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The problem of a full employment economy

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1. Introduction

1.1 The problem

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“The almost complete elimination of long-term unemployment has had the effect when combined with the minimum wage provisions of the Australian Arbitration system of giving most Australian workers and their families a wide measure of insurance against poverty and deprivation. At the same time it enabled each individual to choose from a wide range of jobs the work opportunity he most preferred and is most suited for – thus greatly increasing job satisfaction and self-fulfilment.

The maintenance of full employment through a policy of sustained economic growth has not only increased the standard of living for workers. It has also increased the capacity of the economy to provide welfare assistance to the aged, the invalid, the widowed and the sick.” Liberal Minister for Employment and National Service, Phillip Lynch (Lynch 1971)

The perspective of this paper may seem strange to those who see *unemployment* as a problem. Those of us with personal exposure to the issue, because we have been unemployed or have known unemployed people, either socially or through our work, have little doubt that it is a demoralising phenomenon. In thousands of studies over the past century, unemployment has been associated with all forms of human misery, including poverty, crime, substance abuse, physical and mental health problems (particularly depression) and other indicators of social malaise such as family breakdown and suicide (BLMR 1986: 153). While its worst effects may be partially ameliorated by an extensive welfare system, in itself it is fundamentally bad. It is therefore hard to imagine why anyone would want mass unemployment, yet such has been the view of many influential people, including those responsible for the conduct of macro-economic and employment policy in this country. As a matter of strategic necessity they may profess commitment to full employment, yet politicians and senior bureaucrats with the ability to eliminate it have deliberately maintained mass unemployment since the 1970s to avoid the profit squeeze and ‘cost-push’ inflation that emerged under conditions of full employment during the 1960s.

Economics has a lot to say about what determines levels of employment and unemployment based on the supply, cost and demand for labour, but significantly ignores the influence of political and social power on these phenomena. Korpi illustrates the point by noting the conspicuous absence from the New Palgrave Dictionary of Economics of a definition of ‘power’, while an equivalent text for the social sciences requires ten pages to cover the subject (Korpi, 2002: 3). This blind spot gives rise to a tendency to treat ‘labour power’ as any other commodity, equating the relationship of boss and worker to that of purchaser and orange-seller, if not orange. Offe provides a useful reminder that labour is an unusual (indeed ‘fictive’) commodity for several reasons: It is not produced in response to market signals; it cannot be held back from the market for strategic purposes without non-market means of subsistence; and the need of its seller to sell to obtain subsistence is more rigidly (biologically) determined than the need of employers to acquire labour power. Along with these innate strategic asymmetries, that naturally confer power on employers, the labour contract is like no other bill of sale in that when labour power is ‘sold’, i.e., when a person is employed, the seller (being inextricably bound up with the commodity) retains control over how much of the commodity (labour power) the

purchaser may consume. Employee and employer are thereafter engaged in an ongoing, sometimes subconscious, negotiation over how much strain the worker should bear for the remuneration the employer provides to them (Offe 1986: 16-25). The outcome of this negotiation is significantly determined by what constraints on *market* power workers have been able to construct given their relative social and political power. Being substantially blind to such power relations, some economists protest that labour power *should* be made to behave like other commodities, for example: by eliminating any social and industrial protections that prevent its price falling when supply exceeds demand. Understandably, the purchasers of labour are quick to agree with them and to encourage them in pursuing this line of thought, which raises the question of how to do it. It transpires that unemployment plays an important role in pursuit of this agenda.

Rarely are these issues openly discussed, for to do so exposes the conflictual nature of capitalism, which makes it difficult to manage, especially since workers won the right to vote. However, there are sufficient moments of candour on the public record that reveal the rationale for preserving unemployment, as the conservative Times of London, explained in 1943:

Unemployment is not a mere accidental blemish in a private enterprise economy. On the contrary, it is part of the essential mechanism of the system, and has a definite function to fulfil. The first function of unemployment (which has always existed in open or disguised form) is that it maintains the authority of master over man. The master has normally been in a position to say: 'If you do not want the job, there are plenty of others who do'. When the man can say: 'If you do not want to employ me, there are plenty of others who will,' the situation is radically altered.' (Korpi 2002: 6)

Unemployment has a direct political-economic significance. It strengthens the capacity of employers to impose their will, to *discipline* their employees, and thereby increase their share of what their capital and the worker's labour combine to produce. Critically, unemployment is a singularly cost-efficient and effective method for doing so. The infamous sluggishness of the Soviet economy demonstrates the inefficiency of authoritarian alternatives to unemployment to drive productivity (Christian, 1985: 100). However, as the quote from the Times suggests, more is at stake in varying the power differential between 'master and servant' than simply the determination of relative income shares. Reflecting on the opposition of industrialists around the world to unemployment reduction measures proposed during the 1930's depression, Kalecki believed achieving full employment would incite a capitalist backlash because even if their economic position was not significantly threatened:

