

The Great Crash
The Short Life and Sudden Death of the Whitlam Government
by Michael Sexton
launched with an extemporaneous address
by
Hon Paul Keating
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Thank you Henry (Rosenbloom). I don't do many book launches. Some of the things I get asked to do are often peripheral or marginal. But given this is the thirtieth anniversary of the end of the Whitlam government and of the dismissal, within a day or so anyway, it seemed to me that this was an appropriate time to re-visit Michael's work of twenty five years ago, and his update, and to say something about it.

When Michael wrote this, then called *Illusions of Power*, five years after the defeat of the government, it was written by an insider. Michael was working for the Attorney General and within some short distance from the events. So, he was aware of what was happening inside the government and given all the legal matters involved, inside the Attorney General's office and department. Soberly written, it paints a more or less contemporary picture of the events leading up to the dismissal. And so much of the material about this period is written with some histrionics or partisanship but the stand back sober nature of this is, I think, very valuable.

Michael talks about sharply differing memories about what had taken place in his interviews with people at the same meetings, giving truth to the fact that history really lives in the eye of the beholder. And even a short period after these events occurred, it is very hard to understand precisely what the burden of the consideration was at the time. But he tries to make allowances for this, averaging out, if you like, a lot of what was said to him.

He turns the clock back one year from the election night in 1975 to a meeting at the Lodge where a draft executive council minute was being put together to authorise the US\$4million loan borrowing for temporary purposes by the government for what it said was national purposes; the so-called loans affair. And in many ways the loans affair was the bellwether of the government, 1972 to 1975.

Elected after 23 years in opposition, it came to office at the end of the second long economic wave of the twentieth century. The post war one which ran from 1947 to 1974. It was very bad luck to arrive just as the party was ending. But by 1972, Australia's terms of trade had well begun their long secular decline. And inflation from Japan, supercharged by the OPEC oil price shocks, had sent inflation towards double digits.

The post war basis of economic wealth had begun to seriously peter out as the Whitlam government came to power. The government was made up of people who had spent their whole lives focusing on the distribution of wealth, needing no mind as to its creation; but given the economic times, then reminiscent of the late 1930s, economic expertise was again being called for.

The distorting effect of the DLP, through Labor's long period in opposition, even though Labor was getting well over 50% of the national vote occasionally and did so on a couple of important occasions, kept Labor out of power. But an inability to form a government owing to the preponderance of the conservative vote in Victoria, led to a pent up desire to put right the wrongs of a quarter century.

There was a very great confusion between 'means' and 'ends'. Some of the ends, of course, were long overdue.

- The end of the White Australia policy
- The embrace of an independent foreign policy
- A belated celebration of Australian culture
- The withdrