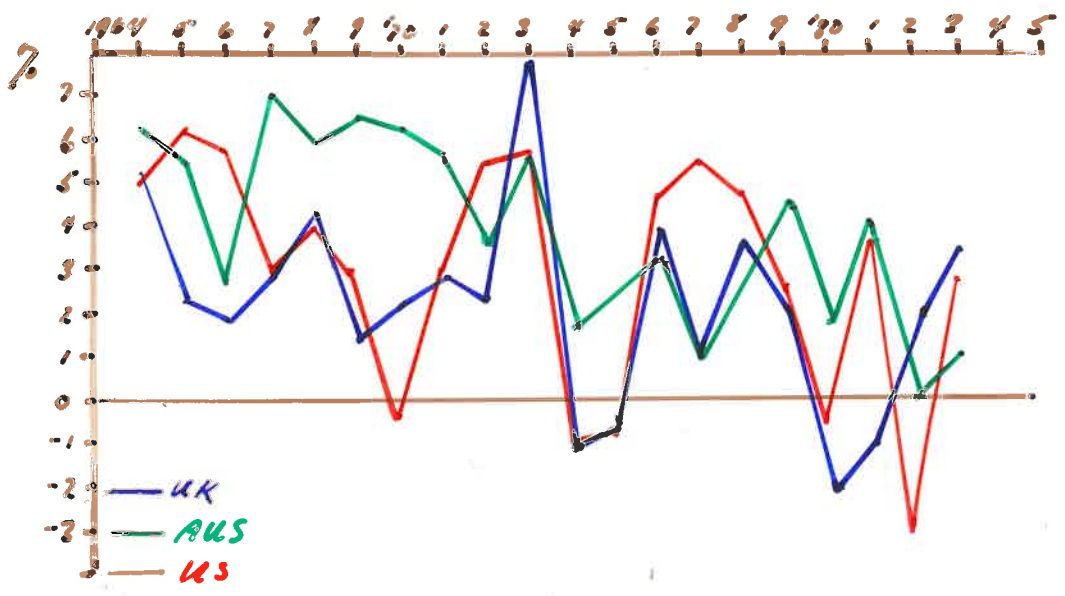
(Source: OECD, Economic Outlook Historical Statistics, 1960-1983 [Paris, 1985])

The average rates of unemployment for the UK, US and Australia between 1973 and 1978 were 4.95%, 6.52%, and 4.37% respectively. The pause in the international recession was

apparent from 1978 to 1980 for the three countries when unemployment in all countries demonstrated coincidental rates of around 6% (UK, 6.27%; US, 6.27%; and Australia, 6.13%). But from the 1979 best performance year onward, unemployment jumped dramatically and at a steady pace, reflecting the intractable cost to labour employment as GDP exhibited its volatile ratchet decline. (Please overlay the following transparency for demonstration of the interaction of GDP and unemployment for the three countries.⁵⁵ 1981 and 1982 exhibited rates of 11.5% for the UK, 9.50% for the US, and 5.85% for Australia, whose drop belies the very significant jumps in 1982-1983 averaging 8.5%).

Figure 3.15
Transparency
Growth of GDP at Market Prices
The United States, the United Kingdom, Australia
1969 - 1982

.....
(Source: Chapter 3 Annex, Comparative Historical Figures and
Statistical Summaries, derived from tables 3.1, 3.9, and
3.19)



The decline in real GDP from 1973 to 1982 was 6% points for the UK, 8.7% points for the US, and 5.5% points for Australia.⁵⁶ The rise in unemployment was 9% points for the UK, 4.7% points for the US, and 4.5% points for Australia.

The idling of the labour factor in all countries is a significant contribution to the economic crisis in each. This occurred at a time when the labour force in all the countries continued to grow, at roughly 2% over the general period for the US and Australia, and at only less than 0.5% in the UK.⁵⁷ The serious idling of the labour factor, however, did not occur until after 1973. The period 1968-1973 indicates averages growth rates of total employment consistent with total growth of the labour force. The averages for 1973-1982 are inconsistent. In the UK, while the total labour force grew at an average rate of 0.4% for the decade 1973-1982, total employment grew at a -0.7% average rate - a differential of a 1.1% decline, what I would characterize as an idling factor. In the US for the same period the idling factor was 0.6%, and for Australia it was 0.9%.⁵⁸

Where labour was employed it was in the service and government sectors, substantiating the claims of structural change in the economies of capitalist systems.⁵⁹ The major sectoral shift in employment of labour occurs at a time (1967-73) directly preceding the sharp jumps in rising unemployment, rising consumer prices, declining wages and

declining national wealth. Between the years 1968 and 1973, the amount of labour absorbed into services was increased by about 3.5% US and Australia , and 1.5% for the UK on an average annual basis - a rate above the growth of total employment and total labour force in the three countries. A slowdown in absorption occurs after 1973, but remains significant in relation to greatly increased idling of the labour factors in other sectors. Absorption into government is comparatively least significant in the US, vis-a-vis the other two countries, while absorption into services is very significant in both the U.S. and Australia. The divestiture of labour in agriculture, manufacturing, and industry occurs in all countries throughout the general period, and is summarized in the Table 3.12.

Table 3.12
 Summary of Sectoral Shifts in Employment:
 The United States, the United Kingdom, Australia
 (averages for two select periods)

	1968 - 1973	1973 - 83
total employment:		
US	2.1	1.5
UK	.2	-.7
Aus	2.6	.85
<u>negative shifts</u>		
agriculture:		
US	-1.8	-.05
UK	-3.2	-1.4
Aus	-.7	-1.1
industry:		
US	.9	-3.0
UK	-1.1	-3.3
AUS	1.7	-1.3
Manufacturing:		
US	.2	-.9
UK	-.9	-3.8
Aus	1.6	-1.6
<u>positive shifts</u>		
Services:		
US	3.4	2.5
UK	1.5	1.0
Aus	3.9	2.1
government:		
US	.7	.9
UK	2.5	.5
Aus	2.7	1.85

(Source: Chapter 3 Annex, Historical Statistical Tables, derived from tables 3.9, 3.10, 3.11, and 3.12)

Conclusion

The previous sections in this chapter have provided a profile of three major components of the economic crises in each of the countries under study. The idling of capital and labour factors have occurred at a time when inflation has destabilized both international and domestic economies. Both volatility and decline in productive patterns characterize all three economies. The profiles of the economies of the United States, the United Kingdom, and Australia move closer together in the congruity of patterns and the timing of volatile decline. Periodicity, in terms of the three time-frames employed in the overall analysis, seems to hold for all three economies, and even the traditional lag-time of the Australian economy seems to be disappearing as Australia becomes integrated into the capitalist international economy of crisis.

Sections in the Comparative Historical Figures and Statistical Summaries Annex appended to this chapter contain more substantiating data. The section on binary comparisons of countries, with the US as the base country, are particularly interesting and will prompt further investigation. The constraints of time and space disallow their specific use at present. Some of the summary data in the annexes will have to stand as a statement of record. Those data extend the analysis here rather than present contradictions.

The next chapter will examine the policy responses to the situation of crisis described here. In that chapter both the contours of economic crisis and the convergence of increasingly restrained policy options will be considered.

Footnotes

¹See, for example, Charles Anderson, The Political Economy of Social Class (Englewood Cliffs: Prentice-Hall, 1974); Colin Crouch and Alessandro Pizzorno (eds.), The Resurgence of Class Conflict in Western Europe Since 1968 (London: Macmillan, 1978); and A. Glyn and B. Sutcliffe, British Capitalism, Workers and the Profit Squeeze (London: Penguin, 1972).

²Economic Outlook (Paris: OECD), December 1967, p. 75.

³Economic Outlook, 1968, p. 88.

⁴Ibid.

⁵For a discussion of the January 1968 legislation and subsequent relaxation under Nixon, see Congressional Quarterly Weekly Report #15 (Washington, D.C.: April 11, 1969). For background, see also Congressional Quarterly Almanac, 1965, p. 866 and 1968, p. 718.

⁶Hyman P. Minsky, "Capital Financial Processes and the Instability of Capitalism", Journal of Economic Issues, 14/2 (June 1980), p. 505.

⁷For differing views on the roots of misunderstanding about stagflation see David Kotz, "Monopoly, Inflation, and Economic Crisis", Review of Radical Political Economy, 14/4 (Winter 1982), p. 1; and Mark A. Lutz, "Stagflation as an Institutional Problem", Journal of Economic Issues, 15/3 (September 1981), p. 745.

⁸Michel Aglietta, A Theory of Capitalist Regulation, trans. David Fernbach (London: Verso, 1979), especially Part II, Chapter 4, pp. 212-266.

⁹Economic Outlook, 1969, table 21, p. 38.

¹⁰For the theoretical issues see, for example, J.T. Addison and J. Burton, "The Demise of 'Demand-Pull' and 'Cost-Push' in Inflation Theory", Banca Nazionale del Lavoro Quarterly Review, 133 (June 1980), p. 187.

¹¹Economic Outlook, July 1972, table 59.

¹²Carol Cosgrove Twitchett, "A New International Economic Order", Journal of Common Market Studies, 17/2 (December 1978), p. 56.

¹³For a popular and accessible account of that "inexorable" process of failure which provides an alternative view by an Australian to the one taken in the present work see Keith Smith, The British Economic Crisis (Sydney: Penguin, 1984). See also, James Alt, The Politics of

Decline: Economic Management and Political Behavior in Britain Since 1964 (London: Cambridge University Press, 1979); Colin Leys, Politics in Britain: An Introduction (London: Heinemann, 1983); and S. Pollard, The Wasting of the British Economy (London: Croom Held, 1982).

¹⁴ See, for example, Angus Maddison, Phases of Capitalist Development (New York: Oxford University Press, 1982).

¹⁵ Economic Outlook, July, 1967, p. 35.

¹⁶ Economic Outlook, December, 1967. p. 65.

¹⁷ Ibid.

¹⁸ Economic Outlook, July, 1968, p. 18.

¹⁹ Economic Outlook, December, 1968, p. 75.

²⁰ Andrew Gamble and Paul Walton, Capitalism In Crisis; Inflation and the State (London: Macmillan, 1976).

²¹ Rudiger Dornbusch and Stanley Fischer, "The Australian Macroeconomy", in Richard E. Caves and Lawrence B. Krause (eds.), The Australian Macroeconomy: A View From the North (Sydney: George Allen & Unwin), 1984, p. 24.

²² P.F. Barry and C.U. Guile, "The Australian Business Cycle and International Cycle Linkage, 1959 - 1974", The Economic Record (June 1976).

²³ See Katherine D. Gibson and Ronald J. Horvath, "Global Capital and the Restructuring Crisis in Australian Manufacturing", Economic Geography (April 1983), p.178.

²⁴ See section 3, "Structure and Distribution of Labour Force in Production", and section 5, "Industrial Structure of GDP" for comparative figures on composition, in Chapter 3 Annex: Historical Statistical Tables.

²⁵ See, for example, Ross Garnaut, "Australia's Shrinking Markets", Brookings Papers on Economic Activity (Washington, D.C.: The Brookings Institution, 1980), p. 19; G.D. McColl and R.J. Nicol, "An Analysis of Australian Exports to its Major Trading Partners: Mid-1960's to Late-1970's", The Economic Record, 56 (June 1980), p.145; R.H. Snape, "Policy Implications of Capital Inflows", Australian Economic Review, 4 (1982), p.11.

²⁶ Caves and Krause, op. cit., p. 8.

²⁷ Gibson and Horvath, op. cit.; W.E. Norton, "The Deterioration in Economic Performance: A Study of the 1970's with Particular Reference to Australia", Reserve Bank of

Australia, Occasional Paper No. 9 (Canberra, 1983); and Snape. op.. cit..

²⁸Chapter 3 Annex, Historical Statistical Tables, table 3.28'.

²⁹OECD Economic Survey: Australia (Paris, 1972), p. 22, table 6.

³⁰Ibid.

³¹Ibid.

³²See Philip Moore, "Australian Capitalism Today: Structure & Prospects", *Intervention*, 1 (1972), p. 27; E. Wheelwright, "Transnational Corporations and the New International Division of Labour: Some Implications for Australia", in G. Evans and J. Reeves (eds.), Labour Essays (Melbourne: Diamond Press, 1980).

³³G.J. Crough, "A Compendium of Official Statistics on Foreign Investment Flows to and from Australia", Transnational Corporations Research Project (Sydney, University of Sydney, 1976); and E. Wheelwright, "Profits versus Environment" in C.J. Crough, et al. (eds), Australia and World Capitalism (Ringwood, Victoria: Penguin, 1980).

³⁴OECD Economic Survey: Australia, Paris, 1972, p. 37:

Table 3.a
Distribution of Migrants within Total Population
By Occupation and Religion (%)

	Population 1966 Census	Net Settler Inflow ¹		
		1962-71	1962-66	1967-71
<i>Occupation:</i>				
Professional, technical and related	9.3	9.9	8.5	11.0
Administrative	6.3	3.5	2.9	4.0
Clerical	14.7	9.7	8.9	10.3
Sales	7.7	3.7	3.6	3.8
Farmers	9.7	4.5	6.4	3.0
Miners, quarrymen, etc.	0.7	0.5	0.6	0.4
Transport and communication	6.1	5.1	4.9	5.4
Craftsmen	30.8	31.3	29.3	32.9
Labourers	4.7	13.3	13.0	13.5
Services	7.4	12.3	15.6	9.5
Armed services	1.2	—	—	—
Occupation inadequately described	1.6	6.2	6.2	6.3
Total	100.0	100.0	100.0	100.0
Participation rate ²	43.6	47.9	48.5	45.7
		1963-71 ³	1963-66 ³	1967-71
<i>Region:</i>				
New South Wales	36.7	35.7	32.3	38.1
Victoria	27.9	29.3	31.4	27.8
Queensland	14.4	6.3	6.3	6.2
South Australia	9.5	11.9	14.6	10.0
Western Australia	7.2	11.7	9.3	13.3
Tasmania	3.2	1.1	1.2	1.1
Northern Territory	0.3	0.2	0.2	0.2
Australian Capital Territory	0.8	0.7	0.7	0.7
Not specified	—	3.9	4.0	3.8
Total	100.0	100.0	100.0	100.0

¹ Settler arrivals minus former settler departures. This excludes long-term movements of Australian residents.

² Labour force/population.

³ Data not available prior to 1963.

Sources: Australian Immigration Statistics: Commonwealth Year Book.

³⁵For comparative figures on trends in government expenditure in education, see Figures 3.6', 3.15', and 3.25', in Chapter 3 Annex: Comparative Historical Figures.

³⁶OECD Economic Survey: Australia (Paris, 1974), p. 45, table 1.

³⁷Ibid., p. 46.

³⁸Ibid., p. 47.

³⁹For a discussion of the 1972 and 1975 Foreign Takeovers Acts see, G.D. McColl, "Foreign Investment", in Peter J. Lloyd (ed.), Mineral Economic in Australia (Sydney: George Allen & Unwin, 1983). The Act and its effects are discussed in detail in Chapter Four of this thesis, where more extensive bibliographic citation is provided.

⁴⁰The Asian Wall Street Journal Weekly, October 10, 1983, p. 16, as reported in Ibid., p. 300, note 35.

⁴¹Figure 3.21' in Chapter 3 Annex: Comparative Historical Figures.

⁴²Figures 3.1', 3.10', and 3.20' contain summaries of statistical averages for each country.

⁴³Ibid., Figure 3.10'.

⁴⁴Tables 3.47 to 3.51 in Chapter 3 Annex: Historical Statistical Tables.

⁴⁵Table 3.29 in Chapter 3 Annex: Historical Statistical Tables.

⁴⁶Table 3.45 in Chapter 3 Annex: Historical Statistical Tables.

⁴⁷Table 3.49 in Chapter 3 Annex: Historical Statistical Tables.

⁴⁸Table 3.29 in Chapter 3 Annex: Historical Statistical Tables.

⁴⁹For an explanation and critique of the concept of "natural unemployment", see Robert M. Cherry, Macroeconomics (Sydney: Addison-Wesley, 1980), Chapters 2 and 19; and Robert Cherry, "What Is So Natural About the Natural Rate of Unemployment?", Journal of Economic Issues, 15/3 (September 1981), p.729.

⁵⁰I have used a trend rate of 12.0% to replace the 1979-1980 registered figures. The adjustment in numbers would be: Australian decline: 10.53% to 9.28%; UK decline 13.07% to 12.86%. The US trend rate for 1979-1980 is 12.0%).

⁵¹For detailed two-country comparisons using the US economy as a base, see section 5, in the Comparative Historical Figures Annex.

⁵²OECD Economic Outlook Historical Statistics, 1960-1980 (Paris, 1985), derived from table 11.5.

⁵³Marx, op. cit., pp. 143-146.

⁵⁴This point is expanded upon in Part II, where detailed bibliographic citation is to be presented.

⁵⁵Transparencies are included for country figures in the Comparative Historical Statistics annex.

⁵⁶This is derived simply as the difference between high and low points of the period.

⁵⁷Table 6.6 in Chapter 6 Annex: Historical Statistical Tables.

⁵⁸Compare Tables 6.6 and 6.9 in Ibid..

⁵⁹As distinct from a de-industrialization discussion, see Anne Carter, Structural Change in the American Economy (Cambridge, Massachusetts: Yale University Press, 1970).

Chapter 4
The Policy Responses to Economic Crisis
in the United States, England and Australia

The economic profiles of the United States, Britain, and Australia detailed in the previous chapter are the basis from which I shall analyse the policy responses of these three countries to the economic problems characterizing the international capitalist economy from 1967 to 1982. The periodicity employed in chapters 2 and 3 will be implicitly recalled in the present chapter. Policy responses in all three nations evolved from attempts to counter the growth imbalance of the first period through a mixture of traditional demand policies and the introduction of voluntary programmes such as wage and price controls; to the development of new, mandatory stabilization policies; and finally, to the express enforcement of economic discipline through a mixture of "supply-side" economic policies, monetarism, and the politics of the "new conservatism".

The threefold periodization employed in the previous chapters will continue to demarcate a period of acutely imbalanced economic growth, from one of attempts at stabilization, and from a period of overt political economic discipline termed the "new conservatism". Within the progression of these temporal characteristics one discovers an economism of governmental policy. This chapter examines the terms of that economism. Proceeding from a definition of economism given below, the present chapter examines the

decreased autonomy as economic crisis deepens and endures.

The Definition of Economism

Historically, the use of the term "economism" has constituted a charge of political immaturity levelled against trade unionists who seek to enhance short-term wage gains at the expense of longer-term revolutionary goals.¹ It denotes a reduction of political activity to economic opportunism. The present work adapts the term to describe a similar reduction of governmental policymaking to economic opportunity.

A definition of the term is now in order: "Economism" is the debasement of political activity to an accommodation of short-run economic gain by 1) refusing to acknowledge and confront fundamentally divergent political aims, 2) reducing the definition of political problems to economic choices of an increasingly constrained nature, and 3) creating a governmental apparatus which institutionalize the centrality of economic concerns.

Several criticisms may be levelled at my use of the term economism to analyze state activity. In the original Leninist sense, the term specifies the potential misperception and self-defeating praxis of specific historical agents (the proletariat broadly, and especially trade unionists), and a specific historic location, i.e., revolutionary transition. The "correct" aim of the

national expressions of economism found in governmental policies within the general period under study. I conclude with a discussion of the similarities among national responses.

The policies discussed are not treated in this chapter as equivalent case-studies, for example in the sense that the particular career of any given policy is discussed for one country compared to its evolution in another country. Rather, policies pertinent to a given nation's particular economy and its situation vis-à-vis the international context will be analysed. A similarity in policy orientation, viz. economism, will nevertheless allow comparisons across nations and establish the tendency to decreasing state autonomy apparent in policy responses to crisis.

This style of policy analysis is pertinent to the question of state autonomy in two ways. It will establish that "economism" is more than a pejorative label affixed to unpopular or highly disciplined economic policies. The term will include an operational definition in the policy analysis, and one which may be replicated in future national or cross-national studies. secondly, The operational definition of economism, once adequately defined, will be used throughout the country analyses and recapitulated in the conclusion. It will address directionality regarding the state-autonomy question: the state moves in the direction of

proletariat at the historic conjuncture was to capture and control state power, indeed to establish the dictatorship of the proletariat. That would necessitate reaching goals more extended than bourgeois reformist activity could attain. To the extent that economism obstructed the proletarian struggle over state power it was considered by Lenin to be anti-political, that is, a refutation of the true and historic role of the proletariat. Economism in this sense implies a reduction of politics to bourgeois accommodation. It specifically characterizes the political agency of the proletariat at an historic conjuncture.

While my use of the term in a manner describing state activity is unconventional, I shall defend its use in the present work in two ways. First, the particular reduction of political activity to economic opportunism is observable in government reaction to the economic crisis of the general period under study in all three countries. In contemporary parlance, reductionism is usually considered a problem suited to discourse. I am anxious to return the idea of reductionism to the realm of objective political behavior. As a description of state activity the reductionism inherent in economism is accurate. Specifically, the reduction is prompted by economic crisis and entails both a distortion of the bourgeois constitution, and an attempt to "rationalize" the economy of the welfare state by ensuring an economic return on government programmes, (in the sense that "social costs" are recovered through high yields in political peace

and a malleable labour force), and by reestablishing an economic equilibrium which allows for a restoration of profit margins which had been eroding since the 1960s² without wage or price inflation. That these were considered mandatory changes rather than negotiable ones, due to the crisis nature of the seventies economy, effectively depoliticized state activity and reduced governmental policy to crisis management extraordinaire, i.e. economic survival.

Aside from the question of reductionism, the evolving emergency character of government policy effectively assumed a programme of radical restructuring of the capitalist order, and a posture of universality, which was expressed as a bipartisan commitment to economic survival, whether that be specified as "us against OPEC" during the energy crises of the seventies, or as the targetting of inflation as the political economic problem of the contemporaray capitalist state. The definition of social problems was sufficiently constrained to render proposals for solutions a one-note chorus supporting the restoration of capitalist prosperity at any cost. The plausibility of these claims about the character of the capitalist state in crisis will be demonstrated in the extended discussion of policy below.

Having established in the previous chapter that the crisis was deep and perceived by national governments and international bodies, there is at least a prima facie case to be made that the assumption of increasing class agency on

the part of the the state is logically consistent with a Marxist understanding of state response to crisis.³ The remaining question is whether a state "depoliticize" itself when expressing class agency as economism. I intend to explore the determinants of that process. These questions are, I believe, the essence of the debate over relative state autonomy and its incidence during crisis. If, by empirical observation, we find that government policy moves toward insular policymaking (discussed as the "enclave state" in Chapter 5); is constrained by revenue questions, government debt, and international conditions to make economic survival the central policy issue; and is equipped to effect institutional restructuring which stabilizes both emergency processes of legislation and the centrality of economics after any immediate incidence of crisis, then we can say that economism has overtaken politics in the capitalist state.

The Formative Years of a Political Economic Response to Crisis in The United States: 1968 - 1976.

The years 1968 to 1982 are arguably one of the most politically turbulent times in the post-Civil War history of The United States of America. Not only the Vietnam War, but the redefinition of geographic and partisan divisions within the nation has fundamentally altered the institutional framework of American politics.⁴ The social and intellectual context of those changes have been much discussed within the

United States.⁵ The question of the extent to which those changes were led by or causal to the formal institutional changes will not be dealt with here. I would offer as a caveat that the present focus upon governmental policy in the United States, as in Britain and Australia, is intended to catch merely one expression of national change. I attempt to establish a usable definition of crisis-response at the level of formal governmental policy which I shall, then, test against an empirical reality.

During the general period under study here, the United States saw three changes of federal administration under the executive leadership of both the Democratic and Republican political parties: 1968-1972/1972-1976, Republican administration (Nixon and Ford); 1976-1980, Democratic administration (Carter); 1980-1982, Republican (Reagan; serving the term to 1984 and successfully winning the 1984 election).⁶ These administrations are the touchstone for monumental events in the history of the nation: defeat in war;⁷ the disgrace and near-impeachment of a president;⁸ and party dissolution⁹ signalled by electoral swings which, although occurring during declining voting participation, was the fruit of extreme volatility in a political system which prides itself on constitutional stability.¹⁰ Moreover, these years follow a period of unprecedented economic and political enfranchisement of huge numbers of minority citizens through the radical legal and economic reforms of the Kennedy/Johnson years (1960-1968).¹¹

American political turbulence notwithstanding, the evolution of fiscal and monetary policy in the United States throughout the general period under study is consistent with the growing economism of Britain and Australia during the period. It is characterized as a search for stability during a period of unbalanced economic growth, using policy tools which increasingly jettisoned Keynesian economic assumptions. This is true of all three countries under study, with the American experience tempered by two contextual determinants which distinguish the American response vis-à-vis the other countries. The American brand of Keynesian political economy was a particularly "tepid" application of Keynesian prescriptions for the establishment of equilibrium¹² - one which operated on a minimalist view of the state¹³ and which therefore circumscribed Keynesianism within the explicit demands of corporate capitalism in the post-war period. Secondly, the Vietnam War, following the period of intensified political activity of the civil rights struggles of the fifties and sixties, precipitated a fundamental challenge to the American bourgeois constitution, gaining momentum prior to and outside the context of economic recession.

The Great Society programmes of the Johnson presidency, were the first real expressions of the welfare state in America which did not owe their evolution to the impetus of post-war development per se, but rather were geared to the distributive imperatives of a Keynesian system which

employed demand-management strategies in policy making with emphasis on the particular component of a widely dispersed disposable income to propel social and economic development. This development was very much a late-bloomer as an expression of applied Keynesian economics. In any case, American Keynesianism has always been tempered by the pragmatic imperatives of America's own liberal/capitalist ideology. An articulate spokesperson for the liberal American view in political economy was Arthur Okun, who was staff member of the Council on Economic Advisers in 1961/62 and from 1964 to 1968, and also served as Chairman of the Council during the last year of the Johnson administration. Okun was central to the formation of economic policy during the 1960s and in his book entitled The Political Economy of Prosperity has written:¹⁴

When President Johnson set forth the vision of the Great Society, his economists shaped the strategy in the war against poverty to fit. They showed how prosperity could contribute to the fulfillment of a great society. They stressed the fundamental compatibility - indeed, complementarity - of material goods and spiritual goals when some of the President's staff urged him to downplay economic considerations in order to emphasize human values. Because President Johnson wished to avoid a Robin Hood or class-struggle theme in social aid to the disadvantaged, it was important to develop programmes that emphasized the long-term benefits to the entire nation from investment in human resources. When President Nixon counseled the nation to lower its voice, his economists followed, in their pronouncements, with a stress on moderation and gradualism. [emphasis added]

This is an eloquent statement of the American predisposition to economism in the early years of the period under study. Prosperity would lead social, political, and

even spiritual "recovery" under the aegis of the Great Society by initiating an investment in "human resources". Presumably a consistent economic return on that investment would enable continued support of welfare-state programmes. If and when the yield from anti-poverty investment became uneconomic, investors would presumably shift out to a more lucrative opportunity. The political and economic assumption of the Great Society was precisely that prosperity was a function of return on investment. That return was not simply an idealized notion of civil peace or interest-group liberalism.¹⁵ It was an assessment of the demands of "economic reality" which, in the United States then as now, are profitable income-returns on investment.

The optimism of America's economic advisers regarding the fortuitous mix of economic reality and political demand seemed justified at the time. The United States appeared to have entered the period with a relatively bouyant expansion in early 1968, even though price performance required a restrictive budget and tightening monetary policies. Unemployment remained relatively low, as it had since recovery from the 1958 recession, when the steady decline of unemployment throughout the period immediately preceding the general period under study here fell from a 1960 high of 5.4% to 3.5% of the total labour force in 1968.¹⁶ The country, however, was also politically war-weary. The late 1950s/early 1960s social protests over racial inequality had to some extent been eclipsed by the Vietnam War, which

precipitated a more generalized political turbulence than civil rights issues could. This is especially so as the extent to which the War was fuelling inflation became apparent. Moreover, the Vietnam War protests were perceived to be a fundamental questioning of American values and, hence, a danger to civil peace. The Democratic presidential campaign in 1968 exposed serious intra-partisan divisions which had been largely unarticulated during the post-war years when the legacy of the original Roosevelt coalition seemed a stable partisan formation.

Richard Nixon's successful challenge for the presidency in 1968 did not so much exploit the governing party's disarray, as it recast the definition of victory around the nation's future expectations and fears. The Nixon strategy of reformulating the terms of partisan debate created a cross-cutting cleavage which was both geographically opportunistic and ideologically in tune with national expectations about a "post-war" (in this case, Vietnam) civil settlement, one which promised social as well as economic discipline. What was later to become identified as Nixon's "southern strategy" was a timely identification of the nation's need for changing the terms of national and international imperialism.¹³ The black ghetto, student unrest, and imbalance in the global economy could be confronted with an enviable economy of effort if the mechanism for imperial control moved away from scattered and reflexive confrontation (in both foreign and civil combat

zones), and toward a preemptive tactic of cutting losses while simultaneously establishing an aggressive posture in strategically "winnable" arenas.

The year in which the Republican Nixon took office the US was experiencing a continuation of trend deceleration in growth which had begun a precipitous slide in 1967. The brief recovery of growth in 1968 belied that trend (growth of real GDP at market prices had recovered to 4.0% average annual increase in 1968, up from 2.9% in 1967, but remained well below the 5.8% in 1966 which marked the "end of prosperity" in GDP growth between the years 1966 and 1970 when the bottom of -0.2% average annual change was reached).¹⁷⁾ Prices had continued to climb and took a sharp jump in 1968 of 4.2% from the previous year, but restrictive fiscal policy was still considered an efficacious tool.¹⁸⁾ The long slide toward a sustained and accelerating unemployment rate which characterizes the entire period had actually begun, but was not noticed as the lip of a spell whose prolonged incidence would eventually revolutionize thinking about the terms of labour elasticity.¹⁹⁾ (The 1968 rate of 3.5% climbed steadily to a 9.7% rate by 1982, representing an increase in the numbers of average unemployed from 2822 thousand people in 1968 to 10681 thousand people in 1982. Duration increased from an average of 6.1 weeks for "new worker cohorts" in 1968 to 14.3 weeks in 1982, which is extreme but less striking than the rise from 18.2 week average duration for those currently unemployed in 1968 to a 35.9 week duration average in

1982!)²⁰ The Nixon/Ford years saw a percentage rise of 4% in the unemployment rate, with the peak 8.4% rate of 1975, the second highest of the general period under study (9.7% of 1982 being the highest yearly rate). Arthur Okun's hopes for prosperity leading the "investment in human resources", which would reconcile human need and economic imperatives while at the same time extending prosperity, became very quickly outmoded, and the Great Society assumptions were first bent and then broken under the political realism of a beleaguered capitalist system.

The political response to the economic crises of 1968-1982 in the United States began with the template fixed in the Nixon administration and containing a dual strategy. Opportunistic manipulation of economic intervention by the government was combined with the institution of structural reforms which later became full economic discipline, otherwise known as the "new conservatism". The opportunism of American presidential economic policy has been dealt with in the literature under the rubric of "the political business cycle" and will be summarized presently with a brief look at the Nixon "business cycle" of 1972. The case for structural reform will be illustrated by looking at the career of price and incomes policies, which eventually gave way to a programme of targetted austerity where incomes in the form of both money wages and social expenditure were deliberately eroded by a governmental policy of economism.

Economism as "Dirty Tricks": The Discovery of the Political Business Cycle

The political business cycle was originally formulated by Michal Kalecki in his 1943 article "Political Aspects of Full Employment" which appeared in Political Quarterly in the October/December issue.²¹ The idea of a political business cycle was picked up by William Nordhaus who some thirty-two years later in an article entitled the "Political Business Cycle" developed a predictive model of political economic determination, which he called "a simple model of intertemporal choice where decisions are made within a political framework".²² The particular decision which Nordhaus investigated was the choice between inflation and unemployment in the US during the early 1970s. In essence, he operationalized the Phillips curve as a political phenomenon.²³

This approach is very different from Kalecki's intention in his original investigation of the business cycle. Kalecki's work, in general, deals with an up-dated version of the Marxian "reserve army thesis"²⁴ as underlying capitalist governments' responses to cyclical changes in the unemployment. Kalecki argued that labour discipline was the foremost political aim of capitalist policymaking. While Keynesian economic analysis explored the ways and means of full employment strategies for government economic policy, Kalecki argued that such policies were doomed to failure. The necessary preservation of a reserve army of the

unemployed effectively structured government policy in the interests of capitalist socio-political stability. Government expansionary policy would be tolerated only until new rounds of labour discipline needed to be reinforced, at which time contractionary policies would recur.²⁵ Under Kalecki's formulation, social and political determination of policy took precedence over considerations of Keynesian (economic) equilibrium. For Kalecki, the primarily economic problems of labour control - constituted as the wage bill - were simply resolved in a pass-through of wage increases to prices. Government intervention into the economy was therefore essentially a political undertaking and not warranted or even possible by and in Keynesian stabilization policies which conceived of that intervention as economic, rather than political in character (neo-Keynesian institutionalists notwithstanding).²⁶

Nordhaus, with different intentions from Kalecki, accepts the primacy of politics of the Kaleckian formulation, although without the freight of the reserve army thesis.²⁷ Nordhaus is explicitly interested in the manner in which inflationary expectations are constructed and passed on by government policies to the extent that those expectations become socially and politically entrenched. He hopes to explain and predict the "subtle ways in which we bequeath our tastes, consumption patterns, and folkways to the future and determine future welfare".²⁸ Nordhaus begins with the perspective of an analyst who

recognizes the overwhelming intrusion of contemporary government policy into the economic life of its citizens. He terms government economic policy "public investment decisions" because they "involve choosing between present welfare and future welfare".²⁹ The distance between present and future is the "intertemporal". The public investment choice over unemployment versus inflation provides the data for Nordhaus' model to predict intertemporal choice, but this particular choice is considered only one of many possible choices which could be used within the predictive model.

Unlike Kalecki, Nordhaus does not impute a primary place to the problem of labour discipline or recognize the reserve army thesis as pertinent to the discussion, nor does he imagine government policy as constrained by a hierarchy of choices particularly characterizing the capitalist state. He exploits the unemployment/inflation situation simply to provide a data base which tests the predictive strength of his model.

Nordhaus' demur from the ideological consequences of both his model and his applied theory is not accepted in the present work. On the contrary, it is argued that Nordhaus' application of the Kaleckian formulation changes the terms of the central aspect of the emerging crisis of the late 1960s/early 1970s, i.e. inflation/unemployment, to an ideologically acceptable construct vis-à-vis mainstream

political economic analysis which is interesting for its dual capacity. Firstly, Nordhaus' model effectively dismisses the class nature of the inflation/unemployment antithesis of the original Kaleckian formulation so that (a la the Phillips curve) inflation becomes both the economically and politically precedent "problem" of the mid-seventies in the United States. Thus unemployment is displaced both within the model and within the bourgeois perception of the economic problems associated with imbalanced growth and declining productivity.³⁰ Nordhaus work constitutes an important part of the emerging economism discussed above, by providing the intellectual apology for part 1 of the definition: displacement of fundamentally divergent political aims within government policy (otherwise treated by Marx as the universalization of bourgeois "reality").³¹ Secondly, Nordhaus' designation of the public investment choice as constrained within the universe of the Phillips curve establishes economistic myopia as both analytic and political reality, thus fulfilling part 2 of the definition of economism, which reduces political activity to economic trade-off. What is being accomplished intellectually mirrors the career of government stabilization policy in the late 1960s early 1970s.

When Nordhaus centres upon the problem of inflation he is in accord with the economist community. He formalizes two propositions. 1) that the trade-off between the level of utilization and employment in the U.S. economy and the rate

of inflation is a phenomenon derived from the nature of labour markets: in "competitive" and unionized markets, "a low employment rate means higher demand relative to the labour force and a higher cost of strikes. This leads employers to settle for a higher than usual increase in money wage rates". 2) A second trade-off exists between long and short run objectives: "[A] given change in unemployment will lead to less inflation in the short run ... than in the long run."³² This asymmetry is due to the manner in which increases in money wages are passed on in prices, including a consideration of time-lags existing between unemployment and lower inflation. Asymmetry is due, further, to the feedback from the wage-price pass-through back to higher wage demands and is expressed as an accelerating tendency to anticipate and enact inflationary patterns of wage/price behavior. These two propositions orient the remainder of Nordhaus' empirical study, which examines the interaction between the "macroeconomic framework" (defined as the two preceding propositions), and individual preferences expressed as aggregate economic behavior.

Under the "rational expectations" rubric, individual social behavior vis-a-vis political parties is reduced to an opportunistic assessment of the extent to which political parties are likely to induce inflation.³³ That determination is made on the basis of the usual and consistent behavior of political parties: "If economic conditions have deteriorated relative to expectations, this leads to votes against the

incumbent, and vice versa."³⁴ Political parties themselves are redefined to accommodate the analytical model which "washes out" or minimizes divergent party postures vis-à-vis the inflation/unemployment problem. Parties, although maintaining different identities in rhetoric and core constituencies, display opportunism about economic policymaking when in office in order to fulfill voters' expectations and maintain office at elections: "In this sense, the parties are then 'neoclassical' rather than 'managerial'. Parties are interested in political 'profits' - that is vote pluralities - rather than the easy life on ideology".³⁵ This definition may explain the reality of the "demise of the Party system" in the United States. The definition is persuasive if one considers the description of the American party system of the last fifteen years as described by such specialists as James Burnham.³⁶

Parties want to win elections. Being aware of the centrality of economic conditions in the expectations of voters, political parties will enact economic policies during incumbency which tend to ensure electoral victory and consolidate pluralities. The prediction then of Nordhaus' theory is that where periodic voting determines the content of economic policy, an institutional bias which lowers levels of unemployment and heightens levels of inflation beyond economic optima will be evident. Thus, rising inflation is depicted as an inherent bias of bourgeois accommodation to wage expectations in a competitive

political environment.

The question which remains is to what extent the behaviour theorized above can account for actual politically induced business cycles. In moving to this level of analysis, Nordhaus recalls Kalecki and produces the unique evolution of Nordhaus' own theory:³⁷

Kalecki's model assumes that business leaders and capitalists have a disproportionate control of the political mechanisms of the state. It is the unrepresentative nature of the political system which causes Kalecki's political trade cycle.

The suggestion in the present paper is that vesting decision-making in a representative government will lead to a similar phenomenon, although the timing and causes are quite different.

As mentioned above, Nordhaus rejects the class analysis of Kalecki. What he puts in its place is significant. Rather than implicit class conflict, there is a "fixed economic trade-off and therefore a fixed policy".³⁸ And rather than heightened class conflict moving in the direction of overt class struggle (e.g. strikes) there is "a decaying memory of events."³⁹ Nordhaus argues that voters do not keep a running average of economic successes and failures which have occurred throughout the electoral cycle, but that "On election day, the memory of recent events is probably more poignant than that of ancient ills."⁴⁰ These characteristics combine, for Nordhaus, to produce a superior description of the political business cycle:

We can now easily describe the political business cycle. First note that the unemployment rate must be falling over the entire electoral regime. ... The typical cycle will run as follows: immediately after an election the victor will raise unemployment to

some relatively high level in order to combat inflation. As elections approach, the unemployment rate will be lowered to a purely myopic point.

Nordhaus concludes from his empirical testing of nine countries over a period of twenty-five years that a political business cycle does indeed exist for the US and that it is an unfortunate byproduct of representative government.⁴¹ His "remedies" seek to restore optimal use of economic policy vis-à-vis the timing and magnitude of patterns of consumption and employment. Among several remedies suggested, an indicative planning approach has special appeal for Nordhaus.⁴² He notes that France and Sweden show the least cyclical variation in his study and are planned economies. An incomes policy is a possible remedy but it does not solve the fundamental long-term problem of negotiation about the scarcity of resources. Another remedy, for example, the use of monetary authorities to regulate cycles, is also a possibility. But to "entrust economic policy to persons who will not be tempted by the Sirens of partisan politics"⁴³ would be inconsistent with the demands for democracy, according to Nordhaus.

I have considered the Nordhaus study in some detail here because I think that the path of the ideas from Kalecki to Nordhaus contains a descriptive reality and is analytically interesting. Nordhaus' shift from Kalecki's class analysis to an analysis of political opportunism in

the definition of the political business cycle follows the path of economic policy making from the early 1940s to the 1970s. The full-employment assumptions underpinning the desired course of post-war economic growth gave way to the early-to mid-1970s austerity assumptions in the United States, (mildly expressed as incomes and prices policy in that early period). Class politics were repudiated by what were considered exogenous economic circumstances and an emergency policy posture as reaction to crisis. As will be seen immediately below, Nordhaus' assumptions have given way to an even more crass political opportunism when it becomes clear under the Nixon administration that the "trade-off" between unemployment and inflation, explicit in the Phillips curve, is overcome by an imperative to cure inflation. The political business cycle becomes ever more constrained as governments are required to address the problem of inflation. That is, they are structurally constrained to act without autonomy in defining and attempting to "solve" a key economic problem within capitalism: inflation as an inhibition to investment.

The details of the 1969-1972 presidential political business cycle also catalogue the failures of the career of applied Keynesian economics. Although the contractionary monetary and fiscal policies of 1969 and 1970 did indeed result in a rise in unemployment, inflation remained intractable during those two years. Following a loss of Republican seats in the mid-term elections of 1970, and

opinion polls indicating that the public was becoming weary of the burden of inflation, Nixon moved into a concerted effort to reduce inflation. The policy intentions of Nixon are drawn out in a replication of the Nordhaus study in 1984.⁴⁴ The study indicates that Nixon's intentions conform to the Nordhaus theory, but my own review of aggregate data suggests that actual performance of the economy does not correspond with the Nordhaus thesis.

The aggregate data in Table 4.1 do not confirm the Nordhaus thesis that in the policy-induced contraction/boom of the political business cycle, "there is a predictable pattern of policy, starting with relative austerity in early years and ending with the potlatch right before elections".⁴⁵ Over the 1969 - 1972 political business cycle period, the aggregate movement of inflation and unemployment rates is as shown in Table 4.1.

Table 4.1
 Consumer Prices and Standardized Unemployment Rates
 1969 - 1972
 Political Business Cycle: U.S.
 % Changes by Year and Season

	Consumer Prices	Standardized Unemployment Rates	Consumer Prices not seasonally adjusted	
			I	II
1969	5.4	3.4	5.3	6.1
1970	5.9	4.8	6.1	5.3
1971	4.3	5.8	4.0	3.7
1972	3.3	5.5	3.0	3.6

(Source: Chapter 3 Annex of this Thesis, "Comparative Historical Figures, 1967 - 1982, The United States, The United Kingdom, Australia", Section 1: Country Figures for the United States, Figure 3.2' and 3.3'; and Section 4: Three-Country Comparisons, Figure 3.29')

The evidence of a political business cycle in the Nixon programme of 1969-1972 is certainly not persuasive in regard to the unemployment data. But the data may disclose interesting suggestions about the nature of a presidential political business cycle which, in the use of Keynesian intervention, achieves success against rising inflation. It is interesting to note that the presumed intended results of the Nixon political business cycle failed⁴⁶ only on the unemployment pole, while succeeding remarkably well on the inflation pole of the inflation/unemployment relationship. Observation of two contiguous cycles supports the cyclical tendency of inflation control and either the abandonment or failure of unemployment control. If one observes the post-1972 movement of the political business cycle data, Nixon's success in timing for inflation control vis-à-vis the election is apparent (Table 4.2).

Table 4.2
 Consumer Prices and Standardized Unemployment Rates
 1969 - 1976
 Two Political Business Cycles: U.S.
 % Changes by Year and Season

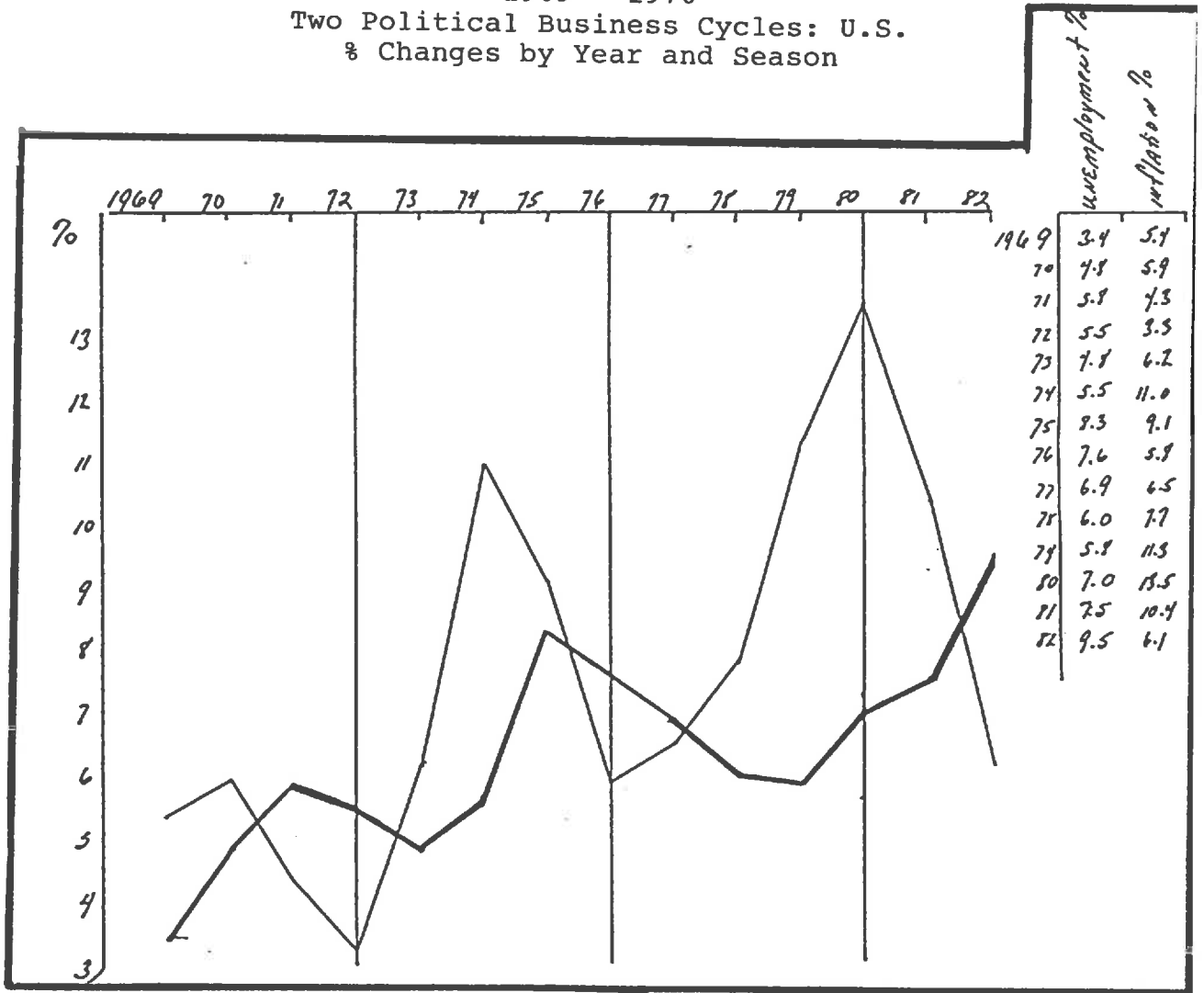
	Consumer Prices	Standardized Unemployment Rates	Consumer Prices not seasonally adjusted I / II	
1969	5.4	3.4	5.3	6.1
1970	5.9	4.8	6.1	5.3
1971	4.3	5.8	4.0	3.7
1972	3.3	5.5	3.0	3.6

1973	6.2	4.8	6.0	9.2
1974	11.0	5.5	11.2	12.4
1975	9.1	8.3	8.3	7.6
1976	5.8	7.6	4.8	5.7

(Source: Chapter 3 Annex of this Thesis, "Comparative Historical Figures, 1967-1982, The United States, The United Kingdom, Australia", Section 1: Country Figures for the United States, Figure 3.2' and 3.3'; and Section 4: Three-Country Comparisons, Figure 3.29')

The following Figure 4.1 provides a graphic illustration of the tabular presentation above:

Figure 4.1
 Consumer Prices and Standardized Unemployment Rates
 1969 - 1976
 Two Political Business Cycles: U.S.
 % Changes by Year and Season



(Source: Chapter 3 Annex of this Thesis, "Comparative Historical Figures, 1967-1982, The United States, The United Kingdom, Australia", Section 1: Country Figures for the United States, Figure 3.2' and 3.3'; and Section 4: Three-Country Comparisons, Figure 3.29')

What is also interesting about the career of Nixon's failed neo-Keynesian policies and his opportunistic shift to accommodate an election strategy in 1971 (with a wages and prices policy which will be discussed below), is that a redefinition of the terms of political economy was effectively forged within the political education taking place during the election frenzy. Not only was inflation successfully sold as the definitive economic problem of the 1970s, but policy mechanisms in the process of being constructed could deal with the problem effectively with no electoral penalty. Economism was being institutionalized.

Once inflation achieved the centre place as the key economic problem, expansionary policies subsequently required a counterbalance of either targetted or general contraction. If a political business cycle is apparent in a stagflationary era, it is skewed in the direction of control of inflation. But doses of expansion continued to serve political ends and so could not be entirely repudiated. Contractionary policies therefore needed to be targetted. A key targetting device for contraction was contrived during the Nixon administration as the prices and incomes policy, which will be discussed below.

The power of the political business cycle to explain the emergent economism of the 1960s and 1970s in the United States is limited by the ahistorical assumptions inherent in economic modelling. This is true even of those which use

time-series in an attempt to capture some degree of the dynamism of the capitalist system as it functions in the real world. The Nixon years, from 1968 to August 1974 (when the so-called Watergate scandal forced his resignation),⁴⁷ are also the years when global recession and instability of international markets had prompted major realignments within the international capitalist system, (passim, Chapter 2). They are the years of failure to elicit a response from the flagging domestic economy of the United States through the conventional use of Keynesian demand policies. They are the years of defeat for the United States in a long and costly war in Indochina. They are also the years when a major restructuring of the terms of political economy in the United States occurs. Nixon has been called the last of America's great liberals,⁴⁸ but it is more accurate to refer to him as the first of the great chameleons. While it is true that Nixon established continuity with the Democratic regulatory expansion of the 1960s⁴⁹, it is also the case that he employed executive discretion both to target politically lucrative clientele and to provide counterbalancing and even contractionary provisions within his administration of government programmes. His refinement of traditional economic expansion and subsequent abandonment of macroeconomic strategies for tactical economic management paved the way for the full-blown "managerial" presidency of Jimmy Carter, and the inevitable devolution of executive management into the disciplinary presidency of Ronald Reagan.

When Nixon accepted the gift of the Economic Stabilization Act of 1970 from the American Congress he was accepting a political consensus that Keynesian macroeconomic intervention had failed and that statutory economic regulation was now necessary. Like his revenue-sharing programme,⁵⁰ the central pin of the Nixon doctrine of "New Federalism", the Nixon approach to economic stabilization applied a highly discretionary posture to policy targetting within a rigid administrative apparatus designed to enhance executive control over the direction of short and medium term policy goals.

Nixon's Wage and Price Controls

In August 1973, Richard Nixon imposed a price and wage freeze for a period of ninety days. Ostensibly, he took this action in order to break the spiral of prices and costs which, in the wake of the already inflationary effects of the Vietnam War, threatened deepening and intractable economic dislocation. In support of the business cycle presuppositions discussed above, Nixon was also suffering slippage in the popularity polls by 1971 and felt compelled to take decisive action in tackling the inflation problem.⁵¹ Public opinion of both professional and casual kinds was increasingly in favour of a freeze. The freeze was extensive. All sectors of the economy excluding only raw agriculture and finished imports were covered under the freeze, which was administered under a conglomerate

bureaucracy put together from the existing agencies: the Cost of Living Council,⁵² the Office of Emergency Preparedness, the Internal Revenue Service, and the Agricultural Stabilization and Conservation Service. Compliance was generally very good, with the only serious evasion coming from the clothing sector, whose seasonal nature was exploited by sellers to maintain prices above equivalent base-period limitations.⁵³ The steel and meat packing industries also provided examples of evasion tactics, the former because of distinctions in raw and fabricated pricing for the purchase of finished products, and the latter through a switch in the sale of carcasses rather than individual cuts to maintain seasonal demand pricing. These were problems not uncommon to previous wage/price control regimes in the United States⁵⁴ and constituted no serious threat to the continuation of a formalized control programme.

On 14 November 1971, Phase II of a formal plan of wage and price controls was put forward by an administration task force. A Price Commission and a Pay Board were authorized under the Phase II plan, and were charged with the establishment of standards and adjudication of cases under the regulations of the plan. Under Phase II, the Price Commission allowed exemptions including raw agricultural products, as was the case during the freeze, and finished imports. Also exempted were a number of categories of property: domestic rental units, and small farm, industrial

and nonresidential properties. Firms containing less than sixty employees as well as firms with sales under \$100,000. were also exempted.⁵⁵ The idea was to control large oligopolist sectors, thus allowing small competitive sectors to reintroduce "market" pricing as the decontrolled price leader. Price leniency nevertheless resulted 1) as a consequence of Pay Board decisions (discussed immediately below) and the Price Board's regulation allowing increased costs to pass through to pricing without counting against cost-to-price calculations; 2) term-limit pricing, whereby the average price within a given firm, if kept below a ceiling, would allow distribution of increased specific prices across products at the firm's discretion, that profit-taking could therefore be accomplished by discretionary pricing; and 3) firms could receive permission for price increases if their profit margins remained below an average of the highest two out of three years prior to the initiation of the wage/price programme.

The Pay Board has received the most attention in analysis of the success and failure of the Nixon controls because of its ideological assumptions, namely, that the control of anticipatory wages results in the control of prices. The "monopolization" of the labour market by large-scale unionization was believed to have been responsible for inflationary expectations becoming entrenched within the pricing system (the labour surplus of recession notwithstanding). To control labour, therefore,

would be to control prices. Demand pressure would stabilize once a systematic regulation of wage/price interaction was established. The Pay Board, first comprised of fifteen members representing business, labour and the public, and later comprised of seven members including one representative each from labour and business and five "public",⁵⁶ seemed ill-disposed to control labour however. Theodore Lowi reports that exemptions from the wage ceiling of 5.5% were consistently awarded to large unions and oligopolistic sectors of the economy: aerospace got 8%, longshoremen got 14%, transport got 10%, and miners got nearly 13% in 1972.⁵⁷ These rises followed the 1970-71 contract awards which were themselves substantially high increases. Nevertheless, Phase II of the four phases of the programme, which was halted in April 1974, accomplished the most effective reduction in inflation with prices rising in the aggregate for the period 11/1973 to 6/1974 at an annual rate of 3.5% (wages for the same period rose at an annual rate of 8.8%)⁵⁸.

By the time of the election in November 1972, prices had stabilized. In the second half of 1972 prices increased by only 1.8%.⁵⁹ Immediately following the election the move to dismantle the programme was initiated. Phases III and IV, from January 1973 to April 1974, comprised the dismantling period, with an interim freeze from June, 1973 to August, 1973. During Phase III prices rose to an 8.7% annual average increase and wage rates declined to a 3.6% average annual

increase. Phase IV saw an annual rate of change in prices registered at 9.6% and wages rising to an annual rate of 6.8%.⁶⁰ The dramatic decline in inflation during the initial freeze and phase II of the wages and price programme substantiates the efficacious use of that programme as a political business cycle tool, but the inflation pick-up during the following phases indicates its failure as a tool to break the inflationary trend. Whether the reasons for failure are considered to be the "suppressed inflation thesis", whereby wage/price control without coincident control of the money supply is deemed merely a delaying tactic, or whether one concludes that the supply shocks of 1973 undermined the progress of the programme, it is apparent that short-run political motives for reelection were well-served by the imposition of controls, once inflation had been defined as the preeminent political-economic problem.

"Nixonomics" was, of course, a much more extensive programme of domestic stagflation management and strategic global positioning than wage and price controls indicate.⁶¹ Important steps were taken in other areas. For example, the 1971 decision to "close the gold window", which did away with gold convertibility and effectively devalued the American dollar in the world market, ratified the end of the Bretton Woods era and poised the US for its new international role as a high-deficit hegemonic power.⁶² At home the mix of expansionary fiscal policy and sporadic

monetarism combined to effect a political business cycle which claimed to gather political consensus under the rubric of a "full employment budget", but which in fact posited inflation-control as the central aim of "modern" Keynesianism.⁶³ Price and wage controls, floating the dollar, and combining fiscal and monetary policy in a manner which allowed short term-manipulation of demand components while pursuing long-term monetary discipline were the mainstays of Nixon's New Economic Policy. What is particularly significant about the controls is that they were the US's first peacetime controls and initiated by a Republican, Friedmanite administration.

Herbert Stein's reminiscences of his years with the Nixon administration recall the situation as an "ironic" one, but in the present analysis irony has little to do with the turn of events in economic policy making. Rather, Nixon's New Economic Policy in the present work is explained as the evolution of policy according to an economic imperative. Economic stabilization in a crisis-ridden era of late capitalism's Nixonomics fulfils the three criteria of economism in its essential reduction of policy to a type of crisis management which "set up" the monetarist solution of succeeding administrations:⁶⁴

The New Economic Policy would temporarily suppress inflation forces by wage and price controls and would remove one conventional limitation on inflation, gold convertibility. Whether the result would in the end be more inflation would depend on monetary policy more than anything else.

The later apology for monetarism as a fundamental economic policy tool was thus made possible in the manner in which the New Economic Policy established contradictory economic policy directives: inflationary/anti-inflationary. The result was worsening stagflation following the 1972 election and a legacy of policy schizophrenia which plagued both Ford and Carter, to be resolved only in the "political conservatism" of Reaganomics. The path from Nixonomics to Reaganomics is the story of an economic imperative. That imperative is less the response to class struggle and an increase in relative state autonomy, than to the search for profits in a moribund and structurally declining system of capitalist production.⁶⁵

Ford and Carter

As suggested in Figure 3.1, the years of the Ford/Carter transition⁶⁶ from Nixonomics to Reaganomics were years of stagflation and a short respite of recovery, followed by yet another period of surging inflation. From 1974 to 1980, the average annual rate of unemployment was 6.7%, and inflation rose at an average annual rate of over 9%. Gerald Ford's success in manipulating the political business cycle in preparation for the 1976 election did not yield efficacious results. But his loss to Jimmy Carter is easily attributed to the intervention of the taint of the Nixon pardon and the general discrediting of the Republican administration following Nixon's resignation. Carter's

populist appeal, his southern sunbelt image and reformist rhetoric allowed him to capitalize on the scandalous Republican image and capture the premature euphoria which the 1976 recovery seemed to offer. But the loose coalition which populist reform and economic recovery seemed to induce never hardened into a partisan coalition.⁶⁷ Nixon's southern strategy, ironically, could not be exploited by the legitimate Southerner, Carter, once the inflation and unemployment problem reappeared on the economic scene.

The Ford interim began on 9 August 1974, when he took the oath of office, and ended in defeat in the November 1976 election. Ford's Inflation Summit, launched in the month following his installation as president, preceded by another month his serious policy programme to combat inflation. While not carrying the emerging austerity posture of the outgoing Nixon economic policy team as far as it might have gone had Nixon remained in office, Ford's programme nevertheless indicated a move toward supply-side assumptions about a cure for the economy. Encouragement of market competition and reduction in government regulation were combined with a "cheer-squad" approach to convince citizens to help voluntarily in the fight against inflation. A protest button, "WIN", was made available for all inflation-minded people to wear. It stood for the americanism, "Whip Inflation Now!" But like the comments about Ford's inability to walk and chew gum at the same time, and the numerous photographs in the press showing a

less than nimble ex-football star, the WIN strategy was a laughing matter as far as the general public was concerned.⁶⁸ The seriousness of the 1974 recession was, in any case, not conducive to pop-persuasion. More specific measures were required and Ford, at the end of 1974, resorted to countercyclical tactics, especially the use of a temporary tax cut. Ford dealt with the recession with relatively minimal responses, however, and the severity of the recession delivered an impact in 1975, with a drop in inflation of almost two points and a dramatic drop in 1976 down to 5.8% from the 1974 average annual rate of 11.0%. These accomplishments were not enough to secure victory in the 1976 election and Jimmy Carter was able to take office with a prayer and a promise to reenact the years of post-war prosperity.

The progress of Carter's economic success is charted in Figure 3.1. His success at bringing down unemployment, however, was not noticed as much as his failure to control inflation. The peak inflation rate of 13.5% was registered in 1980 which was the same year that unemployment had begun its climb back up to reach 7.0% up from the 5.8% rate of 1979, the low for the Carter years. This was the reality which faced Jimmy Carter two years after he had declared at the beginning of his administration that he would attempt to achieve a full-employment economy (at the time considered to be around the 4.0%) within a balanced budget, while at the same time injecting \$60 billion into the economy through

expenditure on social programmes and tax revisions.⁶⁹

The optimism of Carter's early approach became confused and ever more tenuous as he confronted uncontrolled economic growth almost immediately. He acted to dismantle tax cuts in an effort to stall some of the stimulus, and in what appeared as a serious indecision, reversed from stimulus to anti-inflation as early as the spring of 1977. The voluntary nature of that programme vis-à-vis wage and price restraint, together with the opening of the domestic economy to foreign competition in the suspension of import controls was in the event ineffective. Neither consensus nor competition obstructed the inflationary path. By late 1978 Carter decided to switch to inflation control and hoped to accomplish a reduction in the rate without throwing the economy into recession. He was thwarted in his own version of an instigation of the political business cycle when the 1979 supply and currency crises ensured double-digit inflation would accompany Jimmy Carter to the 1980 election polls.⁷⁰ When Carter attempted to induce recession in order to bring the inflation rate down quickly, he achieved only a brief interlude in the inflation trend, and was able to alienate enough voters through the punitive recession to lose the election. Carter's timing was very poor: the erosion of wealth in asset depreciation brought by high inflation alienated the business community; the tax bracket push of inflation which penalizes upper-middle income groups who are most articulate and most likely to vote

alienated a broad stratum of emerging tax-revolters; and the boot of recession alienated the traditional labour and black constituencies of the Democratic Party. All these constituencies were assaulted by inflation in the year leading up to the election. Add to this the problems in Iran, oil and European money and the outcome of the 1980 election was no surprise.

The significance of the Carter defeat was not simply the abdication of the presidential mandate by an incompetent and overly-intellectual president, as thought at the time by some liberal scholars.⁷¹ Keynesian economics was being well and truly buried in the United States in that election. One conservative American economist has claimed that throughout the nineteen-seventies, America rediscovered the long-run⁷²:

Keynes had belittled attention to the long run, saying that in the long run we are all dead. But by 1979, forty-three years after the publication of Keynes' General Theory, we woke up to discover that we were living in the long run and were suffering for our failure to look after it.

In discovering the long run, the United States was repudiating traditional politics, which within a bourgeois constitution is by definition an exercise of the "short run" mediation of individual, group and class claims upon the state. Displacing those claims under the rubric of "discipline for the long run" sufficiently abstracted out the human misery of individual "short-term" lives from the equation of economic efficiency. When Ronald Reagan won the

election in 1980 he was able to represent a new mandate, whose Friedmanite economic assumptions, and "blaming the victim" political strategies, were the sign of a government never before so captured by the ideology of capitalism. A relative autonomy of the state was never less apparent than in the 1980 Republican victory.

Reaganomics

The Reagan victory of 1980 is perhaps the most ideologically unambiguous poll result in post-war American history. As one long-time poll-watcher has commented about the 1980 election:⁷³

It presented in the most vivid focus in many years the basic conflict over domestic economic issues that had been the rationale of the New Deal party system for nearly half a century. Ronald Reagan ran as the most ideological candidate since Barry Goldwater - and he was the most ideological winning candidate since Calvin Coolidge or, perhaps, since Grover Cleveland. Reagan set out not just to stem the growth of the welfare state but to dismantle it.

Along with presidential victory came sixteen Senate seat victories for the Republicans, twelve of whom replaced Democrats, thus representing the largest swing in an election since 1958.⁷⁴ A general mood of economic and single-issue (abortion and gun control) conservatism expressed itself with vigour, while partisan liberals were both silent and absent. (For example, in 1980, of all newly registered voters for those 25 states using party registration, the Republicans out-registered the Democrats by over 300,000 new voters, and even though a "phenomenal

proportion" of 32% registered as unaligned, compared to 13% in the 1978 electorate, the Republican gain occurred at a time when Democrats were shedding support.)⁷⁵ Reagan promised to reestablish the moral and economic conservatism of the Republican Party, and in choosing ideological division to expand the terms of election debate he was proven to be a timely representative of the New Right.⁷⁶

Reagan's approach to economics continued the legacy of intermitent and targetted "austerity" economics of the Nixon/Ford/Carter years. Austerity could be defined as it had been early in the period under study, as the cutting of social expenditures through decreasing central government dependency (eg., Nixon's revenue-sharing) and cutting non-military programmes. Reagan saw supply-side economics as the primary mechanism for his brand of austerity. He aimed to balance the budget, cut taxes and increase defence spending and thereby reorient the economy to potential growth.

"Supply-side" economics has been succinctly described by James Tobin as referring to "the productive capacity of the economy and to policies to increase its level and growth"⁷⁷. In simple terms that means inducing investment through governmental policies which redistribute potential investment funds to those most likely to invest. Subsidization of profit-through-investment also entails disciplining labour and building a programme of political

action which applies punitive sanctions to dissident groups. Ending the investment strike which had been threatening the American economy since the mid-1960s was a centrepiece of Reagan's supply-side economics. It also had the virtue of allowing him to combine contradictory elements in a radical new version of austerity. That is, tax cuts and high defense spending could coexist with high unemployment and subsistence support for the hundreds of thousands of workers made redundant in the era of new economic discipline.

Reagan's economic policies aimed at raising productive capacities and economic potential. He turned away from aggregate demand strategies to a tax-cut which, following Laffer-curve assumptions,⁷⁸ would eventually raise national revenue sufficiently to provide a disciplined growth. In the event, Reaganomics was expressed in the initial 1981 budget as across-the-board income tax cuts in three phases from January 1981 to July 1981, each amounting to 10% cuts. The balancing of the budget target was deferred to 1984. The passage of the tax bill in 1981 ratified Reaganomics and even outdid his tax instructions by passing the bill with a reduction of the highest tax rate from 70% to 50%. Reagan's expenditure cuts were also passed, hitting employment and manpower programmes, and food stamps, but leaving untouched medical and social security programmes. Defence appropriations were increased.

The aggregate indicators of employment and inflation

shown in Figure 3.1 register some of the impact of Reaganomics. The increased size of the deficit is another key register, with averages expected to hover around the \$100 billion mark before negotiation about the size of subsequent non-military expenditure cuts would result in small incremental declines. The important strategic victory for Reaganomics was in securing the tax cuts and simultaneously expanding military procurement before negotiations with Congress about cutting social programmes would eventuate. The preemption of class conflict discussed in Chapter 6 is beautifully illustrated in Reagan's reduction of the political agenda to a negotiation over the division of shrinking social expenditure. Reagan's economism was not simply the institutionalization of supply-side assumptions but the coordination of fiscal and monetary reform. When Carter revised the Federal Reserve's monetary assumptions away from interest rate levels to money supply targets in 1979, he anticipated the complementary pole of Reaganomics. Monetarism would become an adjunct to supply-side fiscal policy under Reagan and stand as a firm determination to contract money just as government expenditure would be disciplined. The result was to raise unemployment to 9.5% in 1982 while reducing inflation to less than half of its annual 1980 rate of 13.5%.

Although subsequent economic policies of the Reagan administration changed from 1982 onward, the scope of the present work does not allow us to follow them. The first two

years of the Reagan administration stand as an apex of economistic policymaking. The protracted economic crisis of the global and American economy since the mid-sixties had indicated a progressively deteriorating political and economic environment which tied the governments of capitalist states closer to strategies for survival. The United States government was no exception. Both the logic and expressed circumstances of capitalist survival repudiate any description of an increased relative autonomy of the state which might arise from heightened class conflict as a response to economic crisis. For the American capitalist state, increased executive predominance in government, increased superordinancy of business in declaring social and economic aims, and a contraction of the political agenda to base economistic formulae belie the notion that relative autonomy characterizes a capitalist state approaching crisis. Indeed, the opposite occurs. The implications of this empirical observation are discussed in Part II. To test whether economism can be observed in other states' response to crisis, the following sections will outline the policy-responses of the United Kingdom and Australia during protracted economic crisis.

British Economism in the Post-1967 Years

The decline of Britain appears more spectacular and defined in periodicity than that of the United States. Secondary literature on the subject of Britain's decline is vast and

unambiguous, although ideologically split as to the primary causes of decline. For the purposes of the present work, a sub-period of decline within relatively acute crisis will begin with the sterling devaluation of 1967 and continue through to the Thatcher electoral victory of 1979.

As in the case of the United States, the analysis of Britain's reaction to the protracted recession of 1967-1982 will be examined in light of our initial definition of economism presented at the beginning of this chapter. To recall:

"Economism" is the debasement of political activity to an accomodation of short-run economic gain by 1) refusing to acknowledge and confront fundamentally divergent political aims, 2) reducing the definition of political problems to economic choices of an increasingly constrained nature, and 3) creating governmental apparatus which institutionalize the centrality of economic concerns.

As in the analysis of the United States' reaction to protracted economic crisis, this examination of economism is undertaken to establish the direction of the movement of relative state autonomy in a context of economic crisis. As the analysis will demonstrate, a movement away from autonomy characterizes the British response in the general period under consideration.

Britain provides a good case in the comparative analysis of state response to crisis vis-à-vis the United States for several reasons. Firstly, it is generally

recognized that the British electorate is both more politically aware than that of the United States and possesses greater social segmentation. In terms of the former characteristic, Britain is thought to display what has come to be known in the United States as "responsible government". That is, the British constitution enables clear partisan division in the exercise of government, and the means to hold the parliamentary party answerable for its policies by way of votes of confidence in the parliament and the existence of a functional opposition during the administration of government. The existence of relatively strong labour unions which are confederated at a national level and which have direct access to at least one major party is thought to maintain class divisions at the social level. Residual aspects of a class culture, including very uneven universal education, mores which inculcate class deference, the existence of a ritual monarchy, and class self-identification, are pointed to as indicators for the existence of a class-bound society. These characteristics may indicate that Britain has a greater capacity than the United States for class struggle. Relative autonomy assumes that in so far as the capitalist state mediates the interests of competing classes, the class components of a given society will bear upon the exercise of state autonomy, and that, moreover, economic crisis will induce class struggle, thereby increasing the propensity of the state to move in the direction of greater relative autonomy as pressures of class conflict are brought to bear upon it.

Empirical observation of the British case repudiates that theory. While the basic theoretical underpinnings of the notion of relative state autonomy will be subject to a detailed critique in the second part of this work, I shall suggest at present that a comparison of Britain and America indicates a broadening of the scope of economism as a response to economic crisis beyond a merely idiosyncratic characteristic of the United States. Britain also displays an economistic trajectory in policy and this occurs despite very different social and institutional orientations within the US and UK societies. The similarity of response may be attributed to a shared determination of policy which is compelled by the logic of the system of capitalism which they both share, and by their respective positions within the international capitalist system. What differences do occur may be attributed to the important intervening determination of social culture and the particularity of history for each country. Yet these differences do not mitigate the economistic imperatives driving the crisis-responses of the two countries.

As is the case throughout this work, I argue that economic determination of the political course of the capitalist state is an integral part of the description of the capitalist state in crisis. Economism is both an expression of and a causal factor in the contradictions of capitalist response to economic decline. Economistic policymaking decreases relative state autonomy and

effectively alters the terms of political discourse so as to preempt reformist strategies for "capturing the state" by fundamentally dissident groups. I believe that these assertions are substantiated in the following examination of the British response to the protracted economic crisis of 1967-1982.

From 1966, roughly marking the beginning of the period under study, to 1982, the third year of Thatcherism, government changed four times in Britain in a seesaw from Labour to Conservative, over five elections. The electoral results are recorded in Table 4.3.

Table 4.3
Electoral Support for Labour (L) and Conservative (C) Parties
in Five Elections: 1966-1979
Britain

	Wilson 1966		Heath 1970		Wilson/Callaghan 1974 February/October				Thatcher 1979	
	L	C	L	C	L	C	L	C	L	C
% Vote	47.9	41.9	43.0	46.4	37.1	37.9	39.2	35.8	36.9	43.9
% electorate	36.1	31.7	31.0	33.3	29.1	29.9	28.7	26.2	27.9	33.3
% turnout	77.9		72.0		78.7		72.8		76.0	

(Source: F.W.S. Craig, *British Electoral Facts 1885-1975*, and Craig, *Britain Votes 2*, as cited in James E. Alt, *The Politics of Economic Decline: Economic Management and Political Behavior in Britain since 1964* [Cambridge University Press, 1979], Table 1.2, p. 7, and Ian Budge, et al., *The New British Political System: Government and Society In the 1980's* [London: Longman, 1983], Table 4.1, p. 69)

Two things are apparent from Table 4.3. The first is the declining share of total turnout captured by the two major parties. A declining share of the combined Labour and Conservative vote as a percentage of the total electorate is evident from the beginning to the end of the period (with the 1979 election seeming to reverse the trend somewhat). In 1966, the combined vote-shares were 67.8% of the electorate. That fell to a low of 54.9 combined share in the October election of 1974, and picked up to 61.2% in the 1979 election. Turnout fluctuated around the 75.5% average for the five elections (from a low of 72% to a high of 78.7% turnout). The post-war average for six elections to 1964 is

78.6% turnout. The post-war average of major party vote shares is 73% up to 1964, representing about 11.5% more than the average of the five elections from 1966 to 1979 (61.4%). The drop in percentage share of votes cast is similarly precipitous. From an average of about 91% of votes cast in the six post-war elections to 1964, the shares dropped to about 82%.

Unlike the American accounts of declining voter participation, the British defection from the major parties is explained by polarization of the political parties. This is exactly the opposite to the American case, where most commentators blame voter malaise on the absence of significant party differences and hence the inability of elections to generate interest or a feeling that individual votes count in the outcome of an election or the policies pursued in office. One analyst comments:⁷⁸

The parties themselves, faced with the intractable problem of economic decline, became increasingly polarized. Political currents previously considered 'extreme' - the market-oriented doctrines of the 'new right' and the more radical socialist views of the 'Labour left' - gained ground in the parties outside parliament, and in the case of the Conservatives, captured control inside the parliamentary party as well in 1975. The authoritarian strand in the Conservative Party became more pronounced; the narrowly parliamentary approach of the Labour leadership was increasingly rejected by the party's activists.

On the example of party polarization, at least, one would expect to find increased relative autonomy of the state, expressed in government policies becoming

increasingly mediatory. Such is not the case, however. As will be shown below, both Labour and Conservative attempts at reform and mediation failed and both parties' policies were increasingly determined by economistic imperatives. The most important of these was, as in the American case, the reduction of political debate to the problem of inflation. Institutionalization of the centrality of that problem followed. These two aspects of economism were possible in spite of what Colin Leys sees as the increased polarization of political parties.

The Wilson Reforms as a Precedent to Monetarism

Management of the political economy came to the fore in the Labour Party's victory in 1964 after thirteen years of having remained in the opposition. The recognition of poor investment performance and a "managerial shop" closed through class privilege motivated Wilson to embrace an reform strategy for government centreing upon 1) modernization through centralized management of economic planning; 2) a circumvention of Treasury viewed as necessary to gain the reins of political and economic policymaking, resulting in the creation of the Department of Economic Affairs in 1965; 3) educational reforms to enable the training and recruitment of competent managers/political leaders; and 4) strategies to induce investment based on confidence in the commitment of the government to throw off nineteenth-century protectionism and imperial malaise.⁸⁰ The

rationale behind these reforms was based on a further recognition by the Labour Party that the deteriorating balance of payments position of the UK would require a strong domestic posture based upon a rebuilding of the nation's international economic stature.

The obstacles to that course of action were of two kinds, external and domestic. It is timely to review them before proceeding further. E.A. Brett has characterized British economic policy under Wilson and Labour as an intermittent struggle between the dual but contradictory aims of Labour: the extension of prosperity to the working class through management of social welfare programmes and the cautious nationalization of key industries, while simultaneously addressing the balance of payments problem.⁸¹ Progress on the domestic front was consistently undermined by the constraining difficulties in external payments. This analytical perspective is well-supported by data on the balance of payments for the years under study.

Wilson and the Balance of Payments Problems.

Table 4.4 presents a profile of British balance of payments from 1965 to 1980.

Table 4.4
Balance of Payments in the U.K.
£ in current prices

	1965-7	1968-71	1972-6	1977-80
1 Visible balance	-322	-191	-3,189	-1,523
2 Govt. services and transfers (net)	-459	-485	-1,196	-2,077
3 Private invisibles (net) incl. interest, profits, dividends and transfers	+725	+1,228	+3,104	+4,414
4 Invisible balance	+266	+743	+1,908	+2,337
5 Current-account balance	-56	+552	-1,281	+814
6 Balancing item	+35	+25	-74	+1,356
7 Balance of long-term capital	-161	-223	-224	-1,591
8 Balance of long-term and other capital flows	-501	+350	-399	+172
9 Basic balance (5+7)	-217	+329	-1,505	-844
10 Basic balance plus balancing item (9+6)	-182	+354	-1,579	+512
11 Balance for official financing	-523	+927	-1,754	+2,342
12 Gold subs., IMF and SDRs	-15	+65	+25	+94
13 Total lines 11 and 12	-538	+992	-1,729	+2,436
<i>Official financing</i>				
14 Net foreign currency borrowing by H.M. government (inc. IMF)	+420	-594	+1,356	-284
15 Transfer \$ portfolio to reserves	+173	-	-	-
16 Drawing on(+) or additions to(-) official reserves	-55	-398	+373	-2,152
17 Total official financing	+538	-992	+1,729	-2,436

(Source: A.r. Prest and D.J. Coppock (eds.), The UK Economy: A Manual of Applied Economics, 9th Edition [London: Weidenfeld and Nicolson, 1982], Table 3.2, p. 135)

The profile represented in the table indicates that Britain has been burdened by an exaggerated seesaw in its current account balance. The long-term outflow of capital is consistent and increasing. Perhaps the most startling item in the table is the visible balance which, after the improvements from 1967, fell drastically during the 1972-1976 sub-period. The combination of the current account deficits, indicating the persistent liability of the visible balance against invisibles and reinforcing the profile of

long-term capital outflow, gives a clear indication of Britain's "interdependence" with the international capitalist system. As discussed in Chapter 2, the liability of such an interdependence for domestic policy is severe and promotes contradictions within domestic economies which, I argue here, lead to economism as a strategy of survival in the international market.

