WAS THE POST-WAR BOOM KEYNESIAN?

by

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1. Introduction

The post World War II boom in the advanced capitalist countries was of a duration and depth that transcended the wildest optimism of most informed observers in 1945. This much-idealized phenomenon has been pervasively described as the 'Keynesian' era. What does this mean? A seeming agreement on labels hides an extraordinary ambiguity of meaning.

In the first instance, the dominant preoccupation of the new grouping of 'macroeconomists' was with Keynes and Keynesian theory. This dominant preoccupation became enunciated in a well-defined syllabus and reflected in a stereotyped format of myriad textbooks.

This theoretical emphasis was supplemented by a developing empirical tradition as an 'application' of Keynesian theory. At one level, it has been embodied in a plethora of empirical studies on monetary policies and fiscal policies (and to a lesser extent wages policy), seen as the sum total of relevant policy instruments (e.g. Runcie, 1971; Artis & Wallace, 1971; Neville & Steiner, 1972; Rowan, 1980). This work was complemented at a technically more sophisticated level by macro-econometric modelling, whether of full-scale models or of sub-components (consumption functions, investment functions, etc). These developments, whatever their claims as to 'testing' and 'falsification', involved the application of a conceptual structure whose epistemological status was essentially *a priori*. Moreover, these empirical developments were all oriented towards the theoretical policy goal of stabilization and control of the (national) economy. Finally, these developments were underpinned and reinforced by a new 'national accounting' framework, also presumed to be 'Keynesian' in its origins [denied by Patinkin, 1976].

The implications of this emphasis are unclear. Does this concentration of energies imply a substantive labelling - that Keynesian theory was absorbed into the political machinery and its derived techniques fundamentally responsible for the generation and sustenance of the boom? Alternatively, is the label symbolic; if so, symbolic of what? Has the profession chosen to leave the explanation of the boom's foundations to others?

Contributors to the literature differ in their assessment. Some use the label in a substantive sense (Whitwell, 1966; Schott, 1982; Tobin, Dillard in Wattel, 1985). Others are contradictory in their assessment, simultaneously claiming a dominant role for Keynesian ideas and policies while positing arguments which imply a subordinate role (Shonfield, 1965:64; Maddox, 1987). Others devote their energies to Keynesian ideas and policies but remain non-committal on their significance (Artis & Wallace, 1971).

An alternative position involves the presumption of influence, but through *indirect* channels. This position denies that demand management was crucial to the boom; rather, Keynesianism infused in governments a willingness to intervene if necessary, which boosted private sector general confidence (Bleaney, 1985). Others interpret the significance of Keynes in providing respectable 'cover' for popular demands for full employment policies. More broadly, the label appears to be used to refer to the (quantitative) rise in the role of the state *per se* (and in this sense used interchangeably with the label 'the welfare state').

Finally, some deny the substantive role of Keynesianism. In the words of an anonymous referee of this paper:

"Keynesian policy was always normative! How a government should behave if it wanted to tackle certain problems. It was never an explanation of how governments actually behave."

There is thus a marked variability of intent in the use of the 'Keynesian' label. It is an ambiguity which the bulk of the intellectual community has been happy to tolerate. This variability serves an obscuratory role. The sanguine use of the label has generated a pervasive acceptance of the post-war period as well-understood, whereas the opposite is clearly the case.
The collapse of the boom has not produced a major questioning of methodological priorities. There has been a major growth industry in paradigms more compatible with the libertarian spirit of the age (monetarism, rational expectations, general equilibria, etc.). But the emphasis remains on theory per se. Insofar as the historical record has any presumed relevance, it is subsumed within the pervasive belief that the death knell of Keynesian theory and policy was signalled by the rise of stagflation. This is a fatuous argument, and nearly avoids an explicit examination of the relevance of Keynesianism for the post-war boom. The omission is costly, especially for those of a reformist persuasion. If Keynesianism is tacitly accorded substantial kudos for the successes of the long boom, the demise of the latter must necessarily carry with it the reputation of the former. Some literature has arisen which addresses this issue explicitly (e.g. Matthews, 1968; Skidelsky, 1979; Tomlinson, 1981; Bleakley, 1985), but this literature remains small in volume and marginal to the profession's concerns.

A questionable vision of the nature of government arises from inferring a causal relationship between the application of 'Keynesian' policies and the relatively benign experience of the post 1945 boom. The Keynesian ethos implies a policy process (since 1945) that is essentially a product of reasoned and enlightened detachment. Other elements follow from this underlying presumption. First, it implies a dramatic political conversion - a qualitative elevation in the art and ethics of government from a past imbued with incompetence and venality. It thus neglects elements of continuity in values and politics, and distorts the character of significant discontinuities that did occur (the rise of American power). Second, it implies a bipartisanism in politics, impeding a 'convergence' in party programs that is based on enlightened opinion rather than on structural imperatives (cf Head, 1985). Third, it implies an underlying homogeneity of policy priorities across the range of advanced capitalist countries (these elements are present in Wattel, 1986: Chs. by Tobin & Dillard).

Moreover, the peculiar prejudices of the textbook Keynesian vision direct emphasis to the role of government at the 'aggregate'

level. The microeconomic or structural components of the economy are presumed the product of the organizing talents of the market mechanism. The structural interventions of governments tend to be ignored. Indeed, no account of any degree of comprehensiveness exists for post-1945 Australia.

An alternative perspective and emphasis is overdue. In general, the post World War II boom was produced by a complex, historically specific set of forces. Government policy was certainly influential in generating the boom, but its contribution was multifaceted. Those policies that can be reasonably labelled 'Keynesian' were supplementary rather than dominant. Even that subset of policies which appear Keynesian in terms of the instruments used were often directed to non-Keynesian priorities. The role of the private sector was vital, but it was linked to a boom phase in a long wave of economic activity. The intertwined relationship between global reconstruction, national government activities and private sector 'health' was such as to be compatible neither with the view of pro-business propagandists (Institute of Public Affairs, 1975) nor with the view of Keynesian economists.

Certainly Keynes' ideas were influential. But Keynes was merely one input, albeit prestigious and analytical, appealing, into a material and ideological transformation that was organically linked to the contemporary environment. The experience across capitalist countries was markedly different, dependent on varying economic conditions, nation-specific cultural inheritances, and a varying balance of class forces (cf. Shonfield, 1965; Hall, 1984). The transformation was the fruit of adverse conditions, constrained by long-term forces, fashioned also by a local intelligentsia, and reinforced by pragmatic experimentation. The policy process has also to be interpreted in this light.

Quotations from two respectable economists capture succinctly the distortions underpinning the attachment of the label 'Keynesian' to the post-1945 boom - from Douglas Copland (1951:25):

"..."
"I suggest that the reason for this excess of confidence lies in too much emphasis being placed on the Keynesian doctrines in circumstances in which it is difficult to apply them ..."

Full employment during and since the war has been inevitable and has not been due to any overt act on the part of economists or governments, so there is no particular justification for self-satisfaction in that direction. If one thing is certain it is this: when full employment ceases to be a reality there will be nothing straightforward about the measures needed to correct the situation."

and from Andrew Shonfield (1965:64):

"...the two nations which had earliest and most readily absorbed the Keynesian message - Britain and the United States - were also the least successful among the Western capitalist countries in managing their economies after the Second World War. This contrast would itself be sufficient to suggest that the purely intellectual change which is popularly labelled the 'Keynesian revolution', is not the decisive factor."

In what follows, the character of Keynesian 'demand management' policies and their significance for the case of Keynesian macroeconomists are discussed. To provide a broader context, two 'plausible stories' are constructed. First, key contributory elements in the origins and maintenance of the post-1945 boom in Australia are posited. Second, key elements underpinning the particular character of the Australian political economy are posited. Both these stories are combined into a narrative which aims to give both a perspective and coherence to the complex economic reconstruction in post-1945 Australia. A concluding section discusses the implications for theoretical Keynesianism and for the theoretical preoccupations of macroeconomists.

II. The Role of Demand Management

The empirical construct most favoured by economists for the measurement of economic 'performance' is gross domestic product (GDP). Figures 1(a,b,c) show, respectively, movements from 1900 in real GDP, deviations from trend, and growth rate per annum (Parkin & Bade, 1986:16). From casual observation, the 1945-75 period was remarkably successful - an increase in the trend rate of growth, a reduction in income volatility, and an absence of absolute income decline (with one exception, 1952).