The social position of the boss would be undermined and self-assurance and class consciousness of the working class would grow ... discipline in the factories' and 'political stability' are more appreciated by the business leaders than profits. Their class instinct tells them that lasting full employment is unsound from their point of view and that unemployment is an integral part of the normal capitalist system. (Kalecki 1971: 141)

Employers value the power conferred on them by unemployment, not solely because of the advantage they enjoy when setting wage levels and working conditions in their businesses. It extends throughout life and society, increasingly determining matters of long-term social, economic and cultural significance, such as the curriculum of the education system, the adequacy of the social welfare system, the nature of research undertaken in our universities, and so on. With mass unemployment, various

institutions increasingly seek to meet the demands/tastes/preferences/needs of employers, to improve their clients' access to economic independence and security through employment. As rational individuals, employers (and their peers and advocates) use this power to preserve the social, political and economic advantages that unemployment confers on them. By contrast, full employment diminishes the gate-keeper status of employers, reducing the pressure on individuals and social institutions to conform to their dictates, thereby diminishing their power over society.

1.2 The problem in Australia

The distributional struggle in Australia took an interesting turn during the Second World War when unemployment was effectively eliminated, and an extensive (albeit residualist) social security system created, significantly diminishing the capacity of employers to intimidate workers. Engagement in a highly industrialised war had made it necessary to fully utilise the nation's human and material resources, proving that the government *did* have the means to achieve full employment after all.²

Full employment was an understandable priority for Curtin's ALP. The 1930's depression had been a period of intense hardship for the labour movement, with class conflict frequently erupting into violence on picket lines, at unemployed workers rallies (Cannon, 1997: 171–182) and anti-eviction demonstrations in towns all over the country (Fox, 2000: 3). Despite the conspicuous suffering of those out of work, those in positions of authority often remained insulated from the experience, even to the extent of blaming the unemployed for their unemployment, as when a Melbourne police magistrate sentenced two men for their part in an anti-eviction demonstration at the height of the Depression in August 1931, saying:

It is the fault of many persons themselves that they are not working at present. There is nothing to hinder persons from seeking work and doing something if they really desire it (Louis, 1968: 161).

The desperation of the times fuelled anti-left hysteria that seems incredible today, such as 30,000 strong 'white armies' of anti-left militia formed as strike breakers and to overthrow 'socialistic' labour governments in Victoria and NSW.³ Many rising stars in the ranks of conservative politics publicly expressed enthusiasm for fascist authoritarianism as a solution to heightening distributional struggles.⁴ Those Labor politicians who later formed the Curtin and Chifley Governments well understood the role of unemployment in generating these divisions and ultimately fuelling the violent oppression of workers during the depression. Finding themselves in power after October 1941, with full employment already established, and possessing the authority of a war-time government, it is understandable that a fully-employed post-war society would become a key policy objective. It could even be justified in terms of the prosecution of the war: Keynes and Coombs both argued that measurable progress toward a fully-employed post-war welfare-state would help persuade the public to accept necessary war-time stringency measures of high production and low consumption (Rowse, 2002: 147–150).

The political and bureaucratic architects of full employment (under 2 percent) understood they were removing the principal means by which capital disciplines labour. In the process of preparing the 1945 White Paper 'Full Employment in Australia' Coombs, Crisp, Firth, Nimmo and other bureaucrats gave considerable thought to devising new institutional arrangements to constrain organised labour from pressing its newly gained advantage. However, these were down-played by the Labor

government for fear of further straining relations with the ACTU after legislating that returned service personnel be given preference in employment as opposed to unionists, which had been ALP policy for some time (Rowse 2000).

Despite the general hostility of commercial media outlets and business groups to both the feasibility and advisability of the plan to maintain full employment, (Spaull 1998: 91), public support for Labor's strategy was generally positive, notwithstanding the loss of the Postwar Reconstruction and Democratic Rights referendum of November 1944. Business concern for the 'socialism by stealth' of Labor's post-war plans provoked the creation of new political organisations, primarily the Liberal Party of Australia and the Institute of Public Affairs (IPA), and to calls for the business community to import American 'public education' programs to promote the benefits of 'free enterprise' (Carey 1985). As they do today, the media barons played a key role in organising and promoting business ideology (Griffen-Foley 2003). But given what Australian working people endured during the 1930s, it was inadvisable for a politician (or a known supporter) to publicly argue against full employment and the provision of unemployment benefits. Widespread public contempt for the management of the depression (Cannon 1997), especially the failure to adequately provide for returned servicemen of the previous war, made open opposition to Labor's post-war workers welfare state extremely difficult. The most the opposition could manage was to attack aspects of the implementation as totalitarian in character⁵, question the cost, and criticise the universal aspects of provision as an affront to returned service personnel.⁶

By the time Labor lost office to Menzies in 1949, the electorate was accustomed to the maintenance of unemployment at less than 2 per cent. Privately, the conservative parties were undeniably conscious of the adverse power shift they faced under such conditions. This is evident in recently available records of discussions within the Menzies Government Cabinet room, such as Deputy PM McEwen's comment during a discussion on worker productivity and inflation in July 1951:

It is a terrible thing to think that the fear of unemployment is the only way that men can be made to work harder (Cabinet Notebook, 1951a).

Or Menzies frustration at the diminished impact of a threat to de-register a maritime union:

De-registration was a strong weapon but now in full employment it is not so useful (Cabinet Notebook, 1951b).

And yet, such was the sensitivity of Australians that there should be no return to the misery of the depression, the same cabinet notebooks reveal a deep vein of concern within the Menzies cabinet that they would lose office if they failed to maintain full employment. This was not baseless paranoia: Menzies came within one seat of losing office in 1961, substantially because unemployment edged over 2 percent during a credit squeeze. Whereas voters who experience long periods of mass unemployment come to accept it as inevitable, even accept substantial increases, once accustomed to full employment they punish governments for even mild increases (Schmidt 1984: 18). Simply put: the conservatives and the business interests that backed them did not like full employment, but they were stuck with it.

2. The solution to full employment

It appears that business communities and governments around the world were facing the same problem. In 1970, the OECD published a discussion on 'Inflation the Present

Problem'. It acknowledged that a labour scarcity had caused increases in the wages and salaries share of the national product in several industrialised countries and that in a bid to protect profits, firms were increasing prices. The report argued for higher priority to be given to price stability which would entail 'giving a lower priority to something else', that is, abandoning full employment. For Korpi:

This policy statement, published well before the oil crisis, comes surprisingly close to recommending unemployment as a cure to inflation and the profit squeeze (Korpi 1981: 335).

The report went so far as to acknowledge the electoral damage that governments could expect for allowing unemployment to rise:

Peoples reaction to going bankrupt or being thrown out of a job may have been different in the 1930s when it could be thought this was the result of a natural disaster. But today a serious recession would be clearly recognised to be the result of a deliberate policy being followed by the government (OECD 1970: 37).

...the fundamental problem is how to get people to exercise the moderation that they would do if they believed that a major recession was possible, without actually having to administer the lesson (OECD 1970: 35).

Korpi recounts how Gosta Rehn, (the economist who worked with Rudolf Meidner on establishing Sweden's active labour market policies in the 1950s-1960s) reacted to the publication, given that at the time he was head of the OECD's Man-power [sic] section.

Within the OECD staff, Rehn argued against the formulations in this document, maintaining that it would be widely interpreted as an official recommendation for increasing levels of unemployment. His objections were overruled, and internationally the policy document came to be interpreted in the way Rehn had feared (Korpi 2002: 20).

There are clear signs that it had been read and reflected upon in Australia. In April 1971, the Australian government was publicly urged to increase unemployment in a well-publicised speech by Sir Colin Syme, Chairman of BHP since 1952, and a central figure within Australia's corporate establishment:

Sir Colin warned that Government action to curb over-full employment would be 'very unpleasant' but the role of businessmen should be to back the government in the unpopular steps which had to be taken.

It is going to be very unpleasant. All the consequences of deflation are.

He was not just talking a few percentage points. Noting a recent American experience where a significant increase in unemployment had only a marginal effect on inflation:

But the American experience seems to demonstrate that though excessive employment can cause cost-push inflation, the converse is not true. It does not mean that to increase the unemployment rate, you rapidly get rid of the inflation which high employment caused. It seems to be rather one-way traffic. Excessive demand for labour enables organised labour to get a very much larger share of the national cake. But it is strong enough to see that when there is no longer excessive demand, it holds on to the gains it has already got (Maiden 1971).

"It will take quite a bit to get the government to do it anyway", he said. "But certainly it will require the moral support of citizens to induce them to start and pursue useful tactics" Sir Colin was addressing a luncheon of the Rotary Club of Melbourne (Maiden 1971).

He noted that most other countries are comfortable with rates of unemployment 'very much higher' than the 1.5 per cent of Australia. When ACTU President Hawke taunted the newly installed Liberal leader William McMahon by saying Gorton (who he had just supplanted) would have rejected such a proposition, McMahon promptly did so the next day, saying his government regarded full employment as a 'cardinal act of political faith'.

Every country that tried to create unemployment or permitted unemployment to develop has failed miserably. The one Government that solved the problem of unemployment before any other was the Government of Menzies continued by Mr Holt and Mr Gorton and now myself (AFR, 1971).

When the government subsequently brought down a deflationary budget in August 1971, Hawke accused it of implementing Sir Colin's agenda.

It's clearly an attempt to do something about prices which may be seen as a response to a suggestion of BHP's Sir Colin Syme for the government to create a pool of unemployed (Age, 21/8/1971: 3).

Senior Treasury officials appear to have misled the government over the necessity for the deflationary stance of the 1971 budget (Weller and Cutt 1976: 24). Yet a month later, evidence emerged that the coalition shared the industrialists concern that full employment empowered organised labour, when McMahon's industrial relations minister Phillip Lynch addressed the Committee for Economic Development of Australia (CEDA) on 'Problems of a Full Employment Economy'. Noting rising cost pressures that he attributed to 'increased militancy of the unions, the effects of some recent decisions of the arbitral systems and the self-generating effects of rising prices on public expectations', he argued that the benefits Australia enjoyed from full employment (quoted in my introduction) were being put at risk because:

Full employment can contribute to inflation by generating sectional labour shortages, by strengthening the bargaining power of organised labour and by creating market conditions which facilitate price increases" (Lynch 1971).

Heavy avoidable cost pressures were being generated by too frequent and excessive demands for higher wages; increases in labour turnover and absenteeism; and by restrictive work practices and industrial disputes in conditions of economic prosperity (Lynch 1971).

Lynch continued with this analysis during 1972, as in this quote from a departmental publication:

A prolonged period of employment security strongly enhances the bargaining power of unions and weakens the resistance of employers to unreasonable wage demands. In the past few years, trade union leaders have come to realise that they are in a strong position that they can dictate rather than negotiate terms and conditions of employment to employers (Lynch 1972, quoted in Windschuttle, 1980).

By February 1972, the Secretary of the Queensland Employers Federation, Mr J.R James saw the need to more than double the prevailing unemployment rate:

There are a growing number of people who are unemployable in Australia and there are those that do not work well enough to keep on and those whose appearance is unsatisfactory ... I realise that this is not a popular view but it is a view which overseas economies have been obliged to take. A balance has to be struck between massive unemployment and galloping inflation and countries like

America have found 4.5 percent a reasonable unemployment figure (The Australian, 18/2/72: 9).

Clearly, those that stood opposed to labour (economically and politically) saw unemployment as a solution, not a problem.

3. Implementing the solution

Despite their misgivings about the inflationary and industrial relations consequences of full employment, the McMahon government was understandably reticent to appear to abandon its commitment to it given that its electoral position was already desperately weak. It fell to senior Treasury officials to act as the chief advocates and implementers of the solution. Former Treasury official Ed Shann has observed:

There is little doubt that non-elected bureaucrats will always be more relaxed about unemployment than politicians whose jobs are on the line (Toohey 1994: 209)

Nor was Treasury's propensity to deflation tempered by any cultural affinity with the working class. The senior executives of the Central economic policy agencies, particularly Treasury, tend to come from privileged backgrounds, identify with political and economic policy views more consistent with those of the corporate sector, are generally unsympathetic to the interests of the labour movement and opposed to extensive public sector provision. (Pusey, 1991: 76-110). On departing the Treasury, their most Senior officers often moved into corporate directorships and occupy key roles in 'economic rationalist' and right wing political groups (for example, Des Moore, John Stone) (Whitlam 1985: 206).

Treasury's power derives from its control over economic information (Pusey, 1991: 151) and it acts to protect its power. When Menzies established the Vernon Committee in the early 1960's to examine economic policy development processes, it recommended that the government establish alternative sources of economic advice. Treasury persuaded Menzies to ignore the suggestion, arguing such alternatives may not share its strength of faith in the free-market (Whitwell, 1986: 167). Treasury's free trade and deflationary propensity was less attractive to Prime Minister Gorton who consequently developed his own economic advisory unit within PM&C. His successor, former Treasurer McMahon, dismantled this unit and accepted Treasury advice that a deflationary 1971 budget was unequivocally supported by all its research. Afterwards McMahon learnt that significant dissenting opinion had been suppressed within Treasury. When he tried to change policy direction in a bid to stave off electoral defeat, 'he was unable to get a response from the Treasury for 6 months' (Weller and Cutt, 1976: 24) (Whitlam, 1995: 205). Watching these manoeuvres from the outside, The Australian's economics writer, Ken Davidson, interpreted the situation in February 1972 thus:

The economic strategy of attempting to deal with wage-cost inflation by increasing the pool of unemployed has not been changed. It has only been slightly modified in the light of the electoral backlash (Davidson, 1972).

Rising unemployment, particularly in regional areas, contributed significantly to Labor's election win in December 1972.

The inexperience of Whitlam's government, after 23 years in opposition, left it prone to Treasury's deflation-promotion tactics: provide no alternative and understate the impact on unemployment. These were unleashed when, as Korpi puts it:

OECD's 'fundamental problem' – how governments could avoid electoral blame for increasing unemployment - found a surprising and radical solution. The 1973 oil shock, released by OPEC after the Arab-Israeli war, hit the western nations almost like a natural disaster. In most countries levels of unemployment jumped up. This shock thus became the outside catalyst for the actual administration of the lesson of high unemployment, a lesson the blame for which governments could largely place on OPEC. In spite of increasing levels of unemployment, in the McCracken report the OECD urged caution with expansive policies, arguing that it is better to accept 'a less rapid reduction of unemployment now, in order to achieve lower levels of unemployment later on' (Korpi, 2002: 20).

Treasury understated the impact on unemployment of the 1973-74 credit squeeze and withheld money supply data. In May 1974 the heads of Treasury and Reserve Bank categorically assured Whitlam they were not invoking a recession when publicly accused of doing so by a Bank of NSW executive. Despite rising unemployment, Treasury recommended that cabinet adopt '...a hard line deflationary package of reduced expenditure and increased taxes across the board' for the August 1974 budget. Rejecting this strategy, Cabinet ordered Treasury to produce alternative policy options including recommendations aimed at *reducing* rather than increasing unemployment. In an extraordinary demonstration of its mindset, the Treasury refused (Whitwell, 1986: 214-216, Whitlam 1985: 204-207) and withdrew from the process of producing the budget. By the time the government received confirmation of the depth of the credit squeeze and took action to reverse it, full employment was irrevocably lost along with its re-election chances.

The story of the Whitlam government bears uncanny resemblance to that of Scullin: a world-wide 'shock' faced by an inexperienced Labor government forced to turn to those fundamentally opposed to its agenda for advice. While Whitlam's government became synonymous with economic mismanagement, Treasury's class-activism ensured that the opportunity to increase unemployment presented by the OPEC shock would not be squandered.

4. Restoring profit share

During the 1975 election, with Whitlam focused on the constitutional implications of the Coalition's 'grab for power', caretaker Prime Minister Fraser promised to 'Turn on the Lights', to restore economic stability and bring down unemployment. In full-page ads during the campaign, Fraser solemnly pledged:

We will lead Australia to prosperity, creating jobs and opportunities. We will protect those in need of help. Medibank, pensions and social welfare will all be strengthened by honest, responsible government (SMH, 11/12/75).

Neither he nor his caretaker Treasurer, Phillip Lynch, provided much detail as to their strategy, though the Australian public may reasonably have assumed their intention was to reduce unemployment. More was revealed after winning office: they were to embrace the monetarist, deflationary agenda Treasury had been advocating since the late 1960s. Eleven days after the election (on Christmas eve) the Sydney Morning Herald headline announced 'Lynch acts to slash government spending' (SMH 24/12/75), signalling a concerted move toward deflation and higher unemployment. Lynch and Fraser announced they would 'fight inflation first' and that unemployment would only come down *after* inflation was brought under control. In the context of the present discussion, Fraser's great political achievement was to condition the public to accept mass unemployment through skilful agenda management (Harding, 1985).⁷

While this involved blaming the unions, Whitlam's profligacy, and most reprehensibly, the unemployed themselves⁸ for the unemployment his government's deflationary policy was *intentionally* producing, conditioning the public to accept mass unemployment also involved marketing new explanations for the way the economy worked (Windschuttle, 1980).

Senior academic economists were evidently complicit in this process, as noted by Geoffrey Harcourt:

In retrospect, I bitterly regret not 'spilling the beans' on a secret meeting I attended at the University of Melbourne sometime in the 1970's at which Heinz Arndt⁹ argued that the economics profession had a duty to wean the public off the acceptance of full employment, as it was then understood anyway, as an indispensable object of policy. Of the ten or so Australian Professors of Economics there, only one other was as scandalised as I was (Harcourt, 2001: 19).¹⁰

The message about wages and unemployment was reformulated during the Fraser years from Lynch's 1971 analysis that full employment empowered the unions to seek excessive pay claims into the claim that excessive pay claims *caused* unemployment. 'One man's pay rise was another man's job' became the Coalition mantra. Reducing unemployment thus became the *justification* for reducing real wages, to bring down labour costs to their 'market clearing' level and restore profits and business confidence. The view of Treasury officials (for example, Neil Johnston and John Stone) was that real wages (historically high) needed to be reduced to *below* historical levels to restore full employment (Whitwell, 1986: 233). Furthermore, Lynch's observation that full employment had increased the capacity of the economy to provide welfare assistance, transformed into the assertion that welfare assistance induced people to be unemployed, so reducing unemployment became the *justification* for reducing welfare provision.

These conceptions of Australia's socio-economy were consistent with the principles extolled in a barrage of corporate-funded propaganda campaigns conducted throughout the 1970's and 1980's that were begun in reaction to Whitlam's 1972 election victory. In 1976, Geoff Allen, who later went on to run the Business Council of Australia, declared that a 'capitalist counter-offensive' was underway, whereby established business propagandists such as the IPA¹¹ were expanding their activities and new organisations were forming to promote 'free market' ideology.¹²

The major goal of the new doctrine was the control of the money supply, not the achievement of growth or full employment. It was highly critical of unions, whose influence on wages could only be broken by a combination of unemployment and an erosion of their legal rights (Tsokhas, K., 1984: 133)

The ALP response to this barrage of 'free market' orthodoxy was to largely conform to it. In the process of re-positioning his party to dispel perceptions that Labor threatened business interests, leader Bill Hayden espoused the principle that in seeking a better redistribution of wealth, the party would take care not to impair profitability:

...in managing the mixed economy and seeking to re-establish and sustain its dynamism, redistributational programs must avoid plundering the surplus that really productive enterprise raises for its regeneration and expansion ... The simple fact is that sound economic management and the promotion of productive,

profitable, wealth generating industry are preconditions for providing not only better living standards (however they are defined) but also allowing a more effective and extensive redistribution of resources and opportunity within the community (Hayden, 1982: 6).

By the time Labor was in office a year later under the leadership of Bob Hawke, Hayden's unwillingness to *impair* profitability had become a necessity to *boost* it at the expense of wage-earners, embracing the neo-liberal theory that the rise in unemployment was due to an historical imbalance in the ratio of wages to profits. (Deflationary macro-economic policy had nothing to do with it?). Reducing the wages share of GDP to increase profits was an explicit objective of the Prices and Incomes Accord process, celebrated at the 20th anniversary of the Hawke government in 2003:

real wages would fall by more than 7 per cent in 5 years. More importantly, unit labour costs would fall by more than 11 per cent and unemployment would decline from a peak of 10.4 per cent in 1983 to 5.6 per cent in the boom of 1989 (Mitchell and Bassanese, 2003: 136).

If real wage overhang explained unemployment, the increased profits and real wage reductions of the 1980's should have caused unemployment to fall and remain low. But rather than investing this transferred wealth into job-creating, 'productive, profitable, wealth generating industry' it was squandered on a property/asset buying binge:

...the profligacy of the banking sector combined with the wage restraint exercised by the ACTU to generate the funds needed to fuel the mad asset boom that eventually triggered the 1990 – 91 recession (Toohey, 194: 231).

For 15 years, reductions in the living standards and security of Australia's labour force were justified as the only way back to full employment. Not only was full employment never restored, but Keating, his Treasury officials and the Reserve Bank Board rewarded Australian worker's for their restraint by applying a large and sustained interest rate rise to quell an asset boom caused by the beneficiaries of that restraint, and drove up unemployment to over 11 percent. Though Keating and his advisers claim they did not intend so large an increase in unemployment, they do not dispute they expected a significant rise. A partial re-regulation of the banking sector, or fiscal measures targeted at property speculation, such as a capital gains tax or the abandonment of negative gearing, were indicated by the known cause of the problem, but instead they applied the bluntest policy instrument in their arsenal, massively restocking the pool of unemployed for the 1990's.

Full employment was abandoned as a policy goal to undermine the bargaining position and confidence of the labour movement, a strategy conceived in the early 1970's as a defensive measure at a time when full employment made worker's industrial demands irresistible. As a labour-disciplining device, unemployment is nowadays augmented by many other sources of social and economic insecurity, for once having cowered the labour movement through the restoration of mass unemployment, it was not only possible to reverse worker's material gains of the post-war period but to deepen and extend precariousness and insecurity throughout society. Labour market casualisation, the decline of public provision (for example, health and education) and the increased conditionality of welfare provision are examples.

5. Up in the Ferris wheel with Harry Lime

'Have you ever seen any of your victims?'

'Victims?' he asked. 'Don't be melodramatic, Rollo. Look down there,' he went on, pointing through the window at the people moving like black flies at the base of the Wheel. 'Would you really feel any pity if one of those dots stopped moving - for ever? If I said you can have twenty thousand pounds for every dot that stops, would you really, old man, tell me to keep my money-without hesitation? Or would you calculate how many dots you could afford to spare? Free of income tax, old man. Free of income tax'. Graham Greene's 'The Third Man' (Greene 1964: 129).

Perhaps it is time to ask: who has the attitudinal problem?

When the Reserve Bank's then Chief researcher, Ian McFarlane, first declared to the inner circle of Treasury/Reserve Bank/Economic Ministers that contrary to their 'soft landing' predictions they had caused a deep recession, he then argued that they should persist with high interest rates and use the opportunity presented to them by this surge in unemployment to squeeze all the inflation out of the system. He thought 10 percent unemployment should be sufficient. (Toohey, 1994: 209). In retrospect those involved in creating the recession agree that it had been 'a mistake', yet its perpetrators bore none of the consequences, and indeed those most culpable were significantly rewarded (Toohey, 1994: 204). For his part, Keating's colleagues rewarded him with the Prime-Ministership. Despite expressing public regret (at the time of his ascension to the ALP leadership) for the recession, and for saying it was one 'we had to have', in private he continued to believe it was totally necessary and justified.