The roots of Britain's balance of payments problems precede Wilson's Labour government by twenty years, and it is therefore not surprising that they proved an intractable problem for the new regime. What is surprising, if the polarization thesis of Leys is correct, is that Wilson's dilemma should have so closely mirrored the basic dilemma of the immediate post-war period in Britain. Brett has argued persuasively that three elements characterize the basic balance of payments dilemma and have their origin in the effort to reconcile contradictory aims of government policy in the immediate post-war years. They are, 1) the aim to concretize Keynesian "social democracy" in policy which represented a compromise between capital and labour, 2) the aim to liberalize trade and payments, and 3) the aim to assume a role in stabilizing international economic and security arrangements as a "junior partner" of the United States.⁸² The chief contradiction contained in these three aims according to Brett is the collision of domestic expansion with the demands of external restraint.

The chief term of external constraint was the defense of sterling and the consequent loss of competitiveness in the international market. The liberalized flow of capital within the sterling areas, which were virtually unrestricted, meant that capital outflow in the long term and speculative flows in the short term were a constant source of weakness during the crucial twenty years when post-war Europe was gaining strength in rebuilding and modernizing production capacity. The drain on official reserves and the growth of debt was taken on in a strategy to buffer the nation against the volatility of capital flows. In the event it only exacerbated inefficiency in economic planning under Conservative governments in the post war period. Finally, the consistent recourse to deflationary strategies as a remedy for external constraints progressively weakened the economy to the point where, when Labour won government in 1964 at the end of the international post-war boom and the beginning of serious growth imbalance worldwide, it was unable to do more than effectuate a weak consensus around the theme of modernization and managerial government.

When Wilson took office he was confronted immediately with a deficit which had been induced by the expansionary programmes of the previous two years. Because Britain suffered a structural incapacity to meet the demands of the 1962/63 expansion due to the investment stasis related to capital outflow discussed above, imports rose much faster

than exports. A legacy of thirteen years of underinvestment and a structural incapacity in productive infrastructure did not however deter Wilson. He was committed to further expansion of government expenditure at any cost. The cost was levied and it was high. According to Brett, the \$3,000 billion borrowed from central bankers in swap arrangements which had been negotiated in 1962 under the General Agreements to Borrow, allowed Wilson to implement his programme, but left the door open for significant pressure by bankers in subsequent years. Those pressures were articulated in the form of a conservative capitalist orthodoxy calling for the maintenance of high interest rates, credit controls on consumption and construction, and talk of an incomes policy.⁸³ The upshot of these pressures was to ensure that there would be expenditure cuts but no sterling devaluation in 1965. This meant that expansion flagged, and the 1965 National Plan could not be implemented, nor the ground laid for building an export strength. The constraints of an external balance were the constraints attached to the politically seductive strategy of borrowing short and paying long. It is an economic strategy extraordinaire in that the short-term gains of the debt-fix without a long-term disciplining of investment behaviour eventuated in a loss of autonomy for a nation.

In 1967, the pressure on sterling was finally so great that a devaluation was unavoidable and with International Monetary Fund (IMF) sanction, both devaluation and fiscal

discipline ensued. The grand plans of Wilsonian reconstruction were sadly aborted. The Department of Economic Affairs was abolished in 1969; Wilson proposed wage controls on an American/Canadian format in 1968 which completely alienated traditional trade union support; and deflationary strategies ended the dream of managing prosperity. Furthermore, the sterling devaluation led to the eventual collapse of Bretton Woods and the complete repudiation of Britain's role as an international currency stabilizer, or indeed as a credible currency in its own right.⁸⁴

From 1967 onward the coincidence of Britain's decline and a global recession aggravated the downward slide. Consumer prices rose from a 2.5% average annual increase in 1967 to a 6.4% increase in 1970,⁸⁵ and unemployment was beginning its eventually steep climb. Britain had continued to lose significant shares of world trade. From the time Labour won government to 1970, it lost over 3% of its trade share, dropping from 13.9% in 1964 to 10.8% in 1970.⁸⁷

The objective force of the disastrous decline of the 1970s was less obvious at this point than the retreat and humiliation from traditional Keynesian social democratic values in the face of external demands enforced through and by currency constraints and the balance of payments dilemma. The nation was being humiliated under a Labour government. Even the 1968 bid to join the common market was rebuffed.

When the Conservative Party under Edward Heath succeeded to government in 1970, managing prosperity seemed a very quaint and distant theme. The new strategy would address the theme of competition.

The Heath Integument, 1970-1974.

When Edward Heath, "Selsdon Man" of the new age,⁸⁸ declared his competition policy in 1970, he meant business, that is, private business. His initial acts in office concentrated upon removing the apparatus of state intervention in the economy and shifting government policy to an investment-inducement strategy and away from a welfare state orientation. Perhaps his most significant act was the 1971 Industrial Relations Act which introduced legal and financial sanctions against registered unions engaging in industrial action outside the regulated pattern set by the government. This action was unheard of in Britain, although characteristic of American/Canadian industrial policy. Part and parcel of the Act was a demur on the part of the government to engage in consultation with the Trades Union Council (TUC) on the pretext of non-interference with the regulated negotiations undertaken directly between business and labour. In the event strike action increased. The average annual number of days lost in strikes during the Wilson Labour years, from 1964 to 1969 was about three and a half million days. During 1970 to 1974, the average was over four times that figure, or about fourteen million days

annual average.⁸⁹ Labour militancy against the Act was formidable and decisive. The TUC not only advised members not to register under the Act but expelled thirty-two unions which did register.⁹⁰ Non-intervention was clearly not working. Nor was the economy stabilizing under non-intervention. Between 1970 and 1971, inflation rates rose 3 points from an average annual increase of 6.4% to an average of 9.2%.⁹¹ An abrupt shift to an intervention policy came about in 1972.

"U-turn", "stop-go", and "corporatist" approaches to a "mixed economy" are terms scattered throughout the literature on the period of the seventies. The Heath government seems to have tried them all. The 1972 u-turn was a significant shift to an interventionist/corporatist scheme with, first, an attempt to persuade the TUC to cooperate with voluntary restriction on strikes and wage demands and, eventually, the establishment of an incomes policy. Phase I effected a freeze lasting until March 1973. Phase II established a Pay Board and Price Commission to oversee plans and allowed an annual increase of £1.00 a week plus a 4% annual increases for all employees. Phase III, credited with breaking the government, precipitated a miners' revolt and railway strike. Meantime, inflation was rising rapidly, the balance of visible payments was continuing to deteriorate, and investors were continuing their investment strike in Britain while tripling their investment abroad between 1970 and 1973. Seemingly most disastrous of all was

the 1973 oil crisis. When Heath called an election in February of 1974, third parties captured a significant portion of the major parties' vote. With the Scottish National Party capturing 600,000 votes and the Liberal Party, 6 million votes, the Conservative Party lost, and the Labour Party was able to govern as a minority party with Liberal support. Wilson was able to return and consolidate his victory in the following October.

Economism as a Social Contract, the Second Government of Harold Wilson

When Wilson and Labour returned to Government in February 1974, the need to stabilize the domestic political economy was more pressing than ever. As can be seen from a brief review of Section "f" of the Chapter 3 annex of Comparative Historical Statistics, the implicit price index more than doubled between 1973 and 1974, from a 7% annual increase to an almost 15% annual increase, and it was heading to the general period high of 27% in 1975. Consumer prices followed the trend, and producer prices showed huge jumps, for example in manufacturing, where between 1973 and 1974 the index registered a jump from 7.3% to 27.8% annual change. Residential construction prices remained high, having begun their rise in the 1972-1973 jump, from 12.4% to 25.7%. 1974 saw a further increase to 27.3% in residential construction. Food prices were rising and remained high throughout the years of Labour's second government. Unemployment was relatively low in 1974, compared to the US and Australia

registering at a little over 3%, but rising steadily from 1974 to 1979, reaching the 6.4% mark in 1977 with only a slight decline in time for the 1979 election to 5.6%. With a global recession at hand, Wilson could only hope to alter his management strategy away from investment inducement and toward civil peace. The crisis was now to be managed on the basis of national compromise which sought a trade union consensus on the terms of economic survival.

Implementing the social contract included the following measures. Firstly, the legal restoration of trade union rights through a repeal of the Industrial Relations Act and the provision of a new Employment Protection Act which would restore and maintain job security. The closed-shop principle was reestablished and a commission was set up to explore the possibilities of establishing industrial democracy. 2) An investment strategy was to be coordinated by a new National Enterprise Board which would target investment of public funds in profit-making firms rather than as a subsidy for failing sectors. 3) A strategy to stop and reverse the roll-back of social programmes was initiated, the most important parts of which were the repeal of the 1972 Housing Finance Act (which had raised council rates) and a tax reform which reestablished a movement back to taxing wealth. Price controls were also established for food and the erosion of pensions through inflation was addressed in a new indexing scheme.

The reforms of the Wilson government were intended to establish the basis for a quid pro quo on the part of unions, which would be expressed as a restriction of wage claims and better discipline. At the same time Wilson undertook deflationary strategies, but with no "consensus" forthcoming from business which continued to withhold investment, the familiar trend toward decline appeared inexorable. When James Callaghan succeeded Wilson as Prime Minister in March 1976, a flight out of sterling had begun which would prompt the usual solution: more foreign borrowing bringing with it inevitable external sanctions promoting even greater austerity. Callaghan was forced to submit to IMF constraints in the negotiation of survival loans. But the cost of survival was a further stagnation of the national economy and increasing alienation of the unions. Finally, in 1978, when the TUC spoke for a general trade union refusal to submit to even greater erosion of their living standards, the winter of discontent arrived. Broad strike activity combined with the general misery of a cold winter and centrifugal tendencies within the Labour Party over the devolution question in Scotland and Wales to destabilize the government. With Liberal defection having already occurred in 1978 over questions regarding Britain's participation in the European Parliament, a vote of no-confidence was carried in March 1979, followed by an election in May.

Assessing the Social Contract

The impediments faced by the Labour government of 1974-1979 in getting the social contract to yield a new beginning were primarily external in nature. As was discussed in Chapters 2 and 3, the mobility of capital within international circuits gives business a superordinant position vis-à-vis national governments who are required, under the fundamental laws of capitalist development, to induce investment as a prerequisite for growth and economic vigor. When national and global recessions combine to create a situation of desperation, as was the case in Britain since the end of the 1960s, governments are ever more constrained in their mediatory role and moved to pursue policies of domestic austerity as a means of proving credit-worthiness (in the case of securing international loans), and security for investment.

Protracted economic crisis reduces all strategies for national survival to economic imperatives: 1) the preemption of class conflict through either disciplinary (Heath) or persuasive (Wilson) means; 2) the reduction of politics to economic survival; and, 3) the forced institutionalization of the very terms of economic survival. Whilse the first of these is a precondition for the others, it is the second of the definitional imperatives which is the key to the long-term deformation of the bourgeois constitution discussed in Part II of the present work and

the long-term degradation of politics as a result of economic crisis. The Reduction Imperative is also the strongest empirical proof against the notion of increasing state autonomy in the context of economic crisis. Brett, as discussed above, has provided a detailed account of the way in which initial choices taken after World War II caught Britain in an extensive debt trap from which it suffered an essential weakening of its economic base. When Wilson repeated the debt fallacy⁹³ in his attempts to implement the social contract, he was simply playing out what by then was a recent British tradition of accommodation to the contradictory aims of welfare expansion and investment inducement. This policy stance resulted in a Thatcher victory in 1979, if only as a desperate national attempt to break the cycle of faltering expansion followed by deepening national impoverishment. The unusual elements in the Wilson/Callaghan years were the coincidence of world recession and the 1976 sterling crisis. The choice for Labour had crystallized to the point where either full nationalization and domestic protection of Britain's economy must be undertaken or a deal with the international finance community would be made which further weakened the economy and opened the path to a complete repudiation of Britain's post-war commitment to social responsibility. The latter choice resulted in an invitation to the Thatcherite "experiment".

Thatcherism

The May 1979 election victory of the Conservative Party led by Margaret Thatcher was a decisive break with the post-war Keynesian consensus promising growth and full employment through strong government intervention into the market economy of capitalism.⁹⁴ That consensus had been seriously undermined by the preceding Labour and "wet" Conservative governments, which introduced all the elements of monetary discipline and supply-side assumptions that were later to become full-blown strategies of government disintervention. It is nevertheless true that Margaret Thatcher was able to exploit the weakness of the old consensus and the ambiguity of policy orientations immediately preceding her government to effect a radical shift in the ways and means of economic policy making. One pair of analysts has described the shift:⁹⁵

After the downfall of prime ministers Edward Heath and James Callaghan, who struggled to contain the pressure of rising wages while stabilizing the economy at a high level of employment, it appears that Margaret Thatcher has decided to restructure the framework within which public and private decisionmakers operate. The Government no longer accepts responsibility for high employment, or indeed for any ultimate objective other than inflation; it no longer seeks to develop cooperation with the social partners that have heretofore played a crucial role (the Trades Union Congress and the Confederation of British Industry, in particular). The unilateral announcement of unconditional intermediate targets for policy is a signal of the strategic shift that we believe the Thatcher experiment is designed to achieve.

In what follows I shall concentrate upon the terms of the Thatcherite shift away from social responsibility. In

particular I shall examine the restructuring process of Thatcherism as it is expressed in the misadventures of a fiscal policy geared to the Medium-Term Financial Strategy and the failures of monetarism.⁹⁶ The range of analysis and popular commentary covering the initial Thatcher years is vast, especially in England, where political and economic analysts have attempted to come to grips with the scope of change suggested in Thatcherism. The following analysis will rely heavily upon the empirical resources for the economy presented in the work of Willem H. Buiter and Marcus Miller, who have produced two noteworthy studies on the Thatcher "experiment" in 1981 and 1983.⁹⁷ The description of political events follows Peter Riddell's early book on the Thatcher government.⁹⁸ These works provide a focus within which I shall integrate further analysis of my notion of economism.

The story of Margaret Thatcher will begin with the first Tory budget of June 1979, the first of two budgets enacted in the first year of the Thatcher government. The budget was introduced in a context of acute crisis. Table 4.5 presents a profile of external conditions surrounding the Thatcher government and the preceding government.

Table 4.5
Some Factors in the Global Context of Britain's Economy
1973-1980

Year and quarter	Volume of world trade, (index, 1975 = 100) ^a		Eurodollar three-month rate (percent) ^b	OECD inflation rate (percent) ^c	Price of oil (U.S. dollars per barrel) ^d	Real price of oil (index, 1975 = 100) ^e	United Kingdom oil production (millions of barrels) ^f
	Total	Manufactures					
1973	100	95	10.2	7.8	2.60	32.7	2.96
1974	105	104	10.1	13.5	9.90	102.0	2.96
1975	100	100	5.9	11.3	10.90	100.0	11.84
1976	112	112	5.1	8.6	11.90	109.2	90.28
1977	117	117	7.2	8.9	12.80	107.7	283.42
1978	122	123	11.7	7.9	13.09	96.1	399.60
1979	131	130	14.5	9.8	19.01	122.0	576.46
1980	133	136	17.8	12.9	31.87	185.0	595.70
1979:1	126	127	10.6	7.9	13.79	92.3	520.96
2	128	127	10.6	8.5	17.17	114.2	586.08
3	133	130	12.9	9.5	20.79	130.6	615.68
4	135	134	14.5	10.6	24.28	149.5	580.16
1980:1	137	139	19.9	12.1	29.40	175.2	603.84
2	132	135	9.8	12.5	31.27	182.7	577.20
3	131	135	13.9	11.7	32.97	185.6	574.24
4	132	136	17.8	11.4	33.81	195.1	624.56
1981:1	n.a.	n.a.	14.9	10.5	36.20	214.3	648.24
2	n.a.	n.a.	17.7	9.7	n.a.	n.a.	n.a.

Sources: World trade, price, real price, and production of oil—*National Institute Economic Review*, no. 96 (May 1981), tables 3, 22, 23, 24, pp. 66, 75, 76; Eurodollar rate—*Economic Trends*, no. 334 (August 1981), p. 66; OECD consumer prices—Organization for Economic Cooperation and Development, *OECD Economic Outlook*, no. 29 (Paris, OECD, July 1981), p. 140; consumer price index for all industrial countries—*International Financial Statistics*, selected issues.

n.a. Not available.

a. Not seasonally adjusted.

b. Last working day.

c. Consumer prices. Quarterly data correspond to data for all industrial countries, which differ slightly from OECD.

d. Estimate of the OPEC average from the National Institute of Economic and Social Research, based on f.o.b. price.

e. U.S. dollar price of oil deflated by unit value of exports of manufactures in U.S. dollars, all countries.

f. Gross production, including natural gas liquids. Quarterly data are at annual rates.

(Source: Willem H. Buiters and Marcus Miller, 1981, p. 356, table 14)

Table 4.5 registers the slowdown in world trade; the rise in European interest rates via the Eurodollar rate; inflation in OECD countries; and the supply shocks via rises in oil prices. All of these factors increase external constraints upon the economy of Britain in so far as it had become an increasingly open economy with the policies of trade liberalization and debt incurred since the 1960s. Floating exchange rates (especially since the sterling crisis of 1976) increased the nation's vulnerability. A

decline of world trade from a 7% rate of growth between 1978-1979, to only 1.5% between 1979-1980 is stark indeed. The 1979-1980 decline remains stark even when compared to the rates before 1978, which moved around the 4% to 4.5% mark in 1977 and 1976, when recovery seemed to be gaining ground following the 1973-1975 slowdown. World trade in manufactures does not register an equivalent slowdown but Britain was loosing its share in world manufactures during the period, in any case, given its shifts in structural composition discussed in the previous chapter. Global inflation registers a steady rise, and the second supply shock registered in oil, with nearly a 68% increase in the price of oil between 1979 and 1980, is significant. Production of North Sea oil was accelerating, however, and provided a shield from the worst effects of the second oil shock for Britain.

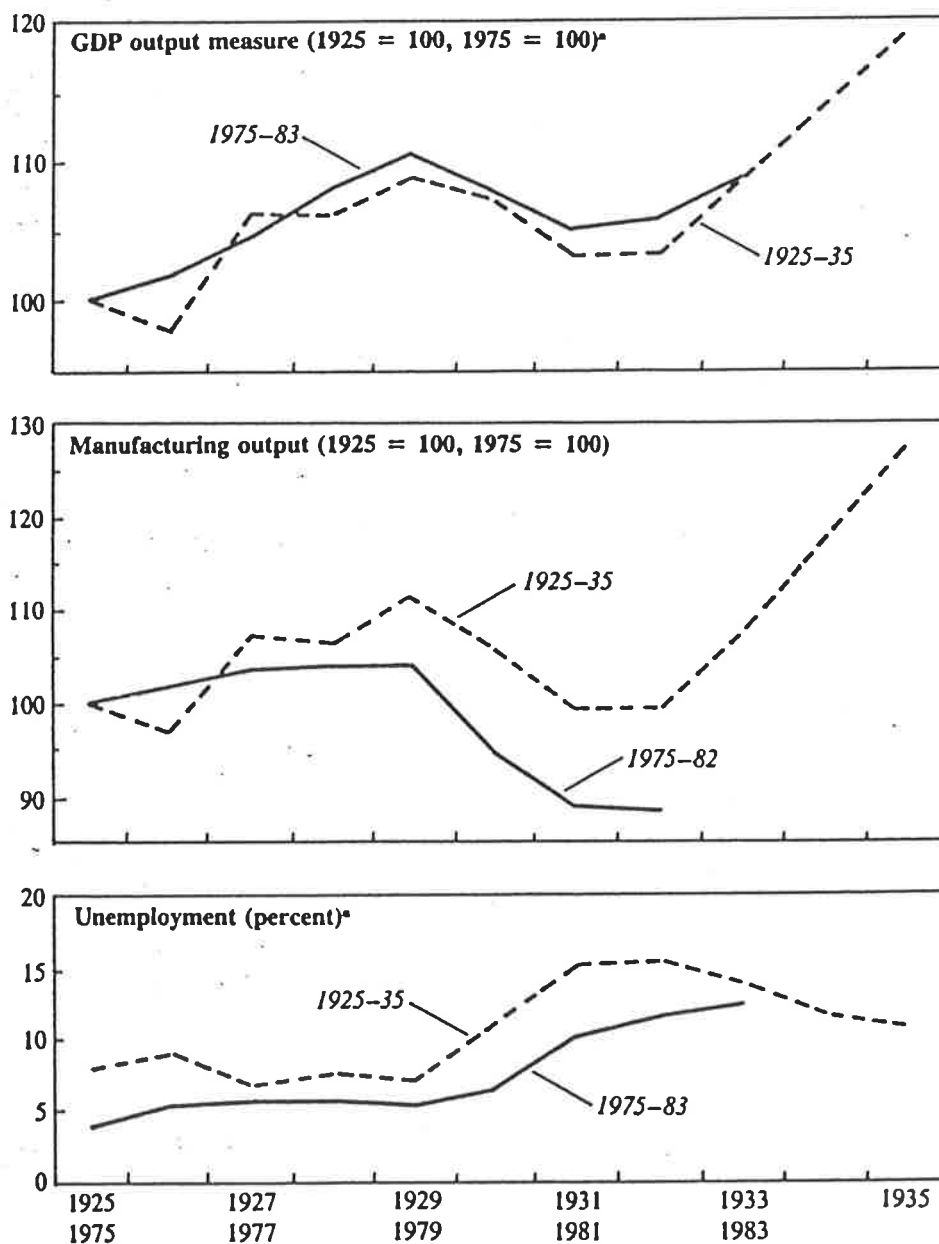
In spite of the discouraging indications from the international profile of the capitalist world market in the year Thatcher gained office, her main strategy as expressed in the budget was to rely on "market forces" to reinvigorate Britain's economy. To that end the budget contained the following policy measures. Tax measures were implemented, including the reduction of standard tax rates on income by three points from 33% to 30%⁹⁹ and a reduction in the top marginal rate on earned income from 83% to 60% along with widening tax brackets. A higher threshold for investment income surcharge was also enacted. Indirect

taxation was to be set at a single rate of 15%, thereby replacing the previous Value-Added Tax rate which was split between 8% (standard) and 12.5% (luxuries). Secondly, the volume of public spending was cut by a further 2.25% below the reduced level of the previous government's proposed level, and cash limits on expenditure plus the sale of public sector assets were expected to add about £2 billion to government coffers. Finally, as a centrepiece of the budget, the broadly defined money supply target was reduced (sterling M_3 8%-12% range to 7%-11% range), with the Minimum Lending Rate being raised on Budget Day from 12% to 14%.

The minimalist strategy of reducing the money supply stands in contrast to "interventionist" schemes such as incomes and prices policies, or particular demand objectives, such as policies addressing output or employment might contain.¹⁰⁰ The three central strategies of redistributing the tax burden, reducing public expenditure and constricting the money supply had the double aim of controlling inflation and establishing minimalist government. Thatcher's experiment envisaged breaking the ties between government and the trade unions, which were considered a contamination of government policy with particularistic demands (wages and security for workers). The price of such devout ideological commitment on the part of the new Conservative government was a massive national slump, which has been persuasively described as a genuine depression and likened to the situation of the 1929-1935

global depression. The similarities of Britain more recent experience and the earlier depression can be seen in the following figures:

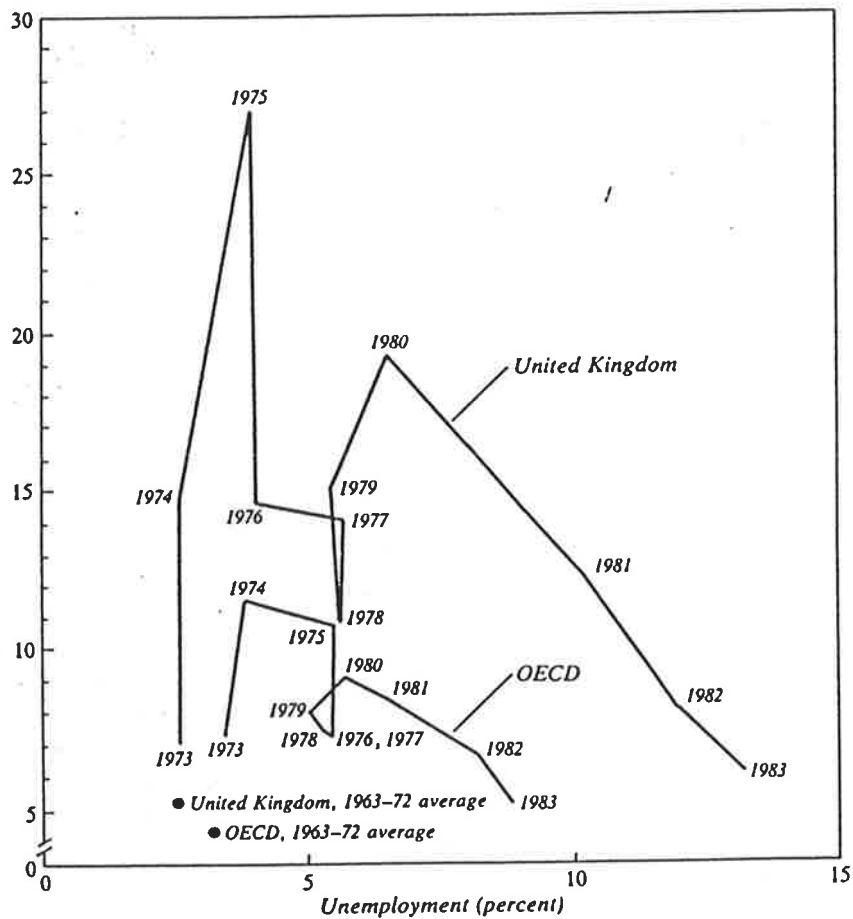
Figure 4.2
 A Comparison of Depressions in the United Kingdom
 1925-1953 and 1975-1983
 Three Selected Indicators



Sources: Authors' updating of figure appearing in *National Institute Economic Review*, no. 95 (February 1981), p. 7. Data for 1925-35 are from C. H. Feinstein, *National Income, Expenditure and Output of the United Kingdom, 1855-1965*, Studies in the National Income and Expenditure of the United Kingdom 6 (Cambridge University Press, 1972), tables 6, 51, 57, pp. T19, T112, T126. Data for 1975-82 are from United Kingdom, Central Statistical Office, *Economic Trends*, no. 358 (August 1983), pp. 6, 28, 36. GDP and unemployment for 1983 are estimates.
 a. The estimate of 108.5 for GDP output measure for 1983 is from *National Institute Economic Review*, no. 105 (August 1983), p. 7; the estimate of 12.5 for the 1983 unemployment rate is the simple average of the first nine months of that year and is from *Economic Trends*, no. 360 (October 1983), p. 36.

Comparisons with seven OECD countries within the same period indicate the exaggerated nature of the British response to crisis. Figures 4.3 and 4.4 provide comparisons for both unemployment/inflation ratio indicators and output:

Figure 4.3
A Comparison of Unemployment and Inflation:
The U.K. and Seven OECD Countries, 1973-1983

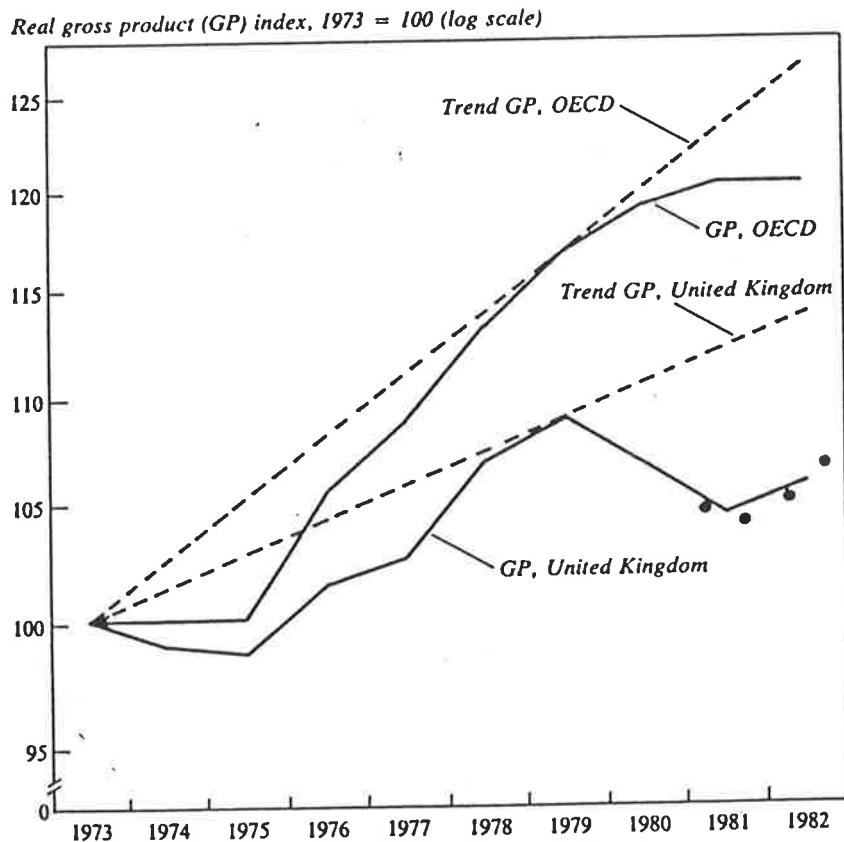


Source: International Monetary Fund, *World Economic Outlook* (IMF, 1983), pp. 170, 174.
a. The OECD curve is based on data for the seven largest countries. Inflation is measured as the rate of change in the GDP (market prices) deflator for the United Kingdom, France, and Italy, and by the rate of change of the GNP deflator for the other four countries.

(Source: Willem H. Buiter and Marcus H. Miller, 1983, Figure 2, p. 310)

Output profiles indicate a similar comparative exaggeration (Table 4.4):

Figure 4.4
 A Comparison of Real Gross Product:
 The U.K. and Seven OECD Countries, 1973-1983



Source: *National Institute Economic Review*, no. 105 (August 1983), table 22.
 a. Figures for the United Kingdom are for GDP on the expenditure basis at constant market prices. Dots indicate data on a half-yearly basis for 1981-82.

(Source: Willem H. Buiter and Marcus H. Miller, 1983, Figure 1, p. 308)

Economism as Misadventure: The Terms of Thather's Reforms

Thatcher's policy innovation tied almost all questions of social and political rule to questions of the economy in a highly institutionalized method of economic reductionism. The Medium Term Financial Strategy (MTFS) expressed the most daring components of those policy innovations. As mentioned above, the MTFS was essentially an ideology of minimalist government. In achieving minimalist government MTFS sought to establish a clear set of guidelines for prospective years with regard to government intention on economic policy and, in particular, the course of the money supply. These guidelines were intended to engage the "rational" expectations of private market decision makers in a way which allowed them to exercise consistent and responsible judgements in the pursuit of their individual interests, thus freeing the market from distortions induced by government intrusions which had in the past created disinformation and uncertainty. The exposure to these privatized decisions was considered a "freeing up of the market" and presumably had the triple advantage of stimulating individual entrepreneurship, inducing investment potential, and exposing trade unions to the market imperatives surrounding efficiency and competition (especially productivity constraints against rising wage claims). The immediate terms of the MTFS were a deceleration of the rate of monetary growth and a reduction of the size of the budget deficit. The reduction of public expenditure

was central to the second of those terms. In the event, the depth of the recession was so severe that public sector borrowing increased in order to support unemployment benefits in the face of reduced revenue and to weather the social costs of the depression. Compounding this subversion of budgetary aims was the rise in the money supply. Because pressure on sterling had preceded the government's policy initiative, a rise in the exchange rate during 1980 (12% on the average)¹⁰¹ disadvantaged Britain's competitive trade position yet again and forced companies to increase borrowing in the face of declining profits from lost trade shares and the residual profit squeeze from wage claims negotiated honouring the Pay Board settlements from the close of the Labour administration.

While the MTFS has been characterized here as a strategy for minimalist government it was also considered the main tool in integrating fiscal and monetary policy. The second failure of Thatcher's economism has been the inability to employ monetary discipline in a manner conducive to investment. This has mainly been due to the portfolio strategies discussed in Chapter 2, the upshot of which is a severe and general indictment of the British economy by potential investors. In short, the British economy under the portfolio distribution rule is considered neither safe, profitable nor likely to provide long-term stability. The financial partition of the international capitalist market discussed in Chapter 2 marginalizes

Britain. Aside from these general problems, the monetary policy of the Thatcher experiment can be discussed with regard to its medium-term goals, i.e. controlling inflation as a necessary condition for renewed growth.

British monetarism has been described by an early Thatcher government Cabinet minister, Sir Ian Gilmour, as "the uncontrollable in pursuit of the indefinable".¹⁰² A more precise critique of monetarism is the fact that:¹⁰³

Rather than the instruments of policy controlling the money supply so as to affect prices and output, these instruments have to affect the economy in order to control the money supply.

This turn-around in logic and failure in policy came about essentially when the Thatcher government abandoned the so-called "corset" scheme of monetary control. That scheme, introduced in 1971 subsequent to opening the banking system to an unregulated market in competition over deposits, was designed to hold down excessive competition by using a supplementary deposit programme. The programme required that banks exceeding specific limits in the growth of interest-bearing deposits must hold a certain ratio of non-interest deposits at the Bank of England. As individual banks approached the "penalty zone" ceiling of interest deposits, a 50% proportion of marginal excess deposits to be lodged at the Bank of England was simultaneously approached.

In other words, the corset scheme was one which applied direct controls over the money supply other than through

control of interest rates. It was a compromise between competitive market demands (the competition for deposits through interest-rate appeal in the case of the banking system) and the need to set upper limits on volatile releases of money. It was an effort to smooth the path of money supply in a relatively less constrained way than strict interest rate control, for example, might imply. When the Thatcher government removed the corset scheme in the second 1979 budget in June, in preference for control over the Public Sector Borrowing Requirement (PSBR)¹⁰⁴ it again moved to disintervention, this time in the financial market. And again it focussed on minimalizing state activity (through reduction of PSBR in deficit reduction) rather than controlling perverse market behavior.¹⁰⁵ The results were threefold. The Government discovery that the money supply is "enigmatic" or, at least, very difficult to control through either interest rate or PSBR manipulation. Secondly, PSBR targets reduce fiscal policy to an almost exclusive accommodation to the dictates of monetary control. Thus, the MTFS did not so much integrate fiscal and monetary policies as to completely subordinate fiscal policy to the unobtainable goals of monetary control. Thirdly, and in the event, PSBR consistently overshot its prescribed limits. The subordination of fiscal policy to minimalist monetary control did not work because of the extraordinary budgetary damage done by the exaggerated economic decline resulting from the extremes of economic contraction which were a direct result of the Thatcher experiment.¹⁰⁶

What does seem to have been achieved after all is a significant reduction in the inflation rate. But this seems less an economic achievement than an expression of institutionalized brutality. Trade unions have been disciplined, and the unemployment cudgel has been effectively wielded with surprisingly little industrial strife.¹⁰⁸ Rather than characterizing these reactions to Thatcherism as the advent of a new era of economic efficiency, I would characterize them as the expression of economism. Margaret Thatcher's numerous other reforms will not be discussed here due to the constraint of space. Certainly the privatization of industry¹⁰⁹ and the increase in civil disorder could be used to substantiate the claims of the present work that an economistic imperative governs the economic and social policymaking of the Thatcher government and that the deformation of the British constitution interacts with that policy drift. In conclusion to this section on Britain, I would stress that the comparative case of Britain provides strong evidence that relative autonomy is certainly not increased during periods of economic crisis within capitalist states but rather, markedly decreased. These findings are especially supportive of the general argument about state autonomy because they occur in a capitalist state whose traditions and class composition should have increased class struggle and the mediatory role of the state via government policies, if the autonomy thesis holds. Empirical findings as to the shape and depth of economic crisis outlined in the previous

chapter, and the policy reaction discussed in the present chapter prove otherwise.

Australian Economism

The intermediate status of Australia vis-à-vis the other two nations in this study is consistent not only in terms of macroeconomic performance, as discussed in the previous chapter, but in terms of policy. For example, the extremes of dependent global integration in Britain versus hegemonic control in the United States are not seen in Australia. A milder form of strategic accommodation to the demands of international market competition is noticed within the domestic economy. This is expressed, for example, in a relatively protected industrial base located within an extremely penetrated investment economy. The necessary openness of a commodity-producing country has also meant exposure in primary sectors within the Australian economy and recurrent political debate over such matters of national identity as the client status of Australia in regard to its larger allies and trading partners, Britain, the United States, and Japan. The fact that Australia is nominally within the purview of the British Crown has also complicated the development of a coherent set of national strategies designed to cope with either a threatening client status or the collision with international market forces given in a context of significant economic exposure.

The remainder of this chapter will examine Australia's manner of coping with international market integration.

The most significant domestic political event in Australia during the general period under study must surely be the election of a national Australian Labour Party (ALP) government in 1972 after twenty-three years of politically conservative Liberal-National Country Party government.¹¹⁰ In that year the Labour Party was able to break the extremely stable partisan division which had existed through the post-war period with an electoral victory (Table 4.6).

Table 4.6
Election Results for Seven Elections in Australia,
1966-1980
Percentage of Formal First Preference Votes in the House/
(House Seats)

	1966	1969	1972	1974	1975	1977	1980
Liberal	40.1% (61)	34.8% (46)	32.1% (38)	34.9% (40)	42.0% (68)	38.1% (67)	37.4% (54)
National Country	9.9% (21)	8.6% (20)	9.4% (20)	10.8% (21)	11.0% (23)	10.0% (19)	9.0% (20)
Aust. Labour	40.0% (41)	47.2% (59)	49.6% (67)	49.3% (66)	42.8% (36)	39.6% (38)	45.1% (51)

(Source: Paul Henderson, Parliament and Politics in Australia: Political Institutions and Foreign Relations, 3rd Edition [London: Heinemann, 1985], p. 226)

The Whitlam Labour government remained in power for only three years until the "constitutional crisis" of 1974¹¹¹ was resolved in the 1975 election which allowed Malcom Fraser to install a

coalition Liberal/National Country Party government. That government remained in power until 1983, when the ALP, under the leadership of Bob Hawke, regained government. The years preceeding the tumultuous seventies witnessed the end of the reign of Liberal leader and national legend Sir Robert Menzies in 1965, and a progressive deterioration of Liberal-National Country (NCP) coalition government through the two government administrations of Harold Holt and John Gorton (with the interim administraion of Country Party leader, John "Black Jack" McEwen for a very brief period during 1967-1968). Before a brief examination of the events leading up to 1972, it is perhaps timely to consider the coincidence of executive government administration in Australia, Britain, and the United States which can be observed in Figure 4.5.

Figure 4.5
 Executive Government Administrations, 1966 - 1982
 Australian, British, and American

	Australian	British	American
1966	Holt (Liberal)	Wilson (Labour)	Johnson (Democrat)
1967	McEwen (Country)		
1968	Gorton (Liberal)		Nixon (Republican)
1969			
1970		Heath (Conserv.)	
1971	McMahon (Liberal)		
1972	Whitlam (ALP)		Nixon (Republican)
1973			
1974		Wilson (Labour)	Ford (Republican)
1975	Fraser (Liberal)		
1976		Callaghan (Labour)	Carter (Democrat)
1977			
1978			
1979		Thatcher (Conserv.)	
1980			Reagan (Republican)
1981			
1982			

At this point I would simply draw attention to the fact that the Australian Labour Party (ALP) location on the time scale is late compared to the incidence of reformist governments in the United States and Britain. It is also very short-lived and surrounded by increasingly conservative administrations within its universe of political allies and key trading partners.

One of the main reasons why the Whitlam government may be described as perhaps the most significant political event for Australia within the general period under study is because of the nature of the reforms undertaken in that government and the political crisis which those reforms precipitated. For these reasons the Whitlam years will serve as our entry into the general analysis of Australia's political economy of the 1966-1982 general period.

The Whitlam Reformation

A key characteristic of the Whitlam government was its reaction to the conservative political regime which oversaw the post-war years of sustained and modernizing prosperity in Australia. The most immediate precedent to the brief tenure of the Whitlam government and the focal point of Whitlam's reforms was the decade immediately preceding the crucial 1972 election. At that time Robert Menzies had been guiding the Liberal/NCP coalition governments since 1949, having served previously as a Liberal prime minister in 1939-1941. As a legendary Liberal leader he

was able to maintain politically conservative orthodoxy in government without serious challenge until the 1961 election. At that time the ALP began its eleven-year ascent to government with the first serious challenge to conservative rule. The House of Representatives election results for 1961 gave the ALP 60 seats, against the Liberal's 45 seats, and the National Country Party's 17. (The first preference vote percentages were: ALP, 47.9%; Lib, 33.6%; and NCP, 8.5%)¹¹² Between 1961 and 1972 the electoral fortunes of the ALP dipped and rose again, but the erosion of Liberal Party discipline seemed inexorable.¹¹³ Although the ALP was unsuccessful in winning government, the seriousness of its challenge registered an impact which eventually brought down nearly two and a half decades of conservative political hegemony in Australia in 1972.

It may also be true that the prosperity of the long boom enhanced the development of a politically sophisticated electorate, who were ready to discard the benevolent despotism of Menzies-rule for modern liberal politics. The appeal of Whitlam's ALP may be seen as a combination of middle-class urbanity and righteous national dissent from US/Vietnam entanglements, racism, and a threat to national identity which an economic client status vis-à-vis the US posed.¹¹⁴ Class polarization seemed less an explanation for the victory of traditional Labour Party values than did the appearance of the Liberal/NCP coalition as an anachronism.

The anachronistic character of the Menzies/Liberal era can be summarized by briefly examining the decade of the Menzies legacy, 1961-1971. During those years five prime ministers, including Menzies, and five conservative governments, gradually let contemporary events outstrip them. The beginning of the decade saw balance of payments problems emerging, due to the huge inflow of investment capital, and the beginnings of the wage/price spiral which reflected labour shortages in key industries such as construction. Contractionary policies were enacted by the Menzies government under the Treasurer, Harold Holt, and while they were able to influence the rates of inflation, they also alerted the general population to the emerging problems and disciplinary reactions which were to become standard fare in the late 1970s, in spite of an intervening period of boom prosperity. Between 1961 and 1965, when Menzies was forced to retire due to ill health, Australia was able to reap the fruits of a prosperity which had reached a peak in 1963. Those years promised accommodation to emerging demands for increased welfare-state security. For example, the government was seemingly predisposed to support reforms in education with the extension of subsidies to independent educational institutions. (Although these subsidies were, in fact, the conservatives' method of competing for the Catholic vote through government funding of the cost of private religious education. The emerging importance of the right-wing Catholic, Democratic Labour Party (DLP) confirmed the wisdom of Menzies' accommodation

in this respect and promoted the split in the Catholic vote on ideological grounds which disabled the ALP from the mid-1960s to the early-1970s.¹¹⁶

It was in foreign policy, however, that the conservative coalition appeared most anachronistic. While it may have been relatively inoffensive to show deference to the "mother country" of England in the past, the new circumstances which involved a shift into the American hegemonic sphere made obsequiousness to the Americans a matter of humiliation rather than respect. Both the terms and style of integration into the American orbit were vastly different from what had obtained before. Purse strings rather than heart strings described the terms of integration, and the regal style of British monarchical patronage was absent in the overlordship of American dominance. Menzies' own personality was oriented to Crown deference. When his successors, Holt and Gorton tried the same style regarding the United States, they appeared as lackeys rather than as allies.¹¹⁶ Under Whitlam, Australia would learn to overcome colonial deference. The object lesson would be Vietnam, and its expression, Australia's relations with Indonesia and the newly-formed governments of Malaysia and Singapore.

Whitlam needed to overcome the Menzies legacy of domestic economic caution and international marginality (carried forward with only slight modification by Harold

Holt and John Gorton) in at least two ways in order to make legitimate its claim for an ALP ascendancy in the future. Firstly, it had to claim for itself the true voice of an emerging Australian identity. Like bourgeois parties everywhere it had to universalize its appeal. (This is sometimes referred to as capturing the "middle ground" within the electorate; in fact it is redefining the terms of consensus or "middle ground".) Secondly, it had to exert a national authority which would give Australia a credible standing within the international political arena so as to enhance Australia's position within the international marketplace. The first of these prerequisites was fulfilled in the domestic and social reforms which integrated emerging middle class concerns into the broad political vision of Australian politics. These were primarily reforms dealing with extended medical care, education, equal opportunity and labour practices. They established Australia as a modern welfare state whose identity could include enlightened social policy in domestic social relations. The second Whitlam orientation was, likewise a matter of national identity. It was geared to an international recognition based on Gough Whitlam's own charismatic and statesmanlike presence, and aimed at gaining some control over the terms of Australia's global integration. Because Australia was moving rapidly out of the sphere of a deteriorating British empire, it was imperative that Australia establish itself as a nation of credible international stature. It was also timely to exploit Australia's unique position in the Pacific

Basin and to ensure that regional integration buttressed international integration.

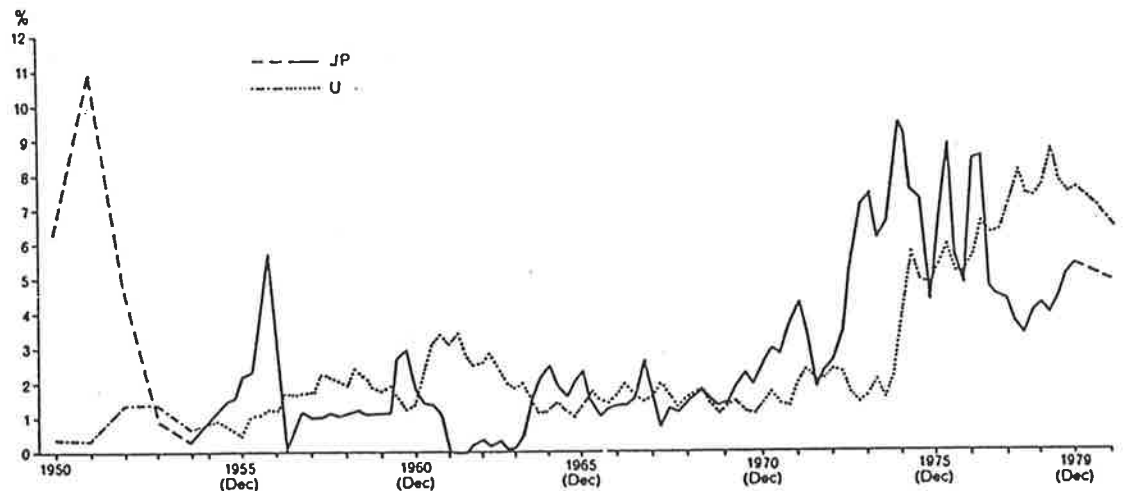
The two prongs of the Whitlam reformation were thus never a question of radical disjuncture with the past nor with Australia's traditional political identity within the international context. Rather, the Whitlam strategy was to refine and modernize traditional political cultural commitments to an egalitarian society, and to push Australia's desire to be recognized as a nation of regional importance and international credibility. It was the second aim which seemed to prompt the most virulent reaction from conservative factions within and outside the country.

The rebuttal to the Menzies/Liberal era which Gough Whitlam represented was a matter of political economy given the emerging international capitalist crisis discussed in Chapters Two and Three. When the Senate precipitated a constitutional crisis by blocking supply in 1975 over the trivial question of whether the government Minister for Energy and Mines, R.F.X. "Rex" Connor ("the Strangler"), was actually guilty of impropriety regarding the acquisition of loans for a government "buy-back" of Australian mining interests,¹¹⁵ the underlying tensions were macroeconomic. They revealed the political vulnerability of any government which ignores the fundamental problem for capitalism of rising inflation, and the requirement of bourgeois constitutions to give priority to that problem in the

framing of political agendas, whether or not reformers, even those in government, desire such priority. (This point is discussed further in Chapter 6.)

The incidence of "stagflation" in Australia coincides with that incidence in both the United States and Britain, emerging roughly in about 1968. Stagflation kept gaining until 1977, when global recession and domestic contractionary policies managed inflation but left unemployment to rise in a volatile but certain path until 1980. Figure 4.6 charts the path of Australia's unemployment/inflation trade-off for three decades. For two-thirds of the time a traditional unemployment/price trade-off can be recognized.

Figure 4.6
 Australian Unemployment/Inflation Trade-Off, 1955-1979



(Source: Benjamin Higgins, The Postwar Trade Cycle as Shifting Trade-Off Curves: The Case of Australia [Canberra: The centre for Research on Federal Financial Relations, the Australian National University, 1985], Figure 3, p. 11)

Likewise, the statistical and comparative figure annexes in Chapter Three of the present work confirm the government's vulnerability (Figures 3.19' to 3.25'). The volatile decline in GDP growth for Australia from an average rate of over 6% in the five years prior to 1972 averaged only 3.6% during the next four years (1972, 3.7% annual change; 1973, 5.5%; 1974, 1.9%; and 1975, 2.4%). As growth declined, unemployment was held steady during the Whitlam years, however. The rate hovered around 2.5%, and did not reach the accelerating pace of nearly 10% until the end of the period under study. The Fraser government

undertook to solve the inflation problem from 1975 forward. Inflation rates under Whitlam, however, nearly tripled during his government's tenure, from a 5.8% rate in 1972 to a 15% rate by 1975. The fact that consumer prices behaved in the same way in both the United States and Britain, under nominally more conservative governments (see Figure 4.5), has been lost on some Australian commentators.¹¹⁷ Nor were the other two nations undertaking the long-overdue social reforms of the Whitlam years. Government expenditure committed to education, health and social security rose while expenditure committed to defense and general public expenditure fell. (See Figure 3.24' in the Chapter 3 annex). Nevertheless, inflation became the focal point of criticism and as in both the United States and Britain was the signal for ideological division.

Inflation and Investment in Australia

In the rest of this chapter it is argued that the Whitlam years clarified the terms of economism in Australia by shedding the anachronistic rule of the Menzies/Liberal era and replacing it with a government by consensus. That consensus, however, is constrained to the fundamental social aim of providing domestic and international economic security as recognized by modern welfare states. During the Whitlam years, domestic security required the building of a new infrastructure of social supports, e.g., medicine, education, and equal opportunity. These were long overdue

extensions of class accommodation rather than the fruits of class conflict in Australia. It is interesting to follow the government social expenditure data during the Fraser years and to notice that there is no retrenchment of those fundamental reforms.

The costs of international economic security in the new economic order of post-Bretton Woods and trade-realignment however, were stringent. A primary cost of international economic security was a correct position vis-à-vis Australia's new hegemonic ally, the United States of America. It included a position of domestic economic discipline, borders open for investment, cooperation with the US in the military defense of both the region and the globe, and financial integration with an American dominated banking and finance system. The first of these two "costs" are interrelated in important ways for Australia and will occupy the remainder of our attention. It is the interaction of these two security prerequisites which give Australia its unique expression of economism, but one which, nevertheless, supports the general analysis of this thesis that relative state autonomy declines in circumstances of prolonged economic crisis.

Supply-side economic policies and monetary discipline have been used in Britain and to a lesser although significant extent in the US, as strategies designed to cope with their structural decline. Similarly, Australia has had

to design economic strategies to cope with that international and system decline which revolves around supply. The difference is that Australia's "suppliers" of the capital fund exist outside its national borders and indeed across the seas. While supply has always been a ubiquitous part of Australia's overseas economic policy orientation, the terms of that orientation have changed and deepened as a result of the global finance and trade realignments discussed in Chapter Two. It is to the nature of that external supply-side economics which we now turn.

Controlling Foreign Investment

Australia's different economic composition has already been reviewed in the previous chapter. Those structural differences provide a measure of the openness of the Australian economy which is responsive to market fluctuation of commodity prices and inflationary stimuli arising from the increased cost of imports required to maintain economic development and a mixed economic composition. By itself, this openness would entail a rather significant measure of "economistic" policymaking by national governments. That is, in order to satisfy the requirements for competitive positions vis-à-vis the international market given the export-reliance of Australia's economy, and to attract investment funds for long-term development rather than for merely speculative purposes, Australia must demonstrate constraint and economic responsibility. Therefore to recall the definition of economism given at the outset of this

chapter, the Australian economy must, almost by definition as a small capitalist open economy, fulfill the last two terms of that threefold definition: it must give primacy to economic concerns, and it must institutionalize economic discipline. Indeed, some of Australia's unique economic institutions, such as the Arbitration Commission,¹¹⁸ fulfill the requirement for predictable and coordinated economic policymaking. But, at the same time, Australia has not been formerly characterized by the first terms of the definition of economism. That is, Australia has not been a society which repudiates fundamentally different class aims in its political constitution. The political parties have been traditionally well-defined on class-related issues¹¹⁹ and the preemption of political debate around class issues as occurs in more liberal "pluralistic" societies such as the United States does not seem to have occurred in Australia until recently. While State politics have been the loci for these debates, it is also true that the ALP in opposition was traditionally a voice of the working class, if occasionally speaking in somewhat muted tones. Since the chastising experience of the 1975 constitutional crisis, however, and the greater chastisement of the late 1970s depression, the final imperative of economism has entered the Australian economic calculus: the repudiation of class politics. Crisis has induced Australia to move into a formally economistic position of economic policymaking. This assertion will be examined by looking at foreign investment policy in Australia during the Whitlam government and in

subsequent years.

The foreign investment capital most pertinent to the present discussion of the Whitlam and immediately precedent years is American and British.¹²⁰ For the sake of focus, the following discussion will concentrate on American investment capital. The history of American foreign investment in Australia begins in the immediately post-war years when, D.L. Cuddy reports, investments opened at about \$8 million in US-financed and branch manufacturing companies. It continues through to 1972, when American investment was dominant, accounting for over 50% of all foreign investments and was concentrated in high-growth areas.¹²⁰ Encouragement of US investment was boosted in the post-war years by such inducements as the 1953 United States-Australian Tax Treaty, which eliminated double taxation for overseas investors. By 1955 US per annum investments equalled those of Britain and by 1959 the rate of US investment accelerated to double that of any other previous five-year period in Australia.¹²² By 1967 American investment in Australian manufacturing reached 27% of all Australian manufacturing.¹²³ Along with investment penetration, however, came an outflow of capital wealth as profits in foreign-owned companies soared beyond those of Australian companies. The first murmurings of investment controls were being heard during the 1950s but remained unheeded until the Whitlam government's resolve to address the problem.

The dimensions of American investment in Australia in the seventies were very large and concentrated in three areas: automobile manufacturing, minerals and land. As of 1978, Australia was the chief investment target for American dollars in the Pacific basin and ranked seventh worldwide as a recipient of American investment, with Canada, the UK, Germany, Bermuda and Brazil ahead of Australia. According to 1978 American Chamber of Commerce figures, Australia showed a cumulative US private investment of \$6.4 billion.¹²⁴ While most of the investment share went to manufacturing, particularly in the chemicals area (45.2% share of total investment for manufacturing), smelting and mining received a 20.2% share.

The size and scope of foreign investment had been of increasing concern in the decade preceding the Whitlam government. Both the Gorton and McMahon governments expressed concern about foreign investment,¹²⁵ and McEwen was the first to express Australia's concern as an intention to "buy back" the national "farm". But it was left to the Whitlam government to provide direct action regarding foreign investment. While it is the case that inflationary pressures were facing the Whitlam government from its beginning, it is also true that a commodity boom that would last to 1973 and then collapse with frightening rapidity allowed the government to pursue a radical course of reformation. Part of the reformation was formalization of the "buy back" Australia policy regarding foreign

investment. If the buy-back had been successful, the nature of Australian supply-side inducement would have changed and Australia's integration into the international economy of the capitalist crisis period from the mid-seventies forward would have changed in style if not in fundamental direction. Supply-side strategies which protect the home-front are different from those inducing foreign investment and controlling volatile capital flows. Australia's buy-back faltered when Malcom Fraser took government for the Liberal Party/National Country Party coalition in 1975 and altered the national view of foreign investment. A brief examination of Whitlam's attempts to secure supply by ensuring domestication of potential earnings through a reassertion of domestic ownership and control of Australia's national wealth in land and minerals follows.

Table 4.7 provides a profile of the context within which the Whitlam government was acting with regard to foreign investment, and for the years following.

Table 4.7
Foreign Control of Australia's Industry and Natural Resources

Industry	Year	Measure	Country (%)			
			USA	UK	Other foreign	Total foreign
Manufacturing	1972-73	Value added	13.1	16.2	5.0	34.3
		Employment	10.0	14.2	4.3	28.5
		Fixed capital exp.	14.7	17.3	10.0	42.0
Mining	1976-77	Value added	37.5	15.9	5.6	59.0
		Employment	17.8	18.9	5.8	42.5
		Fixed capital exp.	32.2	16.5	4.7	53.4
Mineral exploration	1975-76	Exploration expenditure	23.6	15.0	15.8	54.4
Petroleum exploration	1975-76	Exploration expenditure	34.1	36.7	3.6	74.4
Registered financial corporations	1976	Total assets	17.1	14.2	2.5	33.8
General insurance	1975-76	Premiums	2.7	26.0	9.1	37.8
Life insurance	1976	Investment income	2.8	17.7	8.7	29.2
		Premiums	1.7	13.2	3.8	18.7
Tourist accommodation	1973-74	Assets	0.8	10.9	2.4	14.1
		Total takings	0.7	1.2	2.3	4.3
Advertising agencies	1974-75	Value added	44.0	5.6	—	49.6
		Employment	41.0	6.4	—	47.4
Research and development expenditure	1976-77	Expenditure	23.5	21.2	7.5	52.3

Source: Australian Bureau of Statistics, various bulletins.

(Source: E. Wheelwright, "The Political Economy of Foreign Domination" in P.J. Lloyd (ed.), Mineral Economics in Australia [Sydney, George Allen & Unwin, 1984], p. 208, Table 17.1, p. 211.)

Australia is so heavily penetrated in key economic sectors that in 1977 the OECD ranked Australia as second in member countries for scope of transnational penetration, taking into account all sectors.¹²⁶ Ted Wheelwright reports one estimate that puts 16% of Australian GDP and 22% of the private business sector as controlled by foreign investors.¹²⁸ Wheelwright also reports the very heavy

concentration of foreign control in the minerals sector, putting the total control at 59% of value-added. Moreover, this total has been rising from 1977, when Australia's competitor for first ranking in foreign penetration, Canada's has been falling. In the northern state of Queensland in Australia, Wheelwright reports that an astounding 84% of mining industry is under foreign control.¹²⁷

The minerals boom of the late 1960s was a magnet for accelerated capital inflows to Australia. The Whitlam government witnessed the peak of international interest in Australia as a huge mine to support the emerging minerals-import demands of Japan, and to a lesser extent Europe and the United States. Capital inflows are divided under the categories of direct investment (defined by the Australian Bureau of Statistics as inflows into branches of foreign companies and investment by foreign companies which own 25% or more of voting stock in Australian enterprise), and portfolio investment/institutional loans.¹²⁹ The nature of capital inflows, while significant, does not however capture the phenomenon of increased foreign control over industrial activity in Australia. Strategic placement of investment funds can provide for control which is greater than the increment of ownership through capital investment might indicate. If concerns over ownership were beginning to surface in the-late 1960s, early-1970s, concerns over control should have been much more serious. Table 4.8

indicates the rise in increments of both foreign ownership and foreign control which evolved from the mid-1960s through the 1970s in the minerals industry.

Table 4.8
Foreign Control and Ownership in Australia, 1963-1977
Percentage of Value-Added

Year	All mining			Foreign control	Metallic minerals		Coal, crude petroleum and natural gas		Construction materials		Other non-metallic minerals	
	Foreign Ownership		Total		Foreign o'ship	Foreign control	Foreign o'ship	Foreign control	Foreign o'ship	Foreign control	Foreign o'ship	Foreign control
	Direct	Other										
1963	27.1	n.a.	n.a.	36.8	n.a.	n.a.	n.a.	n.a.	b	b	b	b
1964	30.0	n.a.	n.a.	39.1	52.8	n.a.	18.4	n.a.	b	b	19.7	n.a.
1965	34.0	n.a.	n.a.	44.6	57.7	n.a.	25.5	n.a.	b	b	25.1	n.a.
1966	37.6	n.a.	n.a.	49.8	62.1	n.a.	28.7	n.a.	b	b	27.5	n.a.
1967	40.9	n.a.	n.a.	52.9	64.9	n.a.	32.5	n.a.	b	b	28.5	n.a.
1968	44.0	n.a.	n.a.	58.1	68.7	n.a.	39.7	n.a.	b	b	28.6	n.a.
1971-72	36.2	12.5	48.7	55.0	53.4	52.8	51.1	68.2	7.7	1.0	22.2	22.2
1972-73	37.6	12.0	49.6	57.7	52.3	54.2	54.0	71.4	7.5	1.9	32.4	32.4
1973-74	38.0	11.7	49.8	60.2	50.8	56.4	55.8	74.5	8.3	2.1	37.4	42.8
1974-75	40.9	10.9	51.8	60.1	49.8	52.2	59.6	73.0	7.6	2.8	44.1	52.6
1976-77	n.a.	n.a.	n.a.	59.0	n.a.	56.4	n.a.	67.4	n.a.	3.1	n.a.	44.8

Notes: ^a Value of production in 1964-68 data.
^b Not included in 1964-68 data.

Source: Australian Bureau of Statistics, *Overseas Participation in Australian Mining Industry*, No. 4, 1968;
Australian Bureau of Statistics, *Foreign Ownership and Control of the Mining Industry, 1973-74 and 1974-75*;
Australian Bureau of Statistics, *Foreign Control in the Mining Industry, 1976-77*.

(Source: G.D. McColl, "Foreign Investment in Australian Mining", in P.J. Lloyd. Mineral Economics in Australia [George Allen & Unwin, 1984], p. 176, Table 16.2, p. 184)

Tables 4.7 and 4.8 provide evidence supporting the Whitlam governments reservations about foreign investment and help to explain the seriousness of the resolve to stem the tide of foreign ownership and control of Australia. The timeliness of the Whitlam policies appeared fortuitous and echoed the comments of the previous government's prime minister, McMahon, months before the December 1972 ALP victory at the polls: "We can afford now to trade off, at the margin, some of the benefits of overseas capital for a greater Australian share in our industry and resources ... without frightening off overseas capital."¹³⁰ The Whitlam

Labour policy was swift and decisive. In early 1973 the government initiated policies to control foreign investment in real estate, non-bank financial institutions, insurance and energy minerals. The policy initiatives were supported by strong and unambiguous statements by Gough Whitlam, the most spectacular of which seems to have been his statement to the Australia-Japan Ministerial Committee in Tokyo, on 29 October 1973. Whitlam committed his government to establishing 100% Australian ownership in energy minerals, of which uranium would be the most significant. Oil and coal would also become nationally-owned and controlled. Whitlam welcomed future overseas participation in development of Australia's resources through technology transfer and loans and the participation of limited equity capital in non-energy related minerals exploitation. Whitlam also implied that high-risk exploration in the energy minerals would tolerate some foreign participation. These aims seemed to reflect a radical reformation of Australia's posture toward foreign investment, and the use of mineral resources to create a national identity for Australia, which claimed independence and integrity in the use of its own natural wealth in minerals and other resources.

The institutional reform in regulating foreign investment involved a screening process for the scrutiny of investment proposals under the newly-formed Foreign Investment Committee. That committee was an expansion and implementation of the McMahon government's November 1972

legislation establishing a screening process under the Companies Foreign Takeovers Act. Under the original act, a national interest test was used to evaluate the propriety of any given takeover of control defined as a shift from resident to foreign status. The definition of control was deemed control of 15% of voting stock for an individual person or 40% of the voting stock for a foreign corporation or two or more foreign persons.¹³¹ The Australian Treasurer, under the original Act, would discern the matter of national interest on a case-by-case basis and with guidelines determined by the Treasurer. The broad guidelines for national interest included: "net economic benefits" regarding production, prices, quality of production, efficiency, and technological development as a trade-off for foreign takeover defined in the control criteria above. These were threshold criteria of national interest. Once the threshold criteria were met, the takeover proposal would then be assessed for its impact upon import/export ratios, research development and industrial relations, and regional development.¹³² (The administration of the Act under Whitlam would be much the initial legislation and implementation had prescribed. That is, the Foreign Investment Committee would be an interdepartmental Committee, like its predecessor, the Committee on Foreign Takeovers, which did not enjoy an independent status, and would advise the Treasurer on reactions to takeover proposals.)

Existing minerals exploration was to also to come under

a more formalized scrutiny. In the field of uranium mining, for example, a compulsory joint venture scheme was announced by the Minister for Minerals and Energy, Rex Connor, which would ensure that the Australian Atomic Energy Commission (AEC) participated in uranium mining in the northern territories where foreign involvement was significant. Exploration activity in uranium mining would, furthermore, become the sole reserve of the AEC.

Whitlam refined the guidelines for foreign investment in minerals beyond the initial McMahon pronouncements. He aimed to move to a state of national affairs where "ultimate responsibility for the exploration, development and processing of minerals must rest with Australians."¹³³ The specific manner and timing of this movement was not forthcoming, however, and appeared designed to afford the government the greatest latitude and strategic advantage in room to manoeuvre vis-a-vis the anticipated intransigence of both foreign and domestic minerals owners. In 1974 the government's stand was toughened with the Treasurer's declaration that the government's new proposed takeover legislation would treat mineral rights as an asset and hence subject to review, and would treat transfers of control among foreign interests as though they were transfers between Australians and foreign interests. The level of scrutiny was clearly being raised, and promising exposure of the circuits of foreign penetration into the Australian minerals industry.¹³⁴

The formal articulation of the government's position on foreign investment was issued on 24 September 1975, only months before the constitutional crisis which brought down the Whitlam government and which, as noted earlier, involved the Minister for Minerals and Energy, Rex Connor. The Foreign Investment Policy sought to establish a Foreign Investment Advisory Committee comprised of members from Treasury, the Attorney General's Department, and the Departments of Minerals and Energy, Overseas Trade, Cabinet, and Manufacturing Industry, as well as a representative from the Reserve Bank. The Committee would scrutinize takeover proposals under the criteria set forth in the 1975 Foreign Takeovers Act (passed on 21 August 1975). The 15/40 rule stayed in place as the definition of a foreign interest in equity participation and exploration remained relatively uncontrolled. Guidelines for foreign involvement were specified and included: all new uranium mines were to be 100% Australian owned and a 50/50 rule applied to foreign participation in all other minerals fields. That is, neither foreign ownership nor votes on boards of directors in developing corporations could exceed 50%. Corporate expansion in mining and real estate would be screened automatically and proposed expansion in all other fields which exceeded 15% of the companies' total assets in a 12 month period before the proposed expansion, would also be screened (foreign expansion initiatives for less than \$1 million per 12 month period would however be exempt from review). Finally, the special areas of non-bank financial

institutions, insurance, real estate, and certain minerals ventures would be treated differently and subject to traditional controls, for example, broadcasting and banking where restrictions were well articulated.¹³⁵

The Whitlam Labour government did not abandon the traditional Labour Party stance toward investment in so far as it maintained the assumption that foreign investment was not, by definition, a harmful exploitation of Australia's national wealth. The Labour government merely sought to regulate foreign investment in a more formal manner than previously. On a scale of radical approaches to the incidence of foreign investment, the Whitlam government could be characterized as moderately liberal and its proposal for regulation and reform never expressed the left-radical notions of, for example, the nationalization of the country's resources or a primary direction by government of resource exploration and exploitation. Labour Party policy has traditionally balanced the costs and benefits of foreign investment in terms of national discretion in the use and pricing of resources against an incremental loss of discretion as a trade-off for technology transfer and the encouragement of venture capital from overseas.¹³⁶ In other words, the Labour Party has, in general, not expressed concern about imperialism, although it has been a voice for Australian nationalism in foreign investment policymaking. The external context in which the Whitlam government moved toward formalization of regulatory controls was the late

sixties minerals boom. The apparent prosperity which this promised for Australia could be seen as a fortuitous boost to national development. It was consistent with an open economy's need to gain international market opportunity in good times. The Fraser government turn-around, on the other hand, while no doubt characterized by a Liberal Party predilection for private entrepreneurship, can be aptly described as an expression of economism in an acute economic downturn which reflected the post-1973 global recession.

The Fraser 'Open Door'

The question of whether the Liberal/NCP coalition government (hereafter, "Coalition") elected in 1975 revised the policy stance constraining foreign investment in Australia is confused by two circumstances: 1) the Coalition's position encapsulated in the Treasurer's statement of 1 April 1976 pledges fidelity to the principles of the Whitlam government's screening procedures,¹³⁸ and 2) the Whitlam Government's legacy despite administration of more formalized screening procedures is mixed. While it is true that overall investment declined (and this may be attributable to factors other than policy impact), it is also true that investment in fuel minerals steadily increased.

The Coalition Treasurer's statement referred to above was not altogether vacuous. During the Fraser government

years 1979-1982, for example, all new minerals projects followed the 50% equity rule. If the Coalition's expressed position on foreign investment can be taken at face value, that government, too, resolved to enforce regulation procedures for foreign investment proposals. Regarding the Whitlam legacy, Tables 4.9 and 4.10 suggest that foreign ownership was differentially accelerated in minerals during the Labour government of 1972-1975, and foreign control grew in other minerals sectors.

Table 4.9
Foreign Ownership in Australian Minerals Sectors
1971-1975

<i>Mineral Sector</i>	<i>1971-2</i>	<i>1972-3</i>	<i>1973-4</i>	<i>1974-5</i>
Bauxite	67.7	68.0	n.a.	n.a.
Copper	52.7	51.2	n.a.	n.a.
Iron ore	59.9	61.1	57.6	55.1
Mineral sands	56.7	47.6	39.6	37.3
Nickel	36.8	35.6	n.a.	n.a.
Silver-lead-zinc	52.0	n.a.	48.1	49.3
Tin	29.2	34.6	34.2	37.3
Black Coal	33.0	39.0	53.4	62.1
Petroleum	n.a.	61.0	58.0	^b 55.8 ^b
Natural gas	n.a.	63.7		
Uranium	n.a.	23.0	23.0	23.0

Source: Donald W. Barnett, *Minerals and Energy in Australia* (Sydney: Cassell Australia, 1979), p. 293.

(a) Foreign ownership is measured as the proportion of value added attributable to foreign equity holders.

(b) Includes brown coal that is 100 per cent Australian owned.

(Source: David L. Anderson, Foreign Control in the Mining Sector: Comparisons of Australian and Canadian Experience [Canberra: Centre for Resource and Environmental Studies, CRES Monograph 10, 1983], Table 10, p. 77)

The increase in foreign investment in minerals is mixed

in different minerals sectors, but in the energy-important sector of coal, there is a remarkable increase of nearly 30 percentage points, from the 1971-1972 register of 33.0% to the 1974-1975 register of 62.1%. Table 4.10 shows steady rates of increase in all minerals categories for foreign control during the Whitlam years.

Table 4.10
Foreign Control in Australian Minerals Sectors
1963-1975

Year	Metalic Minerals	Fuel Minerals	Other Minerals	All Mining
1963	53.6	15.5	19.2	36.8
1964	52.8	18.4	19.7	39.1
1965	57.7	25.5	25.1	44.6
1966	62.1	28.7	27.5	49.8
1967	64.9	32.5	28.5	52.9
1968	68.8	39.7	28.6	58.1
1971-2	52.8	68.2	5.3	55.0
1972-3	54.2	71.4	9.5	57.7
1974-5	56.4	74.5	12.6	60.2

Source: Donald W. Barnett, *Minerals and Energy in Australia* (Sydney: Cassell Australia, 1979), p. 234.

(a) The Australian Bureau of Statistics definition of control is utilized: an operation is considered to be entirely under foreign control if the foreign direct ownership exceeds 50 per cent, or if direct ownership by a foreign entity exceeds 25 per cent and there is no Australian parent company holding a greater equity interest in the venture.

(Source: David L. Anderson, Foreign Control in the Mining Sector: Comparisons of Australian and Canadian Experience [Canberra: Centre for Resource and Environmental Studies, CRES Monograph 10, 1983], Table 11, p. 78)

An important institutional expression of the Coalition's posture toward foreign investment was the creation of the Foreign Investment Review Board (FIRB) in 1976. That Board replaced the Foreign Investment Advisory Committee and was charged with investigating proposals for foreign investment under guidelines roughly consistent with the Whitlam government's guidelines. Changes included a drop

in the 100% Australian equity rule for uranium to 75% Australian equity for projects not already in production, and a loosening of the 50/50 rule to allow the ratios of Australian equity and voting to be achieved progressively rather than constituting an immediate threshold criteria for approval of proposals. McColl reports that during the years 1976-1981, of some 5,750 proposals reviewed by the Foreign Investment Review Board for approval, fewer than 2% were rejected.¹³⁷ The Board was also charged with expanded public relations functions in the formal explication of its functions by the Treasurer, Mr. Phillip Lynch.¹³⁸ This was in keeping with the Coalition's ideas about the importance of investment inducement, as opposed to control, and demonstrates the supply-side concerns operating with regard to foreign investment. More interestingly, the FIRB enjoyed a revised administrative status in so far as it was not a dependent inter-departmental committee, as its predecessor had been, but a quasi-independent board.¹³⁹ The FIRB is staffed with three people (although an upper limit of five is possible), two of whom are usually retired business executives, and an Executive Member who heads the Board's secretariat. This institutional effort to boost business confidence follows the economism of supply-side inducement and provides not so much an "open door" as "bed and breakfast" for overseas investors.

What is interesting about the evolution of the FIRB in terms of the discussion at hand is that the Coalition

government clearly was able to strengthen its administrative position regarding investment following the regulatory mechanisms which had been set up under Whitlam. But the exercise of government discretion has been anything but an expression of increasing relative autonomy of the state regarding business interests, in the case of the FIRB. The strength of the government's position has not led to increased mediation of class concerns regarding, in this case, the future of Australia's national resources. Rather, the strength of the government's administrative apparatus and discretionary position regarding foreign investment is predicated upon decreased autonomy which is, itself, a result of economic crisis.

The evolution of the FIRB is a good expression of the economism of a small open economy like Australia in the manner in which it meets the three definitional criteria for economism: repudiation of conflict (the "bipartisan approach" in minerals politics); the reduction of politics to economics (supply-inducement as opposed to supply-control); and the institutionalization of economic policymaking (viz., the FIRB).

The actual levels of foreign investment under the Fraser government are somewhat difficult to assess since the Coalition in June 1978 directed the Australian Bureau of Statistics (ABS) to cease collection and publication of data on foreign ownership.¹⁴⁰ Nevertheless, there exists prima

facie evidence to support both the acceleration of mining and general foreign investment after Whitlam and to support the relaxation of threshold measures for the foreign interest/national interest criteria used in screening proposals for takeovers.¹⁴¹

Regarding the first set of evidence, Tables 4.11 and 4.12 for the Fraser years indicate that increases in foreign investment accelerated significantly, and that they remain focussed in the minerals sectors.

Table 4.11
Foreign Investment Proposals in Australia,
Total Expected Investment in \$A million,
1976-1982

	1976-77 ^a	1977-78	1978-79	1979-80	1980-81	1981-82
Approved without Conditions	2,310	783	1,108	1,439	1,585	2,021
Conditionally Approved	1,263	2,208	2,413	4,369	5,033	3,426
Total Approved	3,603	2,991	3,521	5,808	6,618	5,447
Rejected	56	11	352	488	510	166
Total Decided	3,659	3,002	3,873	6,296	7,128	5,613

Source: Foreign Investment Review Board, *1982 Report* (Canberra: Australian Government Publishing Service, 1982), p.82.

(a) April 1976 to June 1977.

(Source: David L. Anderson, Foreign Control in the Mining Sector: Comparisons of Australian and Canadian Experience [Canberra: Centre for Resource and Environmental Studies, CRES Monograph 10, 1983], Table 16, p. 124)

Not only are projects focused in the minerals sectors, but they are heavily weighted in new businesses (mines) rather

than in existing mines (Table 4.12)

Table 4.12
Foreign Investment Proposals in Australia,
Focus on Minerals Exploration and Development,
Total Expected Expenditure in \$A million,
and Percentage of Total
1976-1982

	1976-77		1977-78		1978-79		1979-80		1980-81		1981-82	
	\$m	% ^a	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%
Acquisitions	651.0	60.0	N/A	N/A	396.5	21.7	827.4	34.8	1,233.0	30.9	590.6	17.7
New Businesses	2,176.0	96.5	1,073.5	59.1	715.5	48.8	2,384.7	69.6	1,372.4	52.3	1,532.0	72.3
All Proposals	2,827.0	78.5	N/A	N/A	1,112.0	31.6	3,212.1	55.3	2,605.4	39.4	2,122.6	39.0

Source: Derived from Foreign Investment Review Board, *Annual Report* (Canberra; Australian Government Publishing Service, various years).

a) Mineral exploration and development expected expenditure as a percentage of total expected expenditures across all sectors of the economy.

(Source: David L. Anderson, Foreign Control in the Mining Sector: Comparisons of Australian and Canadian Experience [Canberra: Centre for Resource and Environmental Studies, CRES Monograph 10, 1983], Table 17, p. 125)

The second set of evidence relates to the relaxation of criteria defining a foreign interest/national interest test during the Fraser years. In the first place, while employing the 50/50 rule for equity and voting allows those companies meeting the rule virtually automatic approval for proposals, it is not the case that failure to meet the rule brings rejection of the proposal. A proposal not blatantly contrary to national interest and promising progress toward the 50% equity mark prior to commercial production would bring approval in most cases.¹⁴² There also existed under the Fraser government a flexibility of guidelines particularly regulating uranium mining. As noted above, the 100%

Australian ownership rule which existed during the Whitlam years was dropped to 75% in the Coalition government years. There was also an elimination of review for expansion proposals for ongoing mines given that expansions were for ongoing operations and not seeking to establish new ventures. Further relaxation came in general minerals sectors mining, where a flexible rule was introduced by Fraser allowing companies that were 25% Australian owned to gain approval if they promised to move toward 51% equity ownership. Approval allowed expansion and movement into joint ventures with fully Australian firms or other firms possessing such a transitional status (termed "naturalizing").

The flexibility and discretion introduced by the Fraser government was designed to foster a good investment climate for foreign funds. The benefits of such a congenial climate would be development stimuli and national credibility vis-a-vis international investment capital. The diseconomies of such a position are many and much discussed and can only be briefly summarized here. The absorption of Australian labour, capital and resources as part of the flow of foreign investment has obviously diverted the use of Australian national resources from alternative projects.¹⁴³ Harnessing and taming foreign investment may or may not be futile, but it is certainly the case that governments expend time, attention, money and national commitment in their efforts to deal with the massive amounts of capital inflow which can

threaten to destabilize a domestic economy. Even a defensive posture toward foreign investment deflects decision makers from alternative social and political projects. Thus the very incidence of foreign investment has the potential to preempt many other national concerns.

At a more concrete level, the absorption of domestic capital and credit is substantial. It is reported that in the days prior to the Whitlam regulation, foreign mining investors raised more than \$A620 million in loans and \$A670 million in equity in Australia.¹⁴⁴ It has also been the case that Australian equity capital has yielded relatively uneconomic returns. Since Australian capital subscribes late in the development process for ventures, it receives lower returns on equity subscriptions than foreign investors who subscribe early and hence are possibly contributing to diseconomy in a misallocation of indigenous capital resources.¹⁴⁵ There is also the problem of transfer pricing, which cannot be dealt with at length here, but which implies that pricing policies controlled by absent capital have devalued the received money value of resources to a greater extent than what might be experienced in smaller and less efficient mining operations which, if fully national, might be more canny in the marketplace. Finally there is the general national demoralization which dependent accommodation brings through reliance on supply-side inducement of foreign investment.

This focus upon Australian policy toward foreign investment has been chosen as one example of an economic policy orientation consistent with the characterization of the Australian economy presented in the previous chapter. Domestic policymaking also mirrored the trend toward disciplinary economic policies similar to those described in both the United States and Britain, and it is certainly the Coalition government which would provide the best examples of such policies.

The trajectory of increased discipline; decreased state autonomy; centralization of the inflation problem as key to all economic problems and its use as a reduction away from politics; and the decision to jettison employment strategies have been as much a part of Australian policy making as in the comparison nations. In choosing the foreign investment example I want to indicate that the supply-orientation in policymaking, whether domestic or international, has usurped political debate in such a way as to empower the capitalist state but only in a manner predicated on decreased state autonomy. This is neither paradox nor irony, but a graphic display of the manner in which contradictions inherent in the economic production of the capitalist system determine the character of the capitalist state in times of economic crisis.

Conclusion

The three empirical chapters which have been presented here at the outset have provided profiles of global and national economic crises, and key examples of national policy responses to crisis. We find increasing coincidence of periodicity in economic patterns and ideological convergence in policy responses. I have suggested that these empirical observations present a strong case against the notion of the independence of government policies and hence against the idea of the capitalist state as evolving away from class control in times of crisis. State autonomy, from the empirical observation, decreases in times of economic crisis in the three comparative national cases under study. This is the case in spite of very different histories, sizes of national economies, and location vis-à-vis the international market. The comparative nations are also structured in very different ways and exhibit different kinds of political constitutions. Nevertheless, they display a congruence of economic and political development which can reasonably be attributed to the capitalist character of their respective systems and to the context of economic crisis which reached global proportions by the late 1960s. Part II of this thesis will explore the theoretical arguments opposing the notion of relative state autonomy.

Footnotes

¹The task of determining the correct level of direct proletarian involvement in the revolution and its aftermath occupies much of the writing and debates from the turn of the century to the twenties in revolutionary Russia. For Lenin, the argument against the Economists and German revisionists provides him an opportunity to formulate a theory of the correct level of involvement of the proletariat according to its capacity to overcome trade union consciousness. The earliest statement is found in the 1902 pamphlet, What Is To be Done? which criticises the spontaneity of an untutored workers' movement for its vulnerability to bourgeois ideology. It is to this weakness that the failure of a European revolutionary situation is attributed by Lenin. That the title of the pamphlet echoes Chernyshevsky's novel about the famous Russian revolutionaries of the seventies is an indication of the extent to which Lenin saw the necessity for strong organization as an adjunct of political activity. Without it exists "only trade union consciousness" which "means the ideological enslavement of the workers to the bourgeoisie".

Beyond this, Lenin consistently asserted, e.g., some eighteen years later, in The Trade Unions, the Present Situation, and the Mistakes of Comrade Trotsky, the precedence of politics over economics with the view that any reduction to economics would be an indication of revisionist tendencies. But neither could trade unions lead politics. Rather they should be considered "schools of administration, schools of management, schools of Communism".

In One Step Forward, Two steps Back which summarized the Menshevik/Bolshevik split of the Second Party Congress in London in 1903, the general outline of Party organization indicates the nature of politics under Party discipline. The 1905 Two Tactics of Social Democracy in the Democratic Revolution specifies the appropriate tactics which Lenin argued must be employed to exploit the historic impetus of the 1905-1907 bourgeois/democratic revolution in Russia, and especially the role of the proletariat. Lenin's anti-reductionist views are most clearly spelled out:

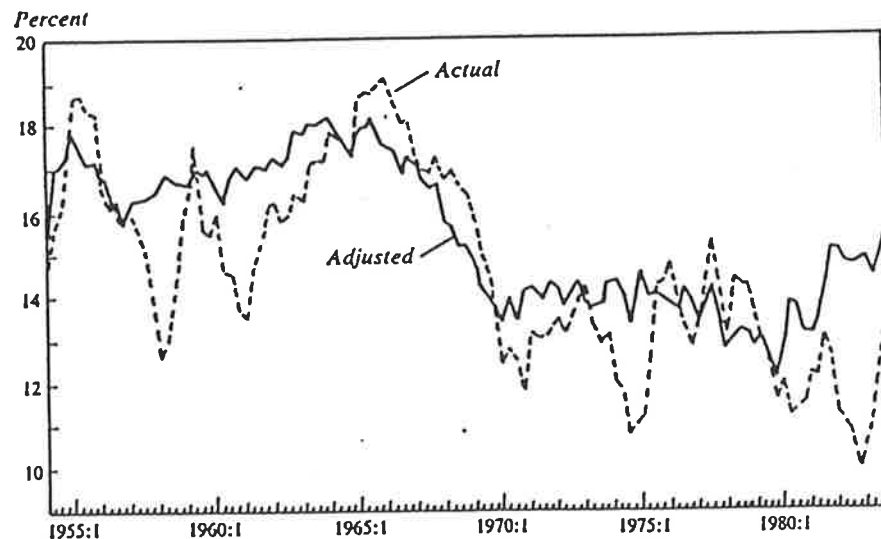
...the opponents of Economism ... did not forget the economic struggle; but they were able simultaneously to present the urgent and immediate political tasks in their full scope, and to oppose the transformation of the party of the workers into an 'economic' appendage of the bourgeoisie.

...The Social democrat who debases the tasks of the political struggle becomes transformed from a tribune of the people into a trade union secretary. The Social Democrat who debases the proletarian tasks in a democratic bourgeois revolution becomes transformed from a leader of the people's revolution into a mere leader of a free trade union. [emphasis added].

The definition of economism used in the present analysis is derived from Lenin's formulation but is adapted to an examination of capitalist rather than proletarian behavior. The focus is upon the reduction of historical possibilities which the constraints of an economic perspective brings about. In the present analysis, economism is considered a behavioural expression of actually reduced historical possibilities inherent in a circumstance of crisis rather than as mere ideology. It is symptomatic of actual crisis and a species of crisis-mentality. Policymakers interact with a given circumstance of crisis in a manner which deepens that crisis rather than "managing" it when they effect economic policies. This chapter examines the claims that economism can be exhibited by a class other than the proletariat, and that the terms of economism are applicable in policy analysis. The concept provides a rich analytical focus and is especially useful in comparative studies.

²Peter Clark, "Productivity and Profits in the 1980's: Are They Really Improving?". Brookings Papers On Economic Activity, 1 (1984), p. 133, see figure 3, p. 157.

Figure 4.a
Profits in the US
1955-1980



Source: Actual share from U.S. Bureau of Economic Analysis. Adjusted share calculated by using equation in second column of table 6 to remove estimated effects of business cycle, price controls, and first OPEC oil price shock.

The question of profit rates is much discussed in terms of how to measure rates and whether or not the decades since the 1960s have actually witnessed falling rates in major

capitalist economies. For a brief survey of representative opinion see, for example, Peter Erdos and Ferenc Molnar, "Profit and Paper Profit: Some Kaleckian Evolution", Journal of Post Keynesian Economics, 3/1 (Fall 1980), p. 3; William D. Nordhaus, "The Falling Share of Profits", Brookings Papers on Economic Activity (Washington, D.C.: Brookings Institution, 1974), p. 179; Fred Mosley, "The Rate of Surplus Value in the Postwar U.S. Economy: A Critique of Weiskopf's Estimates", Cambridge Journal of Economics, 9/1 (March 1985), p. 57; Victor Perlo, "The New Propaganda of Declining Profit Rates and Inadequate Investment", Review of Radical Political Economics, 8/3 (Fall 1976), p. 53; Jeffrey D. Sachs, "Wages, Profits, and Macroeconomic Adjustment: A Comparative Study", Brookings Papers on Economic Activity (Washington, D.C.: Brookings Institution), 2 (1979), p. 269; Willi Semmler, "Competition, Monopoly, and Differentials of Profits Rates: Theoretical Considerations and Empirical Evidence", Review of Radical Political Economy, 13/4 (Winter 1982), p. 39; E.N. Wolf, "The Rates of Surplus Value, the Organic Composition, and the General Rate of Profit in the U.S. Economy", American Economic Review (June 1979), p. 329.

³ Karl Marx, The Eighteenth Brumaire of Louis Bonaparte (New York: International Publishers, 1977), see especially chapter VII.

⁴ For partisan realignments see W.D. Burnham, "The Appearance and Disappearance of the American Voter", in R. Rose, Electoral Participation: A Comparative Analysis (London: Sage, 1980); Burnham, Critical Elections and the Mainsprings of American Politics (New York: Norton, 1970); Burnham, "The Changing Shape of the American Political Universe", American Political Science Review, 59/1 (1965), p. 7; Burnham, "Party Systems and the Political Process", in Burnham and W.N. Chambers, The American System: Stages of Political Development (New York: Oxford University Press, 1965); Edward S. Greenberg, The American Political System (Cambridge, Massachusetts: Winthrop Publishers, 1980); James L. Sundquist, "Whither The American Party System? - Revisited", Political Science Quarterly, 98/4 (Winter 1983 - 84), p. 573; and Sidney Verba, Norman Nie, and John Petrocik, The Changing American Voter (Cambridge, Massachusetts: Harvard University Press, 1976). For geographic realignments see Geoffrey Baraclough in a series of articles from 1980 published in New York Review of Books. New York.

⁵ For a thorough bibliography of political culture literature and evolving theory in the United States see, generally, the journal Telos from the mid-seventies. For a general orientation of the discussion originating outside the United States see, Raymond Williams, Culture and Society, Problems in Materialism and Culture: Selected Essays (New York: Schocken Press, 1981).

⁶American presidential election results for the period are as follows:

Table 4.a
 Presidential Election Results, US
 1968-1980

	Humphrey/Nixon		McGovern/Nixon		Carter/Ford		Carter/Reagan	
	D	R	D	R	D	R	D	R
	1968		1972		1976		1980	
popular vote %	42.7	43.4	37.5	60.7	50.1	48.0	41.0	50.7
electoral vote	191	301	17	520	297	240	49	489

⁷For the roots of America's failure in the Indochina War, whose tactical involvements during the Kennedy and Johnson administrations foreshadowed, step by step, the final defeat see, for example, David Halberstram, The Best and the Brightest (New York: Random House, 1972); Philip Caputo, A Rumor of War (New York: Holt, Rinehart & Winston, 1977).

⁸For "Watergate" events see, Senate Select Committee on Presidential Campaign Activities, The Watergate Hearings: Break-in and Cover-up: Proceedings. R.W. Apple, Jr. (ed.) (New York: Viking, 1973); The New York Times: The White House Transcripts: The Full Text of the 'Submission of Recorded Presidential Conversations to the Committee on the Judiciary of the House of Representatives by President Richard Nixon' (New York: Viking, 1974). For a broader, yet concise statement of the disgrace of the Nixon Presidency beyond Watergate and for which impeachment was constitutionally warranted, see, Godfrey Hodgson, All Things To All Men (London: Penguin Books, 1980), pp. 37-41.

⁹Gary Jacobson and William Crotty, American Parties in Decline (Boston: Little Brown, 1980) and James L. Sundquist, op. cit.

¹⁰For America's self-regard for Constitutional stability see, Theodore Lowi, The End of Liberalism, The Second Republic of the United States, 2nd Edition (New York: W.W. Norton & Company, 1979).

¹¹Robert Plotnick and Felicity Skidmore, Progress Against Poverty: A Review of the 1964-1974 Decade (New York: Anthem Press, 1975). For a statement of the aims of The War on Poverty see, Senate Committee on Labour and Public Welfare, The War on Poverty, Senate Document no. 86, 88th Congress, 2nd session (Washington, D.C.: Government Printing Office), and more generally, The Economic Opportunity Act of 1964. See also Francis Fox Piven and Richard Cloward, Regulating the Poor: The Functions of Public Welfare (New York: Pantheon, 1971).

¹²For further discussion, see, Charles Allan McCoy and Elaine McCoy, Contemporary ISMS; a Political Economy Perspective (New York: Franklin Watts, 1982), pp. 228-233.

¹³For a most aggressive defense of the notion of a minimalist state, see Robert Nozick, Anarchy, State, and Utopia (New York: Basic Books, 1974).

¹⁴Arthur M. Okin, The Political Economy of Prosperity (New York: W.W. Norton and Company, 1970), pp. 24-25. (A Brookings Institution study, copyrite held by Brookings).

¹⁵Theodore J. Lowi, The End of Liberalism, the Second Republic of the United States, op. cit., pp. 50-61.

¹⁶U.S. Bureau of the Census, Statistical Abstract of the United States 1985, 105th Edition. Washington, D.C., 1984, table 653, p. 39.

¹⁷See, for example Kevin Phillips. op. cit.

¹⁸Chapter 6 Annex: Comparative Historical Figures, 1967-1982, The United States, the United Kingdom, Australia. Section 1: Country Figures for the United States, Figure 3.1' and accompanying statistical table.

¹⁹Ibid., Figure 6.2'.

²⁰U.S. Bureau of the Census, Statistical Abstract of the United States: 1985. 105th edition, Washington, D.C., 1984, tables n. 653, and no. 680 through no. 687, pp. 390, and 406 - 409 respectively, and, Hal Sider, "Unemployment and Duration Incidence: 1968-1982", American Economic Review (June 1985), p. 461 especially table 3, p. 469.

²¹M. Kalecki, "Political Aspects of Full Employment", Political Quarterly (October/December 1943), p. 333.

²²W.D. Nordhaus, "The Political Business Cycle", Review of Economic Studies 42/130 (April 1975), p. 169. For a detailed discussion of the quantitative method see, W.D. Nordhaus, "The Political Business Cycle", Cowles Foundation Discussion Paper No. 333 (April 1972), and for mathematical representation of three possibilities of hypothetical responses of planners to establish optimal levels of unemployment and inflation as a medium term strategy for a mixed economy, see pp. 175 - 177, equations 10 - 16M. The criteria for optimality are social welfare functions derived from an observed aggregate voting function which represents preferences over time and is "well behaved" (i.e, consistent with the model's expectations about the regularity of aggregate voting functions over time). The method is to chart the aggregate voting function which is synonymous with the social welfare function and to then superimpose a long-run Phillips curve onto the preference structure. When that is done three possibilities can be demonstrated: 1) no discount allowed by planners to differentiate future and present generations regarding recourse allocation and simply aligning the Phillips curve tangential to the aggregate voting function; (this is termed the "golden rule policy", point G in the figure below); 2) the opposite case, where accomodation is complete and policy is infinitely discounted or behaves in what is termed "purely myopic" fashion (point M on the figure below; 3) an intermediate case where a position between long and short-run trade-offs establishes an optimum termed the "general welfare optimum" (point W on the figure below). Long-run choices in democratic systems are then modelled and there is a demonstration of geometric bias toward possibility 2) above.

Figure 4.b
The Nordhaus Model

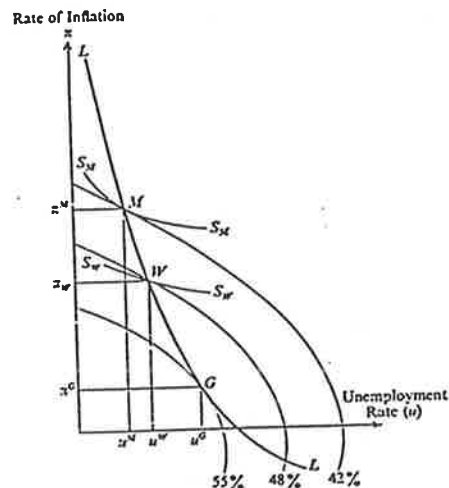


FIGURE 3
Long-run policies

For a brief survey of other writing on the business cycle see, for example, R. Boddy and James Crotty, "Class Conflict and Macropolicy: The Political Business Cycle", Review of Radical Political Economy, 7/1 (Spring 1975), p. 1; K. Carlson, "Recent Economic Development in Perspective", Federal Reserve Bank of St. Louis Review, 56/9 (September 1974), p. 2; Robert V. Eagly, "A Macro Model of the Endogenous Business Cycle in Marxist Analysis", Journal of Political Economy, 80/3, part 1 (May/June 1972), p. 523; George Garvy, "Kondratieff's Theory of Long Cycles", Review of Economic Statistics, 25/4 (November 1943), p. 203; S.P. Hargreaves-Heap, "The Post-War International Business Cycle", Journal of Economic Studies, 6/1 (May 1979), p. 106; M. Kalecki, "Trend and Business Cycle Reconsidered". Economic Journal, 78/310 (June 1968), p. 263; W.W. Rostow, "Kondratieff, Schumpeter, and Kuznets: Trend Periods Revisited", Journal of Economic History, 35/4 (December 1975), p. 719; and Howard Sherman, "A Marxist Theory of the Business Cycle", Review of Radical Political Economics, 11/1 (Spring 1979).

²³A.W.H. Phillips, "The Relation Between Unemployment and the Rate of Changes of Money rates in the United Kingdom, 1861 - 1957", Economica, 25 (November 1958), p. 283. The Phillips curve is a relationship between unemployment and inflation expressed within wage settlements: at higher unemployment, wage rates are settled lower, and at low unemployment wage rates tend to higher settlement: $w = f(u)$, where w is the wage rate and u is unemployment; the relationship is inverse, and so government attempts to accomplish both full employment and low inflation are incompatible. For an early application to US data see Paul A. Samuelson and Robert M. Solo, "Analytical Aspects of Anti-Inflation Policy", American Economic Review (May 1960), as cited in, Sidney Weintraub, Capitalism's Inflation and Unemployment Crisis (Sidney: Addison-Wesley, 1978), p. 207.

²⁴The Marxian notion of a reserve army of the unemployed refers to an industrial proletariat which is politically and marginally disenfranchised within capitalism and whose central characteristic, therefore, is vulnerability to economic exploitation. When the proletariat is dichotomized into employed/unemployed, the latter group is used to threaten the former and thereby induce, 1) lower wage rates, at 2) the same or longer hours, thereby inducing 3) higher productivity, and an 4) increased rate of exploitation which 5) supports or maintains desired levels of profit. The political ramifications of the reserve army thesis are that with a fractured labour force of the type described immediately above, 6) capitalists retain superordinant control of the the state and 7) will not jeopardize class dominance with government policies which ultimately undermine it. See Robert D. Cherry, Macroeconomics (Sydney: Addison-Wesley, 1980), pp. 33-37.

²⁵For the impact of this cycle from the point of view of funding the reserve army see Francis Fox Piven and Richard Cloward, op. cit.

²⁶See the work of Thorsten Veblen, W.C. Mitchell and Gunnar Myrdal for examples of institutionalist economics.

²⁷For a critique of political primacy in Kalecki's work with an implicit critique of the Nordhaus adaption see R. Boddy and J. Crotty, "Class Conflict and Macro-Policy" , op. cit.

²⁸Nordhaus, op. cit., p. 169.

²⁹Ibid.

³⁰On the American productivity problem see, for example, Brian Booth and Donato Alvarez, "Productivity Trends in Manufacturing at Home and Abroad", Monthly Labour Review, 107/1 (January 1984), p. 52; S. Bowles, "The productivity Process in a Competitive Economy: Walrasian, Neo-Hobbesian, and Marxian Models", American Economic Review, 75/1 (March 1985), p. 16; Michael R. Darby, "The U.S. Productivity Slowdown: A Case of Statistical Myopia", American Economic Review, 74/3 (June 1984), p. 301; Myron Gordon, "Corporate Bureaucracy, Productivity Gain, and Distribution of Revenue in U.S. Manufacturing, 1947-77", Journal of Post-Keynesian Economics, 4/4 (Summer 1982), p. 483; Albert Rees, "Improving Productivity Measurement", American Economic Review, 70/2 (May 1980), p. 340; and J. Tatom, "The Productivity Slowdown", Federal Reserve Bank of St. Louis Review, 61/9 (September 1979), p. 3.

³¹Karl Marx and Frederick Engels. The German Ideology, Parts I and III (New York: International Publishers, 1967), p. 41 for a definition of the "general interest" of the ruling class.

³²Nordhaus, op. cit., pp. 169-170.

³³Ibid., p. 172. Inflation aversion is assumed to be based upon three issues: "inflation may cause balance of payment problems, inflation leads to inefficient resource allocation, and inflation introduces an arbitrary redistribution of income", and the incidence is derived from survey research. See Gerald Kramer, "Short-Term Flucuations in US Voting Behavior, 1896-1964", American Political Science Review, 65 (1971), p. 133 as cited in Nordhaus.

³⁴Ibid., referring to voters: "It should be stressed that ignorance of the structure of the economy is extremely important for the behavior we ... describe."

³⁵Ibid., p. 174.

³⁶ Burnham, op. cit..

³⁷ Nordhaus, op. cit., p. 182.

³⁸ Ibid.

³⁹ Ibid.

⁴⁰ Ibid.

⁴¹ Nordhaus' method is to observe nine countries using annual economic data over the period 1947-1972 as well as electoral results. The countries included in the analysis are: Australia, Canada, France, Germany, Japan, New Zealand, Sweden, United Kingdom and the United States. A non-parametric test is run for each country using the hypothesis: "During an electoral period of length 0, the employment rate should rise in the first 0/2 years and fall in the second 0/2 years," (p. 185) The results which impinge upon the present thesis are that for Australia and the UK a political business cycle is implausible (p. 187). For the United States a political business cycle is "very marked". The political business cycle is especially apparent for the US in the 1948, 1952 and 1956 elections. From the 1964 election, when unemployment was falling, to the 1968 election, after which it rose sharply and then fell just before the 1972 election, support for the hypothesis holds. Where it did not hold, in the 1960 and 1968 elections, the incumbents lost the election.

For the UK, the elections after 1970 and before 1959 (including 1955) indicate a somewhat approximate political business cycle but 1951, 1964 and 1966 represent only weak correspondence to the theory. Nordhaus speculates that for the UK, before the devaluation of the pound in 1967, the balance of payments position was so bad that policy considerations to provide balance of payments stimulus might have overwhelmed all other considerations. ("In the 1950's and early 1960's the Treasury behaved like a simple Pavlovian dog responding to two main stimuli: one is 'a run on reserves' and the other is 5,000,000 unemployed," [p. 187], and quoting from Samuel Brittan, The Treasury Under the Tories, 1951-1964 [New York: Pelican, 1964]). He notes, however, that the balance of payments intrusion explains only one "perverse relation (post 1955)" and fails to provide an explanation for pre-1950, post-1959, and pre-1970 events, although in the 1950 election the result was very close and in the 1970 election incumbency was lost.

⁴² Ibid., p. 189: "The planning framework forces governments to set down their policy and negotiate this policy with the opposition, with labour and management, and perhaps other interest groups. It would be very difficult for a government to persuade other interest groups to accept

a plan which deliberately projects a political business cycle or uses myopic decision rules."

⁴³Ibid., p. 188.

⁴⁴Robert P. Keller and Ann Mary May, "The Presidential Political Business Cycle", *Journal of Economic History*, 44/2 (June 1984) p. 265. A replication of the Nordhaus study has examined the specific case of the 1972 election in the United States. Robert Keller and Mary May shift ground in their study because they believe that the existence of pre-election booms and post-election slumps explains little about the intentions of government economic policy, and may be confined only to explanation about the coincidence of boom-slump patterns with electoral cycles. They undertake an in-depth case study of the 1972 Nixon political business cycle. Interestingly, the study devolves to a psychological examination of the presidential character in the political business cycle. An earlier study by Edward Tufte, The Political Control of the Economy [Princeton: Princeton University Press, 1978], had attempted an enlarged institutional analysis, but the particular replication of Keller and May has the virtue of specifying political economic activity outside the sterile analysis of purely economic modelling. Also, interestingly, the one preferred remedy rejected by Nordhaus on the grounds of anti-democratic bias seems to have been taken up by Nixon in the actual mechanism of economic manipulation for politically opportunistic ends, in the Keller/May study. That is, Nixon's use of the Federal Reserve system, and his appointment of Arthur Burns in particular, fits Nordhaus' remedy which uses a monetary authority presumably removed from the "Sirens of partisan politics" to establish a counter-cyclical discipline. But in the case of Nixon and Burns, cronyism seems to have replaced seduction.

⁴⁵Nordhaus, op. cit., p. 187.

⁴⁶For a general critique of the political business cycle which provides a useful notation of the literature surrounding the concept see Peter D. McClelland, discussant, whose commentary is appended to Keller and May, op. cit., pp. 273-276.

⁴⁷passim, note 8.

⁴⁸Kevin Philips, Nixon Agonistes (New York: Random House, 1974).

⁴⁹Lowi, op. cit.

⁵⁰See Susannah Calkins and Richard Nathan, "The Story of Revenue Sharing", in Robert L. Peabody (ed.), Cases in American Politics (New York: Praeger, 1976), pp. 11-43.

⁵¹Hugh Rockoff, Drastic Measures: a History of Wage and Price Controls in the United States (Sydney: Cambridge University Press, 1984), p. 202. This section of the present work relies upon Rockoff's discussion of "Vietnam War" in Chapter 7, pp. 200-233.

⁵²The Cost of Living Council is comprised of: secretaries of Treasury, Agriculture, Commerce, Labour, and Health, Education, and Welfare (HEW), as well as the director of the Office of Management and Budget (OMB), the Chair of the Council of Economic Advisors, the director of the Office of Emergency Preparedness, and the special assistant to the President for consumer affairs. Lowi views the Cost of Living Council as "...in effect ... a domestic version of the National Security Council" (p. 121). Rockoff reports that it was the Cost of Living Council which provided the overall policy guidelines at cabinet level (p. 205). Ibid., and Lowi, op. cit., p. 121.