Fig.1. Real GDP: level; deviation from trend; growth rate

![Real GDP plots](image-url)
What has been the significance to this experience of 'demand management' policies compatible with a Keynesian vision? Since 1945, there have been occasions in which a surplus or a dearth of aggregate economic activity has brought forth policy measures designed to either reduce or increase activity. Such events have been the subject of substantial examination by the economics profession (e.g. Runcie, 1971; Perkins, 1977; Howan, 1980); indeed, they have been the central focus of policy-oriented economists in the post-1945 period. A number of annual budgets and an increasing range of instruments of monetary/banking policy have been used to this end. For example, observably expansionary annual budgets were brought down in 1958, 1961, 1963 and 1966; observably contractionary budgets were brought down in 1951 and 1960. These have been supplemented by occasional mini-budgets, in particular, in March 1956 and November 1960 (both contractionary), and in February 1962 (expansionary). The mini-budgets were used in times of desperation and/or pressured by electoral politics.

In the early years, monetary measures emphasized controls over trading bank lending, in particular Special Account requirements, development of a 'liquid and government security' (LGs) asset ratio convention, and qualitative restrictions on bank lending. The Reserve Bank supplemented these in the early 1960s with the use of open market operations in a broadened securities market and the variation of interest rates on bank advances. Notable examples of such monetary measures oriented towards expansion occurred in 1951-2, early 1962, and in late 1971: notable monetary measures oriented toward contraction were used in 1960 (three times), mid-1966, mid-1969 and in late 1973.

How has the profession interpreted these policy measures? For that camp which believes in substantive influence, there is the presumption that such 'demand management' measures are the sine qua non of the boom. It remains unclear from such exponents whether such policies are responsible for the boom's origins, its sustenance, and/or its smoothness. The question of origins aside, casual evidence indicating the longevity of positive income growth and a marked reduction in cyclical fluctuations in real income (shown strikingly in Figures 1c and 1b) would appear to offer strong support for a causal influence on the boom's sustenance and its smoothness. The evidence is certainly supportive; nonetheless the relation remains correlative, and causation a matter of speculation on which reasonable people might disagree.

Efforts to test explicitly for causation have not reached promising conclusions. The seminal work in this regard (relating to fiscal policy) is that of Matthews (1968), but his negative conclusions do not appear to have dampened the enthusiasm for inferences of causality or persistence of scholarly orientation towards demand management policies. More fundamentally, the dimensions of 'trend' and 'amplitude' may not be strictly separable. Literature from the genre positing 'long waves' in capitalist development suggests that the reduction in cyclical amplitude may be endemic in long boom periods, and integrally produced by the same complex forces that generate the boom itself (Gordon, et al., 1982:95).

At a more narrow level, the substantial literature on demand management has focused attention on the details of time and place, and on how well the authorities performed through fiscal and monetary measures in regard to strength and timing. The typical judgment within this literature of such measures is that occasional 'successes' and more numerous 'failures'. Such judgments use the benchmark of what might have been tried if the policy makers shared the vision of the macroeconomics profession - effective countercyclical stabilization as the dominant government responsibility. By such standards the policy-makers have been judged as being persistently inadequate (especially regarding fiscal policies), both in their refusal to take 'appropriate' measures and in the argued weakness and lateness of policies actually pursued. By the standards of a whole-hearted Keynesianism, governments come out with a poor track record.

The judgment of economists at different levels of analysis is thus not self-evidently compatible. The general presumption of spectacular success in the large does not sit easily with the generally negative conclusions of the detailed studies. It is possible to effect a reconciliation, concluding that demand management policies were generally successful, but that, at the
margin, many imperfections left something to be desired - on balance a positive outcome. However, it is difficult to find an explicit evaluation of this nature.

Within the detailed literature, economists have occasionally sought reasons for the poor performance of policy-makers, mentioning such factors as electoral pressures and other priorities. Artis and Wallace (1971), the definitive evaluation of post-1945 fiscal policy to that date, have even discussed statements from key figures with an explicit aversion to assertive stabilization policy (Treasurers Fadden in 1955 and Holt in 1959). In general, the profession has interpreted these factors as anomalies or as weaknesses in the political fabric, without attempting a coherent explanation of the genesis of these pressures and priorities. The emphasis has been a normative one - examining the gap between the Keynesian ideal and that part of policy which bears some resemblance to it. The emphasis has not been on an explanation of the full breadth of (economic) policies and the forces which brought about those policies.

III. The Long Boom in Australia: the Context

The post-1945 boom deserves to be interpreted as a complex political, economic and social phenomenon, requiring a multi-disciplinary perspective drawing on the insights of political scientists and sociologists. It also needs to be interpreted in a long-term historical context. In this regard, ‘long wave’ theorists possess insights of relevance (e.g. Mandel, 1975; Aglietta, 1979; Gordon, et al., 1982; Cutley, 1984); economic historians have also made a useful contribution by moving their orientation forward in time (Maddock, 1987). The desired perspective is broader conceptually and more empirically based than the orientations of economists. The foundations for the boom are thus to be found in the conjunction of historically specific elements, temporal conditions which provided not merely the basis for the boom but the basis for its later collapse.

The boom was a global phenomenon favouring all advanced capitalist countries, so clearly some special conditions had an international character. Yet the boom of each country was arguably due to a unique set of conditions. These contributory elements arose or were developed in phases - conditions generated by depression or world war were of immediate significance after 1945; other elements were generated in the late 1930s or after, providing the basis and sustenance for a genuine long boom. The set of conditions of major significance for the boom in Australia were the 1930s restructuring, the impact of war, the construction of Pax Americana, a favourable cultural environment, favourable labour conditions, and renewed capital accumulation.

1. The 1930s expansion.

The long boom in Australia has as one of its foundations the industrial expansion in the 1930s (Schedvin, 1970:Ch.XII). It was centred on manufacturing, and metals and machinery in particular, with linkages throughout the economy. Efficient steel production was fundamental, but there were also developments in primary and industrial machinery and equipment, in automobile components and in domestic appliances. The protective climate generated by the 1927-31 crisis provided the immediate stimulus, but the grounding was provided by earlier developments in the ascendency of a manufacturing sector. To quote Schedvin (1970:378):

"The depression thus provided a powerful stimulus to Australian industrialization, and by removing the excessive dependence on overseas capital that developed in the 1890s, it helped to lay the foundation for comparatively stable long-term growth in the post-war period."

II. World War II.

The war spawned a number of changes with long term consequences, particularly with respect to administrative machinery and industrial developments.

a. World war provided a vehicle for appropriating a range of powers and functions and creating a substantial federal bureaucracy. Foremost amongst these developments was appropriation by the Labor Government of monopoly income tax powers for the Commonwealth in 1942, crucial to any central direction of economic policy. The other significant federal appropriation of formal powers, this time from
the private sector, was through the Banking Acts of 1945. These Acts were a product of war powers and a reformist political response to the 1930s depression, made possible by the election and re-election of Labor governments in the "favourable" context of world war.

Federal ministers and their advisors undertook an attempted broad reconstruction of the social economy. These initiatives were taken via new bureaucratic institutions, especially those embodied in the Department of Post-War Reconstruction (1942-1950). Although bureaucratic restructuring occurred with the diminution of war-related pressures, the change in government in 1950 and a change in Australia's trading patterns (Deane, 1963), these institutions had a long-term impact on policy in these spheres. The Bureau of Agricultural Economics, for example, represented a new era of research activities assisting rural development. Other institutions were transformed into instruments for federal-state cooperation where federal constitutional powers were lacking (the Commonwealth-State Housing Agreement, rural commodity marketing schemes), yet retaining unprecedented federal influence.

The federal bureaucracy itself experienced dramatic transformation. It came to include an unusually large number of relatively young people who were intellectually and morally motivated towards a "new order" and who might not have otherwise entered the political arena. They certainly would not have otherwise exerted the same degree of influence (Alomea, 1981; Crisp, 1965:439).

b. Key industrial developments were similarly tied to the white-heat of war-time necessity. These were to provide a basis for post-war boom industries. There were induced developments in basic scientific research, metal working, chemicals, shipping, textiles, mineral exploration and development, and power generation (Mellor, 1958:Ch.29). Large-scale provision of factory facilities was a significant complement to developments in technique and in bureaucratic assistance. In general, the war provided stimulus to an unprecedented expansion of Australia's manufacturing sector.

According to Haig (1975:143):

"By far the largest percentage increase in Australian manufacturing product occurred during World War II. In the twenty-eight years up to 1938-9, manufacturing product about doubled, with an annual growth rate of 2.7 per cent, but in the following ten years the increase was 60 per cent, or an annual rate of 4.7 per cent."

The significance of this change is aptly expressed by the Committee to Advise on Policies for Manufacturing Industry (1975, I:28):

"Manufacturing demonstrated capabilities in heavy industry and high technology areas where development had not been considered feasible. The period was a watershed in the development of an integrated, largely self-sufficient industrial sector in Australia."

c. Other war-related factors significant in continental Europe also had an indirect effect in Australia. These included the destruction of infrastructure, the substantial impairment of established production and exchange relations, and the displacement of populations. Post-war Australian rural exports benefited substantially from the dislocation of overseas production which did not recover until the late 1950s. This resulted in enhanced foreign exchange earnings in the late 1940s, culminating in the 1951 wool boom (Bureau of Agricultural Economics, 1971:25). Economic activity was also boosted by refugee migration to Australia, notably employed in construction of the Snowy Mountain power scheme and in conditions that an Australian-born workforce would not have tolerated.

iii. The Construction of Pax Americana.

Now international financial and trading arrangements are perhaps the most widely acknowledged developments underlying the post-1945 boom. However, interpretation of these arrangements vary dramatically. The new arrangements were the product of persistent attempts of U.S. internationalists, centred on the State Department, to establish an open world economy. The grand ambition was nothing less than the global expansion of liberal capitalist institutions to Europe, to the Soviet Union and to the colonies emerging from European imperialism.
Three dimensions were significant. First, the U.S.A. pursued the eradication of impediments to 'open door' free trade, reflected in the Atlantic Charter of August 1941, the Mutual Aid Agreement of September 1942, the terms of the 1946 British Loan, the 1947 General Agreement on Tariffs and Trade (G.A.T.T.), the pressure for European regionalism (resulting in the establishment of European Economic Community and European convertible currency) and in the 'Kennedy Round' push for tariff and quota reductions during 1958-1962. Second, the International Monetary Fund and the World Bank were molded as instruments of monetary discipline for debtor countries. The IMF and the World Bank were not created after the contemporary vision of Keynes, who desired instruments of international reflation to complement the discretionary policies of nation-states as a means of enhancing global employment (Block, 1977).

The 'open door' push was predictably slow and only partially successful. Moreover, the very success of the U.S. in fashioning the IMF and World Bank into institutions of financial austerity inhibited their immediate capacity to facilitate dramatic economic reconstruction. By 1987, the 'internationalist' program was being replaced with a 'sphere of interest' program, centered on containment of the Soviet Union. Emphasis subsequently moved to a third set of instruments. In these, the U.S. attempted a wholesale reconstruction of the Western European political economy with the 1947 Marshall Plan. This was soon complemented by escalating military expenditure and private direct investment on an unprecedented scale. U.S. national and corporate interests were of primary concern, but other advanced capitalist economies enjoyed a junior partnership in the ensuing expansion of trade and capital flows. The sheer dominance of the U.S. economy, coupled with an aggressive and comprehensive foreign policy, was thus a major factor in facilitating long-term expansion of the global capitalist economy (van der Pijl, 1984).

Enhanced trading opportunities and renewed capital inflow were two products of this expansion. Within the terms of G.A.T.T., Australia facilitated the expansion of trade via the negotiation of mutual tariff concessions, bilateral agreements with key trading partners, and international commodity agreements for the production and sale of primary commodities. Annual real exports increased on average by 5.9% in the two decades from 1950, compared to an average increase of less than 2% for the thirty years preceding World War II (Boehm, 1971: Ch.4).

iv. Favourable Cultural Milieu.

Domestically, a broad cultural transformation was also conducive to sustained demand conditions underwriting the boom. This had been in the course of development for some time but did not reach fruition until after 1945 with the transcendent of depression and global war. Psychologically, there was the collective desire for social stability and economic security (Alcorn, et al., 1984). Substantial accumulated war-time savings provided a material base (Coombs, 1981:118). Politically, this mood was important in the re-election of the Federal Labor and some state Labor Governments. Sociologically, it was manifest in an unprecedented marriage rate and a high level of family formation (Gane and Pringle, 1977).

The spatial expression was suburbanization. Family and household formation was certainly supported by governments. War-time commissions evinced a widespread dissatisfaction of wives with housing conditions. A general liberal paternalism coupled with a bureaucratic eye on the population pressure grew public pressure for better housing conditions. The substantial growth of mortgage finance was one important outcome. Notwithstanding the skimming on amenities for new suburbs, there were major quantitative and qualitative improvements within the household (Allport, 1983). This new environment, physical and cultural, provided the location for new and sustained demand for products of the consumer durables sector, especially in housing construction (and the accompanying social infrastructure), the automobile, white goods and furniture.

The boom in the consumer goods industries was self-reinforcing. Development of new financial institutions and instruments with more secure business was crucial to continued expansion. Mortgage finance was fundamental to suburbanization; new consumer credit institutions contributed to financing home furnishings and private transportation. Hire purchase debt, the dominant form of consumer credit, escalated from a minor sus in 1945 to over $1,000s. in 1960; total installment
credit had grown to $1,500m. by 1965. Private expenditure on motor vehicles, household durables and dwelling construction doubled to $1,900m. between 1952-3 and 1960-1 (Huntle, 1969:19,68).

v. Favourable Labour Conditions.

Labour conditions conducive to sustained profitability provided an important component of the boom. Migration from war-ravaged and rural areas to industrial and service employment was a vital sustaining force of post-war expansion, allowing continued expansion with minimal wage pressure. In Australia semi-permanent migration, mostly from rural southern Europe, contributed 34% of the increase in the workforce during the period 1947-1961, and 61% of the increase in manufacturing employment during the same period (Norman, 1971).

Rising labour force participation among married women was also significant. Between 1947 and 1973, the number of women in the labour force increased by 165 per cent, while the male labour force increased by 50 per cent over the same period. Between 1947 and 71, the percentage of women in the female labour force who were married increased from 15 per cent to 57 per cent (Ryan and Conlon, 1975:174). Marriage at an earlier age and having fewer children facilitated this change.

Complementing an enhanced workforce was a political environment hostile to labour militancy. Pent-up frustration, strong unions and a buoyant economy contributed to escalating wage claims and wage gains after 1945, incompatible with Chifley's program of sustained expansion. Cold War ideology came to the rescue after escalation of super-power conflict in 1947 (Whitaker, 1984). The Roman Catholic 'movement' developed in Australia as early as 1942 to combat the Labour left (Clarke, 1971). But it took reinstatement of the Soviet Union and communism as the practical and ideological antithesis to 'freedom' to end the labour militancy of the immediate post-war. The economic significance of this development is to be found in decisions of the federal Arbitration Commission, culminating in the 1953 abolition of quarterly indexation of the basic wage. Although introduced in 1921, indexation only became significant under inflationary conditions after 1945. It was precisely when price indexation of wages became significant that pressure was mounted to have it abolished. Average real wages started to climb by the mid-1950s, linked to the 1954 metal industry margin case and the wage drift of bargaining power of skilled workers. However, this was insufficient to prevent the substantial deterioration of labour's share of national income in the 1950s (Department of Labour and Immigration, 1975). In general, the combination of an atypically flexible workforce and an adverse ideological environment contributed to keeping wage growth in check relative to productivity rises until the late 1960s.

vi. Renewed capital accumulation.

The immediate post-1945 period was characterised by a business pessimism embodying 'stagnationist' sentiments which pervaded the English-speaking countries. This sentiment had been squashed by 1948, and private investment increased persistently, reaching over 18% of GDP by 1970. Combined with public investment (persistently over one-third of the total), gross fixed capital expenditure reached over 25% of GDP by 1960. This percentage was maintained for the 1960s, being the highest since 1881. Manufacturing, the tertiary sector, and mining were major beneficiaries (as well as dwelling construction). The sources of capital were varied - in the decade to 1955, public authority surplus, domestic corporate savings, and personal savings were all significant; from 1955, domestic corporate savings increased as a proportion of the total. (45% in 1965), complemented by foreign investment (11% in 1960, increasing to 15% in 1965) (Boehm, 1971:Ch.5).

Direct foreign private investment in Australia climbed steadily after 1947, and was complemented by institutional borrowings in the 1960s. The estimated value of total direct investment climbed from $550m. in 1947-48 to $2,600m. in 1960-61, and to $7,300m. in 1970-71 (Commonwealth Treasury, 1972:33). The question of the net benefits of foreign investment is a complex one and has been the subject of considerable examination (Wheelwright, 1963; Brash, 1966; Arndt, 1977). Foreign capital constituted roughly 10% of capital expenditure by 1960. But foreign capital and technique went into specific industries, mostly in high value-added categories such as petrochemicals, automobile components and assembly, telecommunications, and mining and mineral processing. These
developments contributed to an unprecedented breadth within the manufacturing sector.

Negative aspects have clearly existed. That the highly profitable General Motors Holden generated the bulk of its capital from domestic sources is a much-quoted example. There has also been the long-term transfer pricing of subsidiaries, highlighting that additional supposed 'foreign' investment was generated domestically. The direction of capital into property ownership (especially in the late 1950s and late 1960s) has been another problem. Actual benefits to Australia were substantially less than potential net benefits when judged by such criteria as cost and 'quality' of investment. Yet these were 'costs' associated with specific constraints within the politico-economic milieu. The Chifley Government desired rapid and broader industrial development in a context of capital shortage; successive Menzies Governments carried over that priority but with an aversion to detailed intervention into the character of specific investments. Within such constraints, foreign investment made an essentially positive contribution to post-1947 industrial expansion.


An integral part of the complex origins of the boom is the complex role of Governments. Governments in Australia initiated a wide range of structural interventions. The ALP governments' first forays were of course all war-related. The handing over of munitions factories provided subsidised and discriminatory assistance (with major regional impact) - for example, the boost to the South Australian white goods industry (Hoad,1986:185). Trans Australia Airlines was established as a vehicle for generating competition in air transport, in lieu of the failed 1945 attempt to nationalize the existing cartelised network. A variety of tax concessions were introduced in 1945 to foster plant reconstruction, investment and research. An Industrial Finance Department was established within the Commonwealth Bank to facilitate access to capital by smaller manufacturers. The support for the establishment of General Motors Holden introduced comprehensive automobile production to Australia. In addition, Ford, Chrysler and International Harvester all became established in vehicle production under arrangements made possible by dollar import licensing and controls.

Many of these initiatives were fostered and monitored within the Secondary Industries Division (later the Division of Industrial Development) of the Department of Postwar Reconstruction. The Division of Industrial Development was especially responsible for a mammoth study on the capacity and potential of manufacturing industry, intended as an information resource and as a guide for strategic investment and employment policies (Commonwealth of Australia,1952).

After 1950, successive Menzies Governments altered priorities, but carried on with a series of pragmatic measures to facilitate the expansion of industry and trade. These included export-oriented measures to assist the expansion of both the rural sector and then the mineral sector. These measures were supplemented by the development of a trade treaty with Japan in 1957 (Crawford, 1968). This treaty was to have profound consequences for the structure of both exports and imports as the U.K.'s position in both respects declined in significance (Drysdale,1972). Import-competing measures of course centred on wide-ranging import controls until 1960, and tariffs thereafter.

With the impediment to post-war federal initiative generated by constitutional difficulties, renewed attention to industry policies developed at the level of the states. In some cases this occurred in accordance with the then federal government.14 The bulk of state activity, however, was independent of federal priorities (indeed, it often ran counter to such priorities). In New South Wales, this is embodied in initiatives in energy-based infrastructure in coal and electricity, reflecting the importance of manufacturing (especially steel) for the state. In Victoria, Liberal governments aggressively pursued foreign capital and migrants, and successfully broadened the industrial base both in the traditional light industries (textiles, clothing, footwear), in an 'auto-industrial' complex, and in such new capital-intensive and high-technology areas as oil-refining, petrochemicals and aluminium (Hoad,1986:117). The South Australian Liberal Country League Government continued a policy of state-based
industrial growth, begun in the 1930s. Tasmania pursued resource development compatible with an increasingly powerful bureaucracy resting on hydroelectric power.

Thus, a plethora of industry policy initiatives occurred at the state level. It could reasonably be argued that the centre of gravity of industry policy was (and is) to be found at this level. It is a level yet to be discovered by the economics profession (save indirectly in the field of public finance). It is at this level that the boom, for all its significance in aggregate terms, has a spatial unevenness of some magnitude. The initial impact of the boom is centred on south-eastern Australia. The uneven development characteristic of the first phase is in turn crucial to new initiatives by state governments at the periphery (especially Queensland and Western Australia), contributing to a second phase of the boom in the 1960s. At the aggregate level the boom may appear as the outcome of a policy apparatus set in place at the outset of the boom. At the structural level, the tenuous character of the boom is more transparent, and the significance for the boom's continuation of policy interventions at the structural level is more apparent.

V. Key Forces Underlying the Character of the Long Boom in Australia

The range of historically-specific conditions outlined above contributed to creating and sustaining the boom. The presumed injection of the Keynesian vision into government policy has to be juxtaposed against this contribution and also put in the context of long-term forces.

The transformation of material and cultural conditions in post-1945 Australia was constrained by forces of a more deep-seated character. Analysis of these requires an articulation of distinguishing features of the Australian politico-economic structure. Such features are themselves subject to long-term evolution and possible ossification. Nevertheless, they impact temporal continuity to a national politico-economic structure and channel the direction and pace of transformation. In Australia such forces would include: the inherited physical base, the colonial legacy, a nationalist tendency, racial chauvinism, a hegemonic liberalist culture, an assertive but fragmented ruling elite, a strong labourist presence in industry and politics, and a federalist structure. These forces are discussed briefly as a prologue to forging a more comprehensive story of the nation-specific culture underpinning the post-war boom.

i. The inherited physical base.

The character of Australia's natural resources, in particular the space and fertility for a range of rural products and the existence of a wide range of minerals in commercial quantities, has provided the natural basis for its contemporary economic structure. This basis has to be interpreted as 'enabling', rather than in a deterministic sense which imparts a god-given 'comparative advantage' to economic specialisation.

ii. The colonial legacy.

Australia's colonial origins have exerted an incontrovertible impact on its economic structure. Although as a 'white settler' colony it acquired certain benefits, its subordination has been cemented in its economic structure, its foreign policy and its culture. Australia has had no equivalent to the 1776 American War of Independence. Economic subordination has been most strikingly manifest in long-term fragmentation of the manufacturing sector, particularly in its difficulty in obtaining adequate investment capital (Cochrane, 1980).

iii. A nationalist tendency.

Nationalism has provided a counter-tendency to the colonial legacy without undermining it. In essence, its dominant motivation is pragmatism. Born of necessity, it seeks a modicum of self-sufficiency. Cheap domestically-produced steel provided an early foundation. The development of the manufacturing sector behind protective tariffs is its clearest expression. This is reflected in key developments under Prime Ministers Denison, Hughes and Scullin, and later under Trade Minister McKean. The pragmatism is particularly reflected in the continued support for manufacturing by the commercial/rural coalition of the 1922-29 Bruce-Payne government, and by the 1930s United Australia Party governments after the financial crisis of 1931. The tension between Australia's colonial
subordination to Great Britain and the demands of national economic and political autonomy was initially accommodated by the entry of British capital into a range of key manufacturing industries and by the system of British preferences in tariff policy. By the late 1920s, this was graced with the label 'complementary industrial production', aimed at "coordinating industrial development in the Empire", and with an enhanced role for manufacturing industry in Australia (Cochrane, 1980:37).

iv. Racial chauvinism.

Imperial links were also secured by population policy. 'Populate (with anglo-celtic stock) or perish' has a long tradition as an independent priority (c/f Committee of Economic Inquiry I, 1965:65). Chauvinism was born of a transplanted imperial arrogance long steeped in racism and western European provincialism, nurtured by the insecurity of location in a distant antipodes, and reinforced by experience of Chinese industriousness and kauka exploitation. It received its post-1940 fillip during conflict with the Japanese and feared conflict with the Chinese (Marcus, 1979).

v. An ideological tradition of (flexible) liberalism.

Liberalism has been a pervasive principle channelling political ideology in Australia. However, it has accommodated substantial internal variation. These variations are simply encapsulated in a general polarity about two mores - that of 'free market' liberalism and a 'consensual' liberalism. Having been imported from Britain, the liberal tradition and its competing visions found root in local conditions. A consensual liberalism gained ascendency after the classic conflict of the 1890s, manifest in the 'lib-lab' program of federal governments from 1900 to 1912. It suffered decline in the reactionary environment of wartime I and its aftermath but experienced a resurgence during the 1920s depression and world war II. The Keynesian vision is compatible with this resurgence (but not responsible for it). The late 1940s witnessed another turnaround. The traditional 'free market' vision was revived but was muddled in an incoherent form with conservative versions of the consensual strand. The long boom then was born in a period of consensual liberalism and sustained during a long period in which a qualified free market liberalism was dominant (Rowse, 1978).

vi. The peculiar character of the ruling elite.