The thing is", he said, referring to his much-criticised earlier statement on the recession, "it actually was the recession we had to have. Spending was running much too fast. Inflation was too high. We get no credit for low inflation, yet it was a great achievement (Edwards, 1996: 503-4).

The one aspect of unemployment that worried Keating and his cabinet colleagues, was how it would affect their re-election prospects in 1993 (Blewett, 1999: 155). Indeed, Keating had to be reminded to show some sensitivity to the unemployed in his public pronouncements. Neal Blewett recorded Keating's view on the benefits of unemployment for driving the economic reforms he envisaged for the 1990s. Flying to Canberra in June 1992 with Paul and Annita Keating and Don Russell, Blewett mentioned to Keating:

I had heard critical comments at grass roots about how his proclamations about economic recovery sat ill with public perceptions over the numbers unemployed. While Annita agreed with me and Paul did not disagree, my remarks set off a new burst. According to the PM the countries that are going to 'make it', that are going to emerge 'at the top of the pack', are those with some degree of unemployment during the transition period between the first phase of economic restructuring (Australia in the eighties) and the second stage, which will follow in the middle nineties. He got rather carried away with the notion of unemployment in this phase of restructuring - 'international', necessary' and 'inevitable. 'It is the unemployment we had to have'. He became so animated that Don, Annita and I sought to calm him down. We made him promise that he would never perform like this in public (Blewett, 1999: 153).

Keating's attitude to the distress of the unemployed is perhaps best illustrated by this note about a pre-debate briefing in the 1993 election campaign.

... as usual, Keating was urged to say he was distressed by unemployment. 'Cheap sentiment', he said, 'is the villain of public life' (Edwards, 1996: 505).

6. Making *unemployment* the problem.

It is hard to imagine what life is like for people who move in vastly different social circles to ourselves. The industrialists, senior bureaucrats, politicians, media moguls, and their peers have no conception of the burden that unemployment places on the lives of others. Their privilege protects them from ever experiencing the fear of poverty or the crushing sense of worthlessness and despair unemployment entails. The chances of their even meeting one of the hundreds of thousands of people left scarred by the unemployment they glibly invoke are extremely remote.

From their point of view, the restoration of full employment would be a disaster. It would undo everything they have striven to achieve over the past 30 years. The ghosts of Phillip Lynch, of Menzies, of Sir Colin Syme, of the old media barons, whisper to them: remember the bind we were in...remember how once they had full employment they wouldn't give it up...how they squeezed our profits...look what you'd lose: your massive incomes...

Viewed from the Ferris Wheel, unemployment is a useful social and economic management tool that today, thanks to decades of public agenda management, has minimal downside for those that wield it. Keating's 1993 election win demonstrates the extent to which the threat of an electoral backlash that so worried politicians throughout the years of full employment has been neutralised. Whereas the public once saw more than 2 percent unemployment as a deliberate or extremely incompetent act of government, they now accept mass unemployment as an unavoidable part of life, irrespective of which party is in power.

The reason unemployment persists is because it is not a problem for the people that run our economy. It was the solution to the problem of 25 years of full employment. The main problem policy makers have faced since the restoration of unemployment has been to retain its potency as a source of labour force discipline over time, and to do so as cheaply as possible. This has involved skilful agenda management, bi-partisan support for measures designed to drive the unemployed to compete for non-existent jobs, and bi-partisan opposition to measures that might lower unemployment, such as public sector job creation.

To achieve and sustain full employment may well require innovative macroeconomic strategies and new institutional arrangements to control inflationary effects. More significantly, it will require the Australian people to demand full employment of their representatives, and punish transgression irrespective of mythical class-party allegiances. The class-warriors of the economic departments need to be exposed to the consequences of their 'mistakes', either by linking their results in relation to unemployment to their pay packets, or making frontline public contact work mandatory for all policy makers. For unemployment to be eliminated in this country it has to be made a problem for the people who control macro-economic policy, just as it has been for the rest of us these past 30 years.

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Notes

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² The Financial Editor of the conservative Melbourne broadsheet 'The Argus' made the point explicit: "The experience of the war years has shown the Australian people that full employment can be attained. They are not likely to accept as inevitable the waste and soul-destroying bitterness of the large-scale unemployment of the depression years". 'Full Employment Must not Fail', *The Argus*, 31/5/1945.

³ As well as the New Guard, formed initially at the request of conservative Prime Minister Stanley Bruce to attack union demonstrators (Campbell, 1965), Michael Cathcart reports 30,000 men were under arms in Victoria (under the Command of Police Commissioner Blamey)(Cathcart, 1988) and Andrew Moore writes of similar sized forces in NSW (Moore, 1989).