⁵³The ceiling price was defined as a price which had prevailed for 10% of transactions taking place in the thirty days immediately preceding the freeze; with minimal adjustments being made for seasonal products: Ibid., p. 205.

⁵⁴See Hugh Rockoff, "Price and Wage Controls in Four Wartime Periods", Journal of Economic History, 41 (1981), p. 381.

⁵⁵Ibid., p. 208.

⁵⁶Lowi reports that on 22 March 1972, four of the five labour members resigned and Rockoff notes that their resignations were due to perceived bias in favour of management. Lowi, op. cit., p. 122, and Rockoff, op. cit.

⁵⁷Lowi, op. cit., p. 123.

⁵⁸See Rockoff, op. cit., p. 213.

⁵⁹Ibid., p. 211.

⁶⁰Ibid., p. 213

⁶¹Herbert Stein, Presidential Economics: The Making of Economic Policy From Roosevelt to Reagan and Beyond (New York: Simon and Schuster, 1984), especially pp. 149-207.

⁶²For alternative analyses on the US deficit see R. Dornbusch and O. Blanchard, "U.S. Deficits, the Dollar and Europe", Banca Nazionale del Lavoro Quarterly Review, 148 (March), p. 89; Arthur Stein, "The Hegemon's Dilemma: Great Britain, the United States, and the International Economic Order", International Organization, 38/2 (Spring 1984), p. 355; and D. Mudd and G. Wood, "The Recent US Trade Deficit - No Cause for Panic", Federal Reserve Bank of St.

Review, 60/4 (April 1978) p. 2.

⁶³Stein, op. cit., p. 171-176 and for precedent definitions of American Keynesianism from Truman to Kennedy see David A. Gold, "The Rise and Decline of the Keynesian Coalition", Kapitalistate, 6 (Fall 1977), p. 129.

⁶⁴Stein, op. cit., p. 179.

⁶⁵See Cherry, op. cit., Chapters 17 and 18, pp. 339-374. For implications regarding a class analysis see David M. Kotz, "Monopoly, Inflation and Economic Crisis", Review of Radical Economics, 14/4 (Winter 1982), p. 1.

⁶⁶Stein, op. cit., Chapter 6, pp. 209-233.

⁶⁷For a good case study examining Carter's coalition building problems at close range and within government, see David M. Stevens, "President Carter, the Congress, and the NEA: Creating the Department of Education", Political Science Quarterly, 98/3 (Fall 1983), p. 403.

⁶⁸Gerald Ford was perceived as slightly funny but incredibly dull by Americans. A political commentator has said of Ford, "He was a figure destined to afflict school-children yet unborn with the problem of whether it was he or Martin Van Buren who started the French and Indian Wars": quoted in, Fred Siegel. "The Reagan 'Revolution': 1978-1981, RIP", Telos 60 (Summer 1984), p. 125.

⁶⁹Stephen Woolcock, "The Economic Policies of the Carter Administration", in M. Glenn Abernathy, Dilys M. Hill and Phil Williams, The Carter Years: The President and Policy Making (New York: St. Martin's Press, 1982), pp. 35-53, p. 217.

⁷⁰Ibid., p. 50-52.

⁷¹See, for example, Gerald Pomper et al. The Election of 1980: Reports and Interpretations (Chatham, New Jersey: Chatham House, 1981).

⁷²Stein, op. cit., pp. 222-223. For an explanation of the American version of Keynesianism as "fine-tuning" and recognition of Keynes's "inherent flaw", see also Richard X. Chase, "Keynes and US Keynesianism: A Lack of Historical Perspective and the Decline of the New Economics", Journal of Economic Issues, 9/3 (September 1975), p. 441.

⁷³Sundquist, op. cit., p. 578.

⁷⁴Ibid., p. 580.

⁷⁵Ibid., p. 583.

⁷⁶For an expanded discussion of both the precedents and implications of Reagan and stagflation see, for example, Kenneth Barr, "On the Capitalist Enterprise", Review of Radical Political Economics, 12/4 (Winter 1981), p. 60; Dudley Burton and M. Brian Murphy, "Planning, Austerity, and the Democratic Prospect", Kapitalistate, 8 (1980), p. 67; I. Shapiro and John Kane, "Stagflation and the New Right", Telos (Summer 1983), p. 5; and J. Tatom, "We Are All Supply-siders Now", Federal Reserve Bank of St. Louis Review, 63/5 (May 1981), p. 18.

⁷⁷James Tobin, "Stabilization Policy Ten Years After", Brookings Papers on Economic Activity, 1 (1980), p. 19, p. 36. See also, Martin Neal Baily, "Stabilization Policy and Private Economic Behavior", Brookings Papers on Economic Activity, 1 (1978) p. 11.

⁷⁸See, for example, Baily., Ibid..

⁷⁹Colin Leys, Politics, an Introduction (London:Heinemann Educational Books, 1983), p.65.

⁸⁰For a discussion of the National Efficiency movement of the early 1960's see G.R.Searle, The Quest for National Efficiency (Berkley: University of California Press, 1971) as referred to in Ibid, p.31. The criteria for renewed national efficiency called for at the time and echoing such American advice as found in the 1974 Hudson Report were: 1) a change of attitudes; 2) educational reform with an emphasis upon science and technology; 3) institutional governmental efficiency; 4) reducing Treasury's hold on policymaking and stimulating greater policy dynamism within other departments of government; and 5) provisions for modernizing recruitment and promotion of civil service and military personnel in an attempt to break the upper class bias of these social institutions and draw from a wider pool of national talent. The last of these is the beginnings of a "human capital" argument which has surfaced in the 1980s.

⁸¹E.A. Brett. The World Economy Since the War: The Politics of Uneven Development (London: Macmillan, 1985), especially Chapter Six, "Britain's International Decline", pp. 132-173.

⁸²Ibid., pp. 132-133.

⁸³Ibid., p. 153.

⁸⁴For further discussion of the problem of sterling credibility see S. Strange, Sterling and British Policy (London: Oxford University Press, 1971), as used extensively in Ibid., p. 155. The loss of currency credibility for sterling was a consequence of a scenario containing a series of devaluations following the collapse of Bretton Woods. Such a scenario implied considerable losses to overseas

holders of sterling balances and would motivate them to move out of sterling and into other currencies in an effort to forestall greater losses. The Basle Agreement of 1968 was negotiated to prevent the actualization of such a scenerio. Under the Agreement, Britain promised to maintain the dollar value of sterling in the event of further devaluation through a standby credit to Britain.

⁸⁵The present work, Chapter 3 Annex, Table 3.9.

⁸⁶See, for example, S. Pollard, The Development of the British Economy, 1914-1980, 3rd. Edition (London: Arnold, 1983).

⁸⁷Ian Budge, et al., The New British Political System: Government and Society in the 1980s (London: Longman, 1985), p. 10.

⁸⁸"Selsdon Man" is the label which Harold Wilson affixed to Edward Heath and the political course he represented following Heath's programme for reform articulated at a pre-election strategy conference held at the Selsdon Park Hotel in Croydon in January 1970. He said, "Selsdon Man is designing a system of society for the ruthless and the pushing, the uncaring ... his message to the rest is: 'you're out on your own'". Quoted in Leys, op. cit., p. 79.

⁸⁹The yearly rates of working days lost in strikes are, in millions of days: 1964, 2.3; 1965, 2.9; 1966, 2.4; 1967, 2.8; 1968, 4.7; 1969, 6.8 for the Labour years. From 1970 to 1974 the rates were: 1970, 11.0; 1971, 13.6; 1972, 23.9; 1973, 7.2; 1974, 14.7. These figures are derived from the Monthly Digest of Statistics (CSO, London), and are contained in Ibid., Table 5.3, p. 75.

⁹⁰Ibid., p. 80.

⁹¹The present work, Chapter 3 Annex, Table 6.10.

⁹²The Bullock Commission. See, Leys, op. cit., p. 85.

⁹³The repetition of the debt fallacy was a response to the contradiction of an escalating deficit and the need to make good on the promise of an expanded social spending programme. As usual, the spending would have to be funded through foreign borrowing. Brett reports that the total level of borrowing was £3 billion in 1973; £7.1 billion in 1974; £8.9 billion in 1975; and £14.2 billion in 1976! The sequence of debt-entrapment woked like this: 1) funds allowed spending and wages to increase; 2) at the same time the Bank of England held sterling higher than it should have due to access to foreign funds; 3) international commodity prices were rising and combined with the effects of the

dollar deficit, induced huge imported price inflation; 4) wages anticipated inflation and raised demands to keep pace and sustain the real wage value; 5) the inflation rate given these circumstances reached about 25% above that of all industrial countries; 6) but without productivity improvements concurrent with the other inflation-inducing events, profits continued to slide; 7) thus hyperinflation combined with the possibility of massive bankruptcy action to threaten to destabilize the entire national economy to an extent not acceptable in political or purely economic terms; 8) finally, government needed to exert controls in the form of restraining wages, restraining demand, and reducing government spending. The time-buying strategy of the initial borrowing merely resulted in deferring and deepening the problem of the inherent contradiction between a weak and exposed economic base (in this case exhibited in the deficit problem) confronted by the demands of social programme funding. See Brett. op. cit., p. 162.

⁹⁴The Prime Minister stated, "The main objectives of the Government's economic strategy are to reduce inflation and to create conditions in which sustainable economic growth can be achieved", from Memoranda on Economic Policy and Public Expenditure, House of Commons Treasury and Civil Service Committee, sess. 1979-80 (London: Her Majesty's Stationary Office, 1980), pp. 3-5, as quoted in, Willem H. Buiter and Marcus Miller, "The Thatcher Experiment: The First two Years", Brookings Papers on Economic Activity, 2 (1981), p. 315.

⁹⁵Willem H. Buiter and Marcus Miller, "Changing the Rules: Economic Consequences of the Thatcher Regime", Brookings Papers on Economic Activity, 2 (1983), p. 335, p. 306.

⁹⁶The integrity of the data is especially sound in the two articles whose full citation is found in the immediately preceding footnotes. It appears that every effort has been made in these articles to cross-reference the data and provide very meticulous and thorough reference citations. The data is corroborated through multiple sources and clear and concise definitions are provided for crucial terms used in explaining the British political economy of the Thatcher government.

⁹⁷Peter Riddell, The Thatcher Government (Oxford: Martin Robertson, 1983).

⁹⁸passim.

⁹⁹The standard rate is defined as the initial marginal rate which persists across a wide range of income: Buiter and Miller, op. cit., note 3, p. 316.

¹⁰⁰See Riddell, op. cit., pp. 61-64 and Ibid., pp.

315-318.

¹⁰¹Riddell, *op. cit.*, p. 65.

¹⁰²Buiter and Miller (1981), *op. cit.*, p. 367.

¹⁰³*Ibid.*, p. 337.

¹⁰⁴PBSR is expressed according to three major components as: 1) the change in notes and coin plus the sales of the public sector to the UK private nonbank sector; 2) plus external finance of the public sector; 3) plus the change in sterling lending to the public sector by the banking system. See *Ibid.*, p. 335, note 29.

¹⁰⁵*Ibid.*, pp. 332-337, for a discussion of monetary control which does not imply the state-minimalist argument but provides concise technical definitions of the aspects of monetary control in the UK.

¹⁰⁶*Ibid.* (1983), pp. 324-328, emphasizes the manner in which government policy, especially fiscal restraint, interfered with and negated the working out of Keynesian stabilizers throughout the period.

¹⁰⁷The brutality is the fundamental impoverishment of the general population. The terms of that impoverishment could be expressed in the erosion of the social wage, the increase in civil strife, or the general exposure of the most vulnerable members of the population to the capitalist state of nature. A specific and stark picture of the brutality can be seen in the following table from, *Ibid.*, Table 12, p. 337.

Table 4.b
Unemployment Duration, UK
October 1980- October 1982

.....
Thousands of persons

Duration of unemployment (n = number of weeks)	October 1980	October 1981	October 1982	
			Based on registra- tion	Based on claims
n ≤ 2	176.4	160.5	157.0	196.0
2 < n ≤ 4	164.7	170.7	163.7	166.3
4 < n ≤ 8	273.4	332.0	363.6	350.2
8 < n ≤ 13	261.1	279.7	271.5	242.4
13 < n ≤ 26	452.7	571.6	537.0	492.5
26 < n ≤ 52	333.5	689.5	632.9	612.1
n > 52	401.1	784.6	1,169.6	989.2
Total unemployed	2,062.9	2,988.6	3,295.1	3,049.0

Source: *Employment Gazette*, vol. 91 (February 1983), table 2.8.

¹⁰⁸If the confrontation with the miners is considered in isolation, the following table registering the declining "cost" of Thatcherism in terms of the reduced scope and depth of industrial action is an unfortunate truism. From Ibid., Table 14, p. 347.

Table 4.c
Trade Union Membership and
Industrial Disputes,
1970-1982

Year	Union density (percent) ^a	Corrected union density (percent) ^b	Industrial disputes	
			Number of stop- pages	Working days lost
1970	48.5	49.8	3,906	10,980
1971	48.6	50.3	2,228	13,551
1972	49.4	51.3	2,497	23,909
1973	49.2	50.5	2,873	7,197
1974	50.3	51.6	2,922	14,750
1975	51.6	53.7	2,282	6,012
1976	52.1	55.0	2,016	3,284
1977	53.7	56.8	2,703	10,142
1978	54.4	57.6	2,471	9,405
1979	55.3	58.2	2,080	29,474
1980	53.1	56.7	1,330	11,964
1981	50.6	56.2	1,338	4,266
1982	n.a.	n.a.	1,454	5,256

Sources: Union membership and industrial disputes are from *Employment Gazette*, vol. 89 (January 1981), pp. 26-28, and vol. 91 (June 1983), table 4.2, and previous issues; employment and unemployment are from *Economic Trends*, no. 358 (August 1983), p. 36, and previous issues.

n.a. Not available.

a. Union membership divided by employees in employment and unemployment, excluding school leavers.

b. Trade union membership divided by number of persons employed.

¹⁰⁹ Table 4.e provides information on the scope of privatization. From Riddell, *op. cit.*, pp. 176-177, Table 9.

Table 4.d
Privatization and Liberalization Since 1979
UK

Public-sector operation	Action taken	Public-sector operation	Action taken
<i>Transport</i>		<i>Communications</i>	
British Rail	Sales of property, laundries, hovercraft and some hotels	British Telecom	Liberalization of supply, installation and maintenance to allow scope for competing suppliers and for the use of the network by independent groups (only one licence granted - to Mercury); proposals in 1983 to permit sale of shares
Docks	Sales of shares in Associated British Ports	Post Office	Ending of monopoly for express mail and licences to permit document exchange
National Freight Corporation	Sale to consortiums of managers and employees	Cable broadcasting	Main investment to be by private sector; Bill in 1983-4
Coaches	Removal of licensing restrictions on long-distance coach routes	Cable and Wireless	Sale of nearly half Government shares
Road-construction design	Contracting out to private consultants	<i>Other</i>	
<i>Energy</i>		BL	Sale of Prestcold (refrigerators), agricultural tractors and forklift truck businesses; plan to sell off other subsidiaries, such as Jaguar
Gas	Abolition of British Gas Corporation's monopoly of North Sea gas and sale to industry; direction to sell 50 per cent share in Wytch Farm oilfield in Dorset and oilfields; sale of showrooms delayed until legislation on safety is complete	British Steel	Joint ventures (in rod and bar steel production with GKN); sale of Redpath, Dorman, Long engineering side
Electricity	Sanction for generation by private companies as a main business, via national grid	British Sugar	Sale of Government's 24 per cent shareholding (Renamed British Technology Group)
Oil	Sale of shares in production side (Britoil) of British National Oil Corporation	National Enterprise Board	Sale of interests in Ferranti, ICL, Fairey and other groups
Amersham	Sale of shares in former Radiochemical Centre	Royal Ordnance factories	Legislation in 1983-4 session to convert to Companies Act status as prelude to introduction of private capital
British Petroleum	Series of sales of Government shareholdings	Property Services Agency	Hiving off of jobs in architectural design, maintenance, transport and vehicle repair
Air	Sale of over half the shares in British Aerospace	British Shipbuilders	Hopes to introduce private capital into at least part of operations, probably naval shipyards
	Conversion of British Airways to Companies Act status but sale delayed by financial restrictions	Rolls Royce	Hopes to transfer back to private ownership
	Proposals to inject private capital into at least some British Airways Authority airports		

¹¹⁰ For a concise analysis of the structures of the electoral and political Party system in Australia see, e.g., Dean Jaensch, *The Australian Party System* (Sydney: George Allen & Unwin, 1983), For a history of Australian politics see Russell Ward, *The History of Australia, the Twentieth Century* (New York: Harper & Row, 1977).

¹¹¹ *Ibid.*, pp. 410-419, for a characterization of the constitutional crisis as "a return of the Coalition government". The constitutional aspect of the political crisis of a forced transition of government involved the unprecedented intrusion of the Governor General, John Kerr, into the constitutionally conventional mechanisms for dealing with a loss of confidence in government, in this case prompted by senate refusal to grant supply. Kerr intruded himself as the Crown's representative in a way which many commentators believed would not have represented the Crown's interest in the Australian constitutional

framework. That is, Kerr behaved in a way which seemed neither politically impartial nor designed to promote an orderly transition of government. Furthermore, he undertook secret consultations with the leader of the opposition which he then misrepresented to the Prime Minister, Gough Whitlam, during the Senate blockage which was itself unprecedented in the constitutional history of Australia.

¹¹²Paul Henderson, Parliament and Politics in Australia: Political Institutions and Foreign relations (London: Heinemann Educational Australia, 1985), p. 226, for tabular results of House seats and percent of formal first preference votes from 1949 to 1983. The results for the years 1961-1972 are:

Table 4.e
Election Results for Five Elections in Australia,
1961-1972
Percentage of Formal First preference Votes in the House/
(House Seats)

	1961	1963	1966	1969	1972
Liberal	33.3% (45)	37.1% (52)	40.1% (61)	34.8% (46)	32.15 (38)
National Country	8.5% (17)	8.9% (20)	9.9% (21)	8.6% (20)	9.4% (20)
Australian Labour	47.9% (60)	45.5% (50)	40.0% (41)	47.2% (59)	49.6% (67)

¹¹⁴Ward, op. cit., pp. 398-406, for a persuasive description of the moderate nature of the Whitlam reformation and an interesting description of Whitlam himself as the personification of bourgeois urbanity.

¹¹⁵Henderson, op. cit., p. 226. The ascending and declining DLP votes in national elections from 1955 to 1977 indicate their importance as a political force between 1955 and 1974: 1955, 5.2% of formal first preference votes; 1958, 9.4%; 1961, 8.7%; 1963, 7.4%; 1966, 7.3%; 1969, 6.0%; 1972, 5.2%; 1974, 1.4%; 1975, 1.3%; 1977, 1.4%.

¹¹⁶Ray Aitchison, Thanks to the Yanks? (Melbourne: Sun Books, 1972), for a lively account of the period preceding the Whitlam years and especially the emerging style of Yankee deference. See especially Chapter 11, "Banana Republic", for description of Gorton's style of diplomacy and the implications of deference for military involvement by Australia in the global defense network of the US.

¹¹⁷R.B. Scotton and Helen Ferber (eds.), Public Expenditure and Social Policy in Australia, Vol. 1, "The Whitlam Years, 1972-1975" (Melbourne: Longman Cheshire, 1978), for an unsubstantiated stress on the Whitlam public

spending programme as causally related to levels of inflation and a repudiation of the Whitlam programme for its bad timing, "the worst since the Korean War", as cited in, Benjamin Higgins, The Postwar Trade Cycle as Shifting Trade-Off Curves: The Case of Australia (Canberra: The Centre for Research on Federal Financial Relations, The Australian National University, 1985), p. 31, note 25.

¹¹⁸The Arbitration Commission is a much-researched institutional phenomenon unique to Australia, and which is at the apex of the centralized wage-setting and dispute-resolution tribunals of the nation. For analysis of the institution and its affects upon wages and the labour market see, e.g., J.P. Nieuwenhuysen and J. Sloan, "Wages Policy" in F.H. Gruen, Surveys of Australian Economics (Sydney: George Allen & Unwin, 1978), p. 117, and Daniel B. Mitchell, "The Australian Labour Market", in Richard E. Caves and Lawrence B. Krause (eds.), The Australian Economy; A View from the North (Sydney: George Allen & Unwin, 1984), p. 127.

¹¹⁹For differing views of the class-relatedness of partisanship see D. Aitkin and M. Kahan, "Australia: Class politics in the new World", in R. Rose, The Problem of Party Government (London: Macmillan, 1974); A.A. Calwell, Labour's Role In Modern Society (Melbourne: Lansdowne, 1965); and C. Hazelhurst (ed.), Australian Conservatism: Essays in Twentieth Century Political History (Canberra: Australian National University Press, 1979).

¹²⁰See, for example, Donald T. Brash, "United States Investment in Australia, Canada, and New Zealand", in Peter Drysdale (ed.), Direct Foreign Investment in Asia and the Pacific (Canberra: Australian National University Press, 1982), R.G. Gregory, "Some Implications on the Growth of the Minerals Sector", Australian Journal of Agricultural Economics, 20 (August 1976); S. Harris, "Resources Policies in Ausytralia", Resources Policy. (June 1980)179; John F. Helliwell, "Natural Resources and the Australian Economy", in Richard E. Caves and Lawrence B. Krause (eds.), The Australian Economy; A View From the North (Sydney: George Allen & Unwin, 1984), p. 81; W.P. Hogan, "British Investment in Australian Manufacturing: The Technical Connection", Manchester School of Economics and Social Studies, 35 (May 1967), p. 133; Michael Lawrensky, "Ownership and Control of Australian Corporations". Transnational Corporation Research Project (Sydney, 1981), L.D. Martin and R.G. Gregory, "An Analysis of Relationships Between Import Flows to Australia and Recent Exchange Rate and Tariff Changes", Economic Record (March 1976); David R. Richardson, "Foreign Investment: A Host Country Perspective Using Australian Experience", Journal of Post Keynesian Economics, 4 (1981), p. 240; B. Smith, "Australia's Mineral Production and Trade", Federal Reserve Bank of San Fransisco Review, Mineral Resources in the Pacific Area (San Francisco, 1978);

and R.H. Snape, "Effects of Mineral Development on the Economy", Australian Journal of Agricultural Economics, 21 (December 1977), p. 147.

¹²¹D.L. Cuddy, "American Business and Private Investment in Australia", Australian Journal of Politics and History, 26/1 (1980), p.45.

¹²²Ibid.

¹²³Donald Horne, "The American invasion of Australia", Newsweek, 10 (August 1964) . 53, as cited in Ibid., note 6, p. 46.

¹²⁴Ibid., p. 48.

¹²⁵David L. Anderson, Foreign Investment Control in the Mining Sector; Comparisons of Australian and Canadian Experience (Canberra: Centre for Resource and Environmental Studies, 1983), pp. 79 ff. The description of historical events offered in the present study relies on Chapter 4 of Anderson's work.

¹²⁶E. Wheelwright, "The Political Economy of Foreign Domination", in P.J. Lloyd (ed.), Mineral Economics; Australia (Sydney: George Allen & Unwin, 1984), p. 208, p.209.

¹²⁷Ibid.

¹²⁸Ibid.

¹²⁹G.D. McColl, "Foreign Investment in Australian Mining", in P.J. Lloyd (ed.), Mineral Economics in Australia (Sydney: George Allen & Unwin, 1984), p. 176, p. 177.

¹³⁰W. McMahon, "Ministerial Statement", House of Representatives (Canberra, September 26, 1972), as quoted in Ibid., p. 177,

¹³¹Michael Sexton and Alexander Adamovich. The Regulation of Foreign Investment in Australia (North Ryde, Australia: CCH Australia, 1981). Quoted in David L. Anderson, Foreign Investment Control in the Mining Sector; Comparisons of Australian and Canadian Experience (Canberra: Centre for Resource and Environmental Studies, 1983), p.82.

¹³²Prime Minister McMahon. "Commonwealth Parliamentary Debates", House of Representatives (Canberra, 26 September 1972, 1919-20), as quoted in Ibid., p. 83.

¹³³Prime Minister's Office, Press Statement No. 362, 3 November, 1974, as quoted in Ibid., p. 87.

¹³⁴Ibid.

¹³⁵Ibid., see Chapter 5.

¹³⁶The point is made in Marion Simms. "The Fraser Governments [sic] Attitudes Towards Foreign Investment: A Reversion to the Open Door", Melbourne Journal of Politics, 9 (1977) p. 58.

¹³⁷McCull, op. cit., p. 189.

¹³⁸Hon. Phillip Lynch, Treasurer. "Foreign Investment in Australia", 1., Canberra, 1 April 1976, as quoted in Anderson, op. cit., pp. 100-10K.

¹³⁹Ibid., p. 101.

¹⁴⁰Ibid., p. 139ff.

¹⁴¹Ibid.. The following table suggests an accelerated foreign investment but does not establish a causal link between policy and the increased amount of investment. Table 15, p. 123.

Table 4.f
Foreign Investment in Enterprises in Australia
1970-1982

Year	At current prices \$Am	At 1979-80 prices ^a \$Am	As a proportion of gross domestic product per cent	As a proportion of net private investment expenditure ^b per cent
1970-71	1,590	4,119	4.7	38.0
1971-72	1,454	3,538	3.9	34.1
1972-73	471	1,073	1.1	10.8
1973-74	496	994	1.0	7.5
1974-75	1,003	1,650	1.6	13.2
1975-76	858	1,213	1.2	10.5
1976-77	1,549	1,957	1.9	15.7
1977-78	1,330	1,561	1.5	15.3
1978-79	2,051	2,258	2.0	17.5
1979-80	2,961	3,094	2.7	22.2
1980-81	5,625	5,189	4.4	34.1
1981-82	9,518	7,751	6.4	44.0

¹⁴²Ibid., p. 128ff.

¹⁴³Ciaran O'Faircheallaigh. Mining and Development; Foreign-Financed Mines in Australia, Ireland, Papua New Guinea and Zambia (New York: St. Martin's Press and Sydney: Croom Helm, 1984), p. 207ff.

¹⁴⁴Ibid.

¹⁴⁵Ibid.