The nature of the post-1945 period is dependent on at least two dimensions of the actions of a ruling elite - its self-conscious and assertive character, and the ideological framework underpinning its actions. The personnel and the values of a ruling elite were of course deeply structured in the corridors of power, not least within the High Court (Gelligan, 1987) and the media. The self-conscious and assertive character is reflected in the war-time construction of a parliamentary institutional focus in the new Liberal Party out of a sortabund United Australia Party at the federal level and warring parties at the state level (Lomie, 1978). It is reflected fundamentally in the drastic mobilisation of forces to defeat Chifley's attempted nationalisation of the trading banks.

Elite action was, however, directed through a particular ideological focus, that of liberalism, and its institutional manifestations. This is reflected specifically in the fears generated by Labor Governments' efforts to enhance federal powers and by their attempts at nationalisation (interstate airlines, trading banks). These efforts were widely (and falsely) interpreted as 'the thin edge of the wedge' and an incitement to united action amongst elite circles. The focus is reflected more profoundly in the lack of a sympathetic base for nationalist economic reconstruction centred on an assertive state, and a degree of integration of the institutions of public and private power. Such alternative institutions were central to the agenda of such post-war reconstructions elsewhere (France, West Germany, Japan, Sweden, etc.). In mild form, they were
also part of the feared agenda of the Chifley Government. The peculiar character of the Australian elite then is to be found in the combination of an ideological heritage inherited from imperial parents but in a colonial context devoid of the trappings of imperial economic power. This backdrop contributes significantly to the pragmatic and reactive character of economic policy after 1950.

viii. The 'labourist' presence in industry and politics.

Certain institutions of collective labour also contribute to the peculiarities of Australian culture. These have both contributed to and been influenced by ideological developments constrained within the liberalist tradition. In the industrial sphere, Australia's labour movement is 'strong' relative to degrees of organization that exist in other advanced industrial countries, most notably the U.S.A. and Japan. Save for periods of radicalism in the 1910s and 1940s, the centre of gravity has been a 'labourist' tradition (Nagan, 1981). This is manifest in a militancy most notable on the defensive, in defense of certain workplace conventions, though aggressive in the sphere of material gains when such gains seem achievable. Australia has also had a strong labourist presence in the political sphere. The Australian Labor Party has become the institutional vehicle for this presence. Such parties make a difference to the national political temper (not necessarily in a progressive direction 16), regardless of whether they are in office or in opposition. This influence is manifest fundamentally in the political coalition of non-labor forces since 1917, whose fragile unity is defined precisely in anti-labor terms.

viii. A federalist structure.

Division of constitutional powers between Canberra and the States has refracted political power in Australia. It has involved long-term competition between the states, inhibited initiated in the federal sphere and prompted a laborious process for resolution of conflicts. All these have acted to deter coordinated governmental initiative in directing the national economy (Head, 1986).

It is appropriate to examine the period 1945-72 in some detail, and to place in perspective a range of government policies. The object is to relate such policies to the priorities of successive periods, and to the constraints generated by key features of the Australian 'political economy' enumerated above.

V. Post-War Priorities and Constraints

ALP Government policy priorities from 1945 to 1949 were enounced in an attempted broad restructuring of the social economy and maintenance of controls. The first was of long-term orientation; the second was more short-term. The main aim was to guard against threats to the long-term vision by effecting a stable transition from war-time 'rigidities' to peace-time 'freedoms' (Crisp, 1977: Ch. XIX). Underlying this tension were stresses of a local and international nature. The pace of change was constrained by the dollar shortage, and by the support of sterling and food production for the U.K. Domestically, the control of inflation was a high priority for Chifley (Sheridan, 1981:5). A key element in the control of inflation was the control of wages, which was to highlight the objective conflict of interests between Labor in the political sphere and labor in the industrial sphere.

The year 1945 was a high-water mark for the 'nationalist' tendency at the international level (Beresford and Kerr, 1980) and consensual liberalisms at home. Both priorities were responses to the suffering and sacrifices during the depression and world war. The ALP in federal office was both the creature of and the political vehicle for these sentiments (Howse, 1978:134). 17

The 1945 Commonwealth Bank and Banking Acts were a fundamental ingredient in the long-term package, and an integral product of the nationalist tendency at the domestic level (Johnson, 1989). Elements of the Australian Labor Party had long defined their radicalism in terms of the 'money power'. Broader groupings had also become discouraged at the powerlessness of governments in the field of monetary policy and the direction of investment capital (Crisp, 1977: Ch.XII; Coombs, 1981: Ch.4). The Banking Acts therefore included provisions for short-term control over credit flows and monetary aggregates, and provisions for long-term discretion over the direction and cost of investment capital.
Establishment of a National Works Council (1943-1953) was part of an attempt to deal with economic stagnation and structural and regional imbalance in a more assertive and comprehensive manner, though its federalist structure was itself a compromise. The Snowy Mountains Scheme stands out as the dominant monument to its activities. The Council was less productive in its short life than its creators had envisaged, for reasons including capital shortage, competition between the States, and the unexpected buoyancy of the private sector itself (Crisp, 1977:303).

Large-scale immigration was an integral ingredient of the long-term program. A number of factors contributed to this turn-about from previous ALP and labour movement policy (Marcus, 1984a; 1984b). A stagnationist thesis was popular during the 1930s, of which declining domestic fertility was a worrisome element. This reinforced a concern with 'underpopulation' in the context of an Asian region that was both highly populated and militarily threatening. It brought home another aspect of defence vulnerability, the severe manpower crisis in 1943 at the height of the war. Finally there was British government support for emigration of British peoples. The immediate post-war period reinforced the views of Chifley and Calwell. Substantial labour shortage existed in the civilian economy with (in the planners' view) a redistribution of existing labour away from 'essential' industries. Enhancement of domestic population increase was also of significant bureaucratic concern. The provision of secure material living standards was to be the means (Cass, 1983; Alport, 1983). According to Markus (1984a:33,32):

"To achieve the objective of fully developing the country's resources and hence increasing the defence capacity immigration was a vital ingredient: ...[immigration] was but one side of population policy, the other being schemes designed to raise the birthrate. Population policy itself was a component of the program of post-depression and post-war reconstruction, designed to bring economic security to all Australian families."

Implementation of its program involved the Chifley Government in a mounting series of defensive political battles. The re-writing of the manifesto that was to become the White Paper on full employment reflected the internalization of the pressures of a hostile opposition (Commonwealth of Australia, 1945; Black, 1981). In the International arena, the main thrust of the post-1945 policy process was a struggle, predominantly against U.S. interests, for the right to a modicum of national discretion in trade and employment policy (Beresford and Kerr, 1980). There were also major political battles at home. These came from expected quarters - a constantly hostile press and an increasingly hostile business community. Most significant was the fight with the trading banks over implementation of the Banking Acts. There was also conflict with the medical profession over the implementation of the 1949 Pharmaceutical Benefits Act which provided for a range of free medicines. There was sharpening disagreement with the labour movement over moderation of wage and hour demands. Finally the loss of the August 1944 and May 1945 referenda brought a deterioration of federal powers, implying loss of coherence in a wide range of programs (regional policies, public works, housing).

Within this adverse environment, the colonial legacy was to provide constraints of a more long-term character. Most immediately, it committed the ALP Government to the support of sterling. More fundamentally, the inherited economic structure and attendant institutions constrained post-war possibilities. A broadly-based dynamic manufacturing sector was an impossibility in the circumstances. The character of the ensuing manufacturing sector was a substantial development on the past. Yet Australia's international subordination ensured continued structural limitations. Weaknesses included significant gaps (especially in the capital equipment area), a substantial cost of acquisition of overseas capital and expertise (Wheelwright, 1963), and a general orientation towards inwards-looking import replacement.

A strong labour movement is the one key element of uncertain significance in the post-war booms. At a formal level, the union movement was only minimally represented in the development of the Labour Government's program. The absence of union input into deliberations of the Secondary Industries Commission provides a significant example of this exclusion. From this position of
relative detachment and subordination, the union movement was generally supportive of the reconstruction program. Yet a key implication of this program was little understood. In this the government’s obfuscation was crucial. According to Sheridan (1981:22): "... the unions simply failed to grasp how central wage pegging was to the government’s entire economic strategy". Nevertheless, the strength of the labour movement is manifest in the ultimately successful push, in spite of government opposition, for improved wages and conditions by 1948. This push is particularly embodied in the achievement of the 40 hour week, the rise in the discretionary component of the basic wage, and the rise for skilled workers following the 1947 Metal Trades strike.

VI. Post-War Priorities and Constraints II

The December 1949 elections ushered in a Liberal–Country Party coalition government, a government of a different 'colour' and facing a different economic environment with new immediate problems. In contrast with the Curtin/Chifley Labor governments, there appears to have been little attention to articulation of a socio-economic strategy, short- or long-term, and little coherence to the government’s program. The only exceptions were those elements compatible with a formal commitment to a purist form of liberalism, but the central tendency was a persistent pragmatism.

Certain policies followed immediately from the ideological bent of the coalition. The remaining controls were abolished and the 'planning' bureaucracy was rationalized, allowing the consolidation of the Treasury as the dominant source of policy advice. There followed an unarticulated reduction in the priority formally accorded to secondary industry. Commonwealth involvement in orderly physical and regional planning ceased (Goombs, 1982). Some government-owned enterprises and shares in joint enterprises were sold to the private sector and the activities of statutory authorities were shackled (McFarlane, 1968:12). After this initial period of decisive intervention, 'laisser-faire' appears to have been taken literally as a formula for inaction and policies by default reflected an unstructured response to contemporary pressures.

Consensual liberalism was in abeyance, reflected in changes in the priorities of the federal bureaucracy, and in the ALP’s relegation to the opposition benches, riven by internal dissenion. The influence of the ALP in opposition is obscure (and significantly under-researched). In economic matters, the absence of a competent spokesperson on the front bench restricted the Party’s effectiveness. Yet coalition governments benefited from inheriting an 'up and running' economy, dependent partly on Labor assertiveness while in office. This inheritance, coupled with its legacy in the voters’ consciousness of a not totally-discredited alternative (reflected in electoral support that was always threatening), exerted some pressure on the coalition in sustaining the level of activity. In particular, the expansive measures which followed the 1961 recession were a function of the bare one-seat post-1961 majority of the coalition parties.

The labour movement in the post-1950 period was to be marginalised both economically and politically. The significance of this event is not to be located in attributing to the movement an innate weakness, or in a presumed voluntary accommodation to a political consensus under a 'full employment' banner (c/f Maddock, 1986:102). Rather, the significance is to be found in why a historically strong labour movement could be so successfully neglected. Cold war politics is the crucial ingredient - its emasculation by the combined action of the ‘Industrial Groups’ (initially supported by the Labor Government itself) and ensuing conservative governments, and a crippling ideological environment. Only skilled workers using industrial muscle in a healthy economy escaped this emasculation. The relevant issue regarding the wage push of the late 1960s is not that it occurred at all but why it took so long to develop.

One priority carried over from the 1940s was low interest rates. Both the Menzies Government and the Treasury were committed initially to keeping rates low. Restricting the size of war-enhanced public debt and preventing capital losses to bond holders provided the explicit defence. The desire to restrict the burden of mortgage interest on the farming community and later on the growing number of urban mortgage-holders provided further pressure on the political arena against fluctuations in interest rates. Flexible counter-
cyclical policy was thus inhibited by a stronger commitment to particular interest rate levels.

The issue which acquired de facto priority was the persistent external payments deficit. This was acknowledged to have both short-term and long-term implications. As a lethargic reaction to Korean war boom pressures, import controls were re-imposed in 1951. Overtly as a short-term measure, they remained in force as the deficits persisted, and were varied at the margin as a stabilisation mechanism. By default, import controls and import quotas were to become the most significant policy instrument in the 1950s. But they remained against the 'spirit of the age', and were dismantled during U.S. pressure in the 'Kennedy Round' offensive for global reduction of direct trade controls. In the early 1960s, the beneficiaries of import controls turned to a renewed emphasis on tariffs.

More long-term attempts to deal with the persistent payments imbalance were reflected in policy evolution in a number of directions (as noted above). In 1952, the Government introduced a package of measures to assist rural sector expansion. This complemented programs instigated by the Chifley Government; but under Country Party pressure it attempted reinforcement of the traditional dependence on the rural sector as a key source of export revenue (Crawford, 1968:Ch. 13). The Menzies Government also moved pragmatically in enhancing support to a range of large-scale mining projects as a means of relieving pressure on rural exports (Tsokhas, 1986). Both these measures were supplemented by the development of a trade treaty with Japan in 1957, partly due to pressure from both the peripheral states (Western Australia, Queensland) and from Japan (Crawford, 1968).

Balance-of-payments problems moved from centre stage in the 1960s with the expansion of mineral exports and a steady capital inflow. Capital inflow was reinforced as a high priority in its own right during the decade (in spite of pervasive dissent). It became a panacea for short-term balance of payments problems and as a basic ingredient for economic 'growth', although there was no attempt to link such inflow coherently with economic expansion. The priority attached to capital inflow appears to have restricted interest rate and exchange rate policies - it inhibited interest rate reduction and revaluation of the exchange rate when desirable for stabilization reasons.

The other 1960s economic priority derived from foreign policy. Successive budgets after 1964-65 reflected the government's commitment to military support in the Vietnam war (Artis and Wallace, 1971). Such spending was not motivated by a 'pump-priming' orientation; rather, it ran contrary to contemporary notions of reasonable levels of activity.

In these developments the colonial legacy continued to exert a pervasive, indeed invigorated, impact. In foreign policy, coalition governments renewed participation in a junior partner role to both British and U.S. imperial activities in Asia - Malaysia, Borneo, Korea and Vietnam. While this might have facilitated a smaller and cheaper defence establishment than the costs of a more independent alternative, it did involve an ill-considered economic drain on other priorities during the mid-1960s.

In the economic sphere, the implications were clearly manifest in persistent 1950s balance of payments crises. The structured dependence on rural exports proved inadequate to finance expanding imports and invisible payments (Australian Bureau of Statistics, 1988:Table 24). This post-colonial subordination was further reinforced in the patchwork means by which such problems were offset. This is particularly manifest in the uncritical official attitude towards key dimensions of capital inflow - its size, the relative lack of discretion over direction, and its timing.

The fundamental manifestation of the colonial legacy was in the institutional policy-making framework. The centrepiece of this framework is the preeminence of the Federal Treasury in economic policy. Contrary to conventional wisdom, the Treasury vision was not forged on the Keynesian line but inherited from its parent, the British Treasury. The Treasury's brief was not demand management, but 'keeper of the public purse'. Of course, the latter role was compatible with the former role when deflation was high on the agenda (as in the 1950s); for this, the Treasury had no need of a Keynesian
motivation. Moreover, the British Treasury was merely one component of a bureaucracy administering a global industrial and financial power. The Australian Treasury has served a necessary purpose, but its dominance was not compatible with aggressive national competition in a hostile global environment. Expanding mineral exports and persistent private capital inflow in the 1960s provided belated temporary relief from economic dilemmas. But the results provided successive non-Labor coalition governments and their Treasury advisors with an undeserved degree of security in the economic sphere and a wholly distorted understanding of how successful capitalist economies work (Whitwell, 1986; Jones, 1988).

The legacy of racial chauvinism was reflected in the provision of ideological support for Asian military sorties under Anglo-American tutelage, but in the domestic sphere its impact was transformed. The exigencies of a bi-partisan immigration program weakened the racial exclusiveness of the inflow. Within a more cosmopolitan population, chauvinism would act as an instrument of social stratification along ethnic lines and with a tangible workplace basis in labour force segmentation. A minority privileged position partly on ethnic lines proved to be supportable by international means as much as by strict international barriers.

A nationalist tendency has persisted in uneasy coexistence with the constraints of a colonial heritage, not least because of the uncertainties involved in a transition from close imperial links to partial incorporation into the U.S. sphere of influence. This tendency was evident in the refusal of the Menzies Government to bow to strong U.S. pressure to allow a pure "open door" policy on trade and capital flows (McParlane, 1984). It was also evident in the partly successful 1953 push to have the articles of G.A.T.T. modified as a means of combating persistent non-tariff barriers on agricultural trade. Its most significant manifestation was in the unlikely alliance of Country Party figures, the Department of Trade and sections of the manufacturing sector. This alliance provided political support for the tariff and also ensured relative political stability until the late 1960s. This tendency, however, was not strong enough to move the government (and its Treasury support) to a commitment to some measure of coordination and foresight in economic strategies. Nationalist pressures led Prime Minister Menzies to appoint in 1963 the (Vernon) Committee of Economic Inquiry to examine Australia's economic structure and prospects. The ensuing report (Committee of Economic Inquiry, 1965) recommended a very mild form of indicative planning but the Report was digested in Parliament and subsequently shelved. The treatment of the Vernon Committee Report embodies quintessentially the relative balance of power between 'colonial' and nationalist tendencies in 1960s Australia.

The action of elites is more subdued in the Menzies era, in large part because what was interpreted as major conflicts of class nature were resolved in their favour by the early 1950s. Elite action dovetailed more observably into sectional conflicts amongst 'fractions' of capital, with politics and economic policies the outcome of the pursuit of advantage and of compromise between fractions. A rare unity of purpose was achieved (if fragile) in the late 1960s in the face of the perceived common threat of wage push (Tsakhas, 1984b).

Finally, Australia's federalist structure after World War II was not the structural constraint to coalition governments that it had been to preceding Labor governments. Menzies lacked the strong interventionist urge that would have made a constitutionally powerful Commonwealth imperative. Moreover, the constitutional validation of the 1942 Commonwealth appropriation of income tax powers, and the Commonwealth's prerogative in raising overseas loans provided coalitions federal governments with substantial de facto powers. They provided the capacity, via the Loans Council and the Commonwealth Grants Commissions, to influence both the level of aggregate economic activity and the regional allocation of resources (Mathews & Jay, 1972). Federal coalition governments used these powers to restrain somewhat both the nature (specific purpose grants) and the aggregate spending of the States. Nevertheless, a certain pragmatism persisted in the development of priorities, and the prerogatives of the States prevailed in the escalating and uncoordinated demands on loan funds (Mathews and Jay, 1972:Ch.8). Major structural imbalance between the States' constitutional responsibility for many services and their subordination in revenue and loan raising have contributed to the duplication of some types of manufacturing and aggressive competition
for major investment projects, especially in minerals extraction and processing (Hend, 1986). These in turn were to frustrate economic policy initiatives in the more adverse environment after 1974.

The above elements, important components of the domestic political economy, combined to give the post-1945 boom its peculiar character and were to contribute significantly to its brittleness.

VI. Implications for Keynesianism

Three points deserve emphasis: the status of 'fine tuning' policy in post-1945 Australia; the interpretation of the economic policy process; and the meaning of the 'Keynesian' label.

What can be said about fine tuning between 1945 and 1972? Certainly new instruments reflected involvement of successive governments in maintaining a higher level of activity compared to before World War II. The pressures were clearly evident in the expansionary policies of 1961. But demand management oriented towards both reasonably full employment and stability was perennially supplementary or subordinate to other priorities. One can not pressure from the criticisms of size and timing of such measures that all that was needed was to perfect the knowledge and techniques of the policy-makers. Related attempts at restricting activity, as in the late 50s, may well reflect a high commitment to rights to profitable activity (c/f Tsokhas, 1984a), and to government inaction as a principle. Restrictions appear to have been applied when an uncontrolled boom threatened economic chaos. Fine tuning instruments, particularly interest rates, were themselves called upon to serve other priorities. The implication is that Keynesian fine-tuning was inhibited not merely because of the structural difficulty of freely varying key instruments (acknowledged by economists), but also because of direct conflict with other priorities.

More significantly, the origins of the boom, and (in all probability) both the sustenance and the substance of the boom were due to other factors. In general, a complex set of historically-specific conditions combined to generate and to sustain the post-1945 boom. Of special relevance is a broad range of government policies, devoted to structural transformation of the national economy. These were in turn mediated by nation-specific conditions. The fine details are important, because they are responsible for the peculiar local dynamic and for the elements which not merely give the boom its life blood but restrict the reproduction of favourable boom conditions indefinitely. In this process, demand management has been the icing on the long boom rather than the cake itself.

In this light, how is the character of government policy, in particular, to be adequately explained? One has to grop towards alternative means of interpreting the economic policy process. In this regard, the recent rise of the libertarian 'private interest' theory of the state is a predictable development. However, this body of thought remains hopelessly constrained by the conceptual straightjacket of methodological individualism. An alternative project already exists as a sub-discipline within political science, its greater methodological openness has ensured that some participants have made a contribution far outweighing that of economists (c/f Glezer, 1982; Loveday, 1982; Tsokhas, 1984b; Hend, 1986).

Support for a framework based less on rational detachment and more on political conflict can be found in the vital history of development of the institutions of Australian monetary policy. Certainly, there have been institutional refinements which are rational developments in the perfection of particular instruments. A good example is the use of open market operations in an expanded capital market. But these refinements are merely one element in a complex process.

Significant insight is to be gained from seeking answers to which instruments have been developed and which dissolved, and for what reasons. Statutory reserve deposits, 'liquid asset and government security' ratios and open market rates were the instruments that remained after a substantial and bloody political battle over the powers of the monetary authorities. Coalition governments also whittled down the private banking powers of the Commonwealth Bank (Coombs, 1981: Part II). It is of course relevant to enquire how open market rates can be used and perfected for the
indirect influence on aggregate economic activity. But it is also relevant to enquire how that emphasis devolved from a significantly larger range of instruments contained in the 1945 Banking Acts. Such measures were all thought important by the Chifley Government as a means by which the Reserve Bank could fulfill its statutory charter, namely 'the stability of the currency, the maintenance of full employment, and the economic prosperity and welfare of the people of Australia' (Crisp, 1977:179).

At issue is the complex interrelation between material historical processes and ideas. Keynes himself was a product of his times - indeed, a belated entrant to a consensual liberalist tradition born of capitalist transformation in the late nineteenth century. The ALP program was devised in the context of a domestic consensual liberalist tradition and of a structurally imbalanced and non-rentenil economy. The program envisaged broad measures of restructuring in physical, economic and social fields, measures that are not part of the textbook Keynesian 'cookbook'. At best, elements of this package received a measure both of coherence and legitimacy from the pen of Keynes and his admirers. Keynes gave a name and an influence to a developing social transformation rather than being responsible for its generation. In this phase, the influence of Keynes is substantive insofar as Keynesian bureaucrats molded policy instruments and contributed to war-time policy. But the central significance of Keynesianism in this phase is as symbolism, denoting the ascendency of a broad set of values (consensual liberalism). For this period, there is some merit in the Keynesian label as long as it is understood as symbolic, though it remains an oddity which overstates the significance both of the person and the ideas.

Nevertheless, between 1945 and 1950 there occurred a dramatic political and ideological transformation, centred on pax Americana and cold war reaction. In this process, the progressive ethics and politics, in which Keynes and Keynesianism were participants, went out the window (Apple, 1950). On balance, 'full employment' may be said to have been a fortuitous consequence rather than a motivating cause of the major forces at work in the long boom. However, the refinement of policy-making institutions did facilitate, at the technical level, the more ready application of demand management policies. Thus, on particular occasions in which technique combined with political will (Australia, 1961), the Keynesian label again has substantive meaning. But those processes are, as noted, icing on the cake. More fundamentally, the ethics and politics had changed dramatically. For this reason, the development of institutions with influence over the level of activity could be freely utilized in quite non-Keynesian directions (especially in the direction of definition) and/or for non-Keynesian reasons. To invent the Keynesian label with symbolic meaning is to distort profoundly the essence of the period.

At no time in the period 1945-70 in Australia is Keynesianism of fundamental significance either substantively or symbolically. Ironically, the label has some merit in its symbolic sense in the 1940s, and in its substantive sense during 1950-1970. But the label as an overarching short-hand for the significant events and ideas of the age is fundamentally misleading. In sum, the label 'Keynesian' has distorted rather than illuminated comprehension of the long boom.

If the era of the boom was not suffused by progressive ethics and politics, how is one to explain the rise of right-wing politics in the early 1970s? The rise of such politics has to be seen as a reaction not against the politics of the boom years, but against the conditions prevailing at the end of the boom years. This interregnum was the period of genuinely progressive ethics and politics. It was also the period of industrial militancy, successful in monetary terms, which eroded business profitability. The rise of economic resistance and cultural dissent themselves can also be understood only if the boom years are interpreted as authoritarian, and distanced from the progressive symbolism of the 'Keynesian' label.

One can also place in perspective the rise of right-wing economic theory. Monetarism had 'bones to pick' with Keynesianism. But these theoretical differences had been canvassed for years; the relative intellectual merits of each are quite irrelevant for the ascendency of monetarism over Keynesianism. Changing intellectual fashion was an oblique reflection of the changing conditions and balance of forces associated with the end of the boom. The economics syllabus and literature exudes a self-contained character, presuming
that the transformations occurring within follow a process with its own internal dynamic, centred on an ancienst social logic and crude interpretations of the policy success or particular theories. The debate within macroeconomic theory has remained severely restricted within arbitrary parameters (Marxian remains inadmissible; post-Keynesianism barely so; a frontal attack on the Neoclassical dominance of the 'microeconomic' sphere unthinkable). To emphasise the dynamics of a constrained theoretical opus as representing the changes in real processes is to rely 'theory' - to give it objective status. The real dynamic of capitalist development through boom and crisis was much more complex.