⁴ Robert Menzies and Wilfred Kent-Hughes co-edited a magazine entitled 'The Young Nationalist' in the late 1920's – early 1930's which frequently sung the praises of Mussolini and Hitler. Kent-Hughes (who was the Victorian Government Minister for Sustenance) produced a series of four essays in the Melbourne Herald in 1934 entitled 'Why I have Become A Fascist'.

⁵ For example 'The Argus' reported the views of one Liberal MHR under the heading "Regimented like slaves": 'Mr Hutchison (Lib V) said he was left cold by all this talk of full employment unless he had full details about what the Government meant by full employment. He had seen full employment in Russia and Germany in 1935, which meant the people were regimented like slaves. He did not think provisions for full employment were embodied in the bill. All it provided were safeguards in certain contingencies, and they meant little or nothing. Two problems to be faced were demobilization and finance'(Argus 19/5/45).

⁶ For example, Menzies used this latter argument for opposing universal access to the Commonwealth Employment Service, a central pillar in the institutional framework of full employment, when its legislation was debated: "...the moment you introduce, in any sense, provisions to meet civilians in a bill for the re-establishment of service men and women you do something immeasurably dangerous". House of Representative Hansard, 10 May 1945, p 1585.

⁷ Harding reports the use of a host of recognised agenda management techniques. These include: tokenism (establishing programs of limited impact), postponing issues (through establishment of inquiries), symbolism (announcing changes to unemployment benefits rules to imply fault on the unemployed, even when these provisions already existed), and constant changes to measures of unemployment to confuse public perceptions of the issue (Harding, 1985:244).

⁸ For example: The Sydney Morning Herald headline: 'Curb on sloppy dress, Gold Coast holidays: Govt moves to weed out dole cheats' (SMH, 16/1/76).

⁹ Heinz Arndt was Professor of Economics at Melbourne University and by 1976 headed the Australian Association of Cultural Freedom, publisher of the right-wing journal 'Quadrant'.

¹⁰ Harcourt first mentioned this in a footnote to a 1995 essay: 'I vaguely remember being summoned by a well-known professor of economics some time in the 1970s to a highly secret meeting of about ten or so Australian professors of economics at the University of Melbourne. There we were urged to 'educate' the public to accept higher levels of unemployment than had been the feature of the postwar world. I remember that only I and one other person present were scandalized by the request; in retrospect I bitterly regret not 'spilling the beans' about it all at the time. Now that I am, I cannot

remember exactly when it occurred or who was there!' (Harcourt, 1995:31) In conversation with Harcourt in December 2003, we concluded that the meeting probably occurred sometime in 1974.

¹¹ Sharon Beder notes: Almost one third of IPA's \$1.5 million annual budget comes from mining and manufacturing companies. It has 700 corporate members and 3000 individual members, some of whom are subscribers to its various publications. Its council has included Murdoch as well as other conservative business leaders. Like many of the US conservative think tanks, the IPA has good connections in the media via right-wing commentators with regular columns in major newspapers. It also has good political connections. Its staff includes former senior public officials and former politicians. John Stone, a former Secretary of the Treasury, is a consultant to the IPA and Dame Leonie Kramer, Chancellor of the University of Sydney, has headed one of the IPA's units. The IPA's current units are on Deregulation, Economic Policy, Indigenous Issues and Environmental Policy. (Beder, 1999:30-32)

¹² The IPA, for example, were circulating 'hundreds of thousands of copies of its 'free enterprise' literature to workplaces and to over 1200 schools. He also announced that former Liberal Defence Minister Allen Fairhall had '...called for a national "propaganda organisation which would incorporate a unique political monitoring system to alert business to new threats aimed at them' (Allen, 1976). This group, the Australian Free Enterprise Association (AFEA)¹², was established with \$35,000 donations from CIG, Kodak, Esso, Ford Motors, IBM(Carey, 1995:114). Its propaganda arm, 'Enterprise Australia (EA) conducted an extensive schools program, sponsored posts at Monash and other Universities and ran neo-liberal / pro-business radio advertisements throughout Australia at an annual cost of \$1 million. Its annual fund-raising target from 1979 onward was \$2.5 million (Carey, 1995:116). These campaigns continued well into the Fraser and Hawke years, receiving encouragement from both political leaders (Carey 1995:112-118, 127). Organisations such as EA, CEDA, the Centre for Independent Studies (CIS), the IPA and the Business Council of Australia received generous corporate and public funding throughout this period to promote the 'free market' 'free enterprise' line of neo-liberalism (Carey 1995:122-124). Free-market champions such as A.F. Von Hayek and Milton Friedman were brought to Australia to meet journalists and senior bureaucrats, while Television networks ran Friedman's 'Free To Choose' television series.