Mainstream macroeconomics, for all its diversity and insight, is essentially an idealist intellectual construction. The ingredient of Keynesianism that gave it its extraordinary vitality lay less in its intellectual profundity than in its moral philosophy. There was the promise of an enlightenment in government (c/f note 3). There was also the promise of social harmony with relatively minor changes in the political arena. At the narrow level, one could put aside the contemporary dilemmas of big business and monopoly power, and of structural unevenness in industry. At the broader level, one could transcend class politics and ideology. This is the classic vision of turn-of-the-century consensual liberalism resurrected for an age more democratic and hopefully more prepared to make it work. To quote two influential Keynesians, H.C. Coombs (1981:146):

"It was one of the attractive features of the Keynesian analysis that it seemed to bypass the most divisive issue within our society. It seemed in everybody's interest that expenditure should be pitched at levels adequate to sustain business activity reasonably close to capacity and so to maintain high levels of employment, while avoiding creating inflationary pressures."

and J.K. Galbraith (Skidelsky, 1979:58):

"Keynes had a solution without a revolution. Our pleasant world could remain: the unemployment and suffering would go. It seemed a miracle."

In this potential there was a powerful source of attraction to Keynes' and Keynesian economic theory. In its post-1945 preoccupations, the economics profession appears to have persistently interpreted the economic policy process through the distorted lens of the utopian elements in Keynes' philosophy.

The consequences of this diversion have acquired particular urgency in an age of persistent economic difficulty. The preoccupations of policy-oriented economists with macroeconomic theory (of whatever persuasion) and its applications may be misplaced. The essential features of the long boom have become the province of historians, political scientists, and sociologists. Members of these disciplines have thus acquired a comparative advantage in providing greater insight into contemporary economic crises and possible reconstruction. Economists have lost the intellectual initiative within their own bailiwick. Ironically, the economics profession has retained an elevated status amongst the social sciences, upon which its members can rely for succour in the face of the unrelenting anamnesis generated by the strictures of their preferred conceptual framework. 26

FOOTNOTES

- Various people contributed to the formulation of ideas in this paper - Alan Crawford, Tom Fitzgerald, Paul Harris, Jack Jones, the Political Economy group at Sydney University, Peter Sheldon, Alan Wolfe, and a Working Paper referee.

1. I am not concerned here with the range of views which can be inferred from Keynes' writings but with 'post-Samuelson' textbook Keynesianism - that is, one which has envisaged the role of governments as permanent though supplementary to private sector initiatives via interventionist restricted to the macroeconomic sphere. The 'full employment' role encompassed by textbook Keynesianism has undergone enhancement to include a broader and more demanding set of objectives (price stability, external balance) but the underlying vision as to the limited appropriate means remains the same.

2. Left-wing political economists have also paid homage to the presumed substantively successful of the Keynesian vision, though in the context of attempting a broader explanation of the post-1945 boom (Howley, 1972:303; 1976:47; Catley and McParlane, 1981:65; Bowles, 1962:51).
3. This implication is transparent in Keynes' own life and work - vade Skidelsky (1979:62): "public affairs could and should be handled by an elite of clever and disinterested public servants... Keynes remained rooted in the Edwardian tradition of reform above class through the agency of a benevolent state service by a technocratic elite".

4. This lacuna is reflected in Arndt & Corden (1963), a significant compendium reflecting contemporary preoccupations. This lacuna is filled in a chapter of 3 pages by Douglas Copland's unanswered question of the significance of public investment in capitalism reconstruction.

5. Keynes' ideas fell on existing fertile ground with the long-standing sympathy for underconsumptionist explanations of economic slumps held by members of the Australian labour movement and Labour Party, including John Curtin. This environment was crucially dependent on the writings of John Hobson. Keynes' 'general theory' and his Cambridge connections provided an intellectual and social respectability which were lacking in the work and status of Hobson.

6. Some elements of this account have been articulated in existing works - in particular, McFarlane (1968), McFarlane (1972), Rowley (1976), Bresnihan and Collins (1977), and Catley and McFarlane (1981). Much of this literature is outside the realm of acceptable readings for economists and its impact on the profession appears to have been minimal.


8. Auld (1967) is more complementary of fiscal policy (especially discretionary tax policy) than is typical of this literature.

9. A major contributor to the literature, J.O.N. Perkins, has claimed a key reason for presupposed failures (in the context of the 1970's) to be "a straight-forward failure to look facts in the face" (Perkins, 1977:7). This is a perfect example of the interpretation of the policy process from an idealist perspective.

10. Maddock (1987) is probably the most conscientious and comprehensive of 'long boom' accounts produced by economists and economic historians to date. Nevertheless, it remains unnecessarily prescriptive by the weltanschaung of economists.

11. Statistical inadequacies preclude a numerical estimate of the expansion of federal public service but figures for the Treasury are indicative of the trend - the Treasury central office staff grew from 64 in 1939-40 to 849 by 1972 (Crisp, 1965:453).

12. Maddock (1987:83) claims that the trading sector was insignificant in the boom, citing as evidence a (marginal) declining ratio of trade to GDP after 1951. This undoubtedly distinguishes Australia from those countries (especially in Europe) for whom exports were an explicit engine for reconstruction. However, the relative stability of exports in the context of a broadening base (import replacement, services, etc.) should not be under-estimated.

13. This social figuration has been labelled 'Fordism' (Aglietta, 1979), bringing unity to trade policies to the capitalist order. It involves a symbiotic maintenance of both profits and wage incomes through the transformation of production technique, the sharpening of wage goods, and the extension of the ranks of the 'middle class'.

14. Federal-state coordination is evident in the war plant conversions facilitating the white goods industry in South Australia, the reconstruction of the coal industry under the auspices of the Joint Coal Board in New South Wales, and the consolidation of Comalco's interests in bauxite mining and aluminium smelting.

15. The purist 'free market' vision coexisted with a pluralist strand. In line with developments in American political science this explicitly acknowledged both vested interest private sector groups and a powerful if benign State. The public good was to result from the countervailing reconciliation of conflicting claims. A third strand involved a conservative reconstruction of consensus liberalism, seen by conservative thinkers as an 'immanent' consensus based on a new universalised-middle class.

16. One peculiar manifestation of this presence was a significant long-term impact on welfare provisions beyond the workplace-centred Arbitration system. The ALP traditionally had shown a preference for a 'selectivist' welfare system, means-tested and financed by the public purse, as opposed to more universalist contributory schemes (Castle, 1965; Watts, 1987). Whether pursued for egalitarian or pragmatic reasons, it facilitated the ability of coalition governments after 1950 to neglect social welfare and to renew emphasis on paternalist voluntary forms of welfare provision.

17. There is ironically a positive British influence on this nationalist tendency with the ideological ascendency there of consensus liberalism (reflected in the Beveridge Report) and the political ascendency of the British Labor Party (Coombs, 1981).

18. Rowley has claimed that successive coalition governments "reconciled themselves to their inheritance by doing everything as unsystematically as possible" (1972:298).

19. The Department of Post-War Reconstruction was abolished in 1950, the National Works Council in 1953.
20. In the Department of National Development the Menzies Government appointed as permanent heads in quick succession two retired military officers, and in 1951 H.G. Baggatt, a geologist, previously Director of the Bureau of Mineral Resources. Within this Department, the Division of Industrial Development was established in 1951 and finally transferred in 1955 to the Department of Trade.

21. Mineral exports, although facilitated by corporate initiative, were ultimately a fortuitous product of a generous physical base and substantial public sector underwriting. The timing of capital inflow into mining ventures was also fortuitously influenced by conditions of declining profitability for mining capital overseas (Bryan, 1988).

22. The only object for which successive Menzies Governments (1950–66) sought enhancement of Commonwealth powers was the dissolution of the Communist Party of Australia in 1951.

23. I take for granted that the ideological centre of gravity of ALP politics in office has been 'comensal liberalisms' and not 'socialism'. There is therefore no necessity to 'explain' why a socialist imperative was subverted while in office (cf Johnson, 1980).

24. James Tobin has judged the expansionary effects of Reagan's reactionary policies as being a vindication of Keynesian ideas (Tobin, in Waddell, 1985: 13). This flagrant abuse of language provides quintessential evidence for the obfuscatory role of the 'Keynesian' label in the post-1970 period.


26. The famous ditty of Downflake Doughnuts of Melbourne could have been written for economists - 'As you wander on through life brother, whatever be your goal keep your eye upon the doughnut and not upon the hole.'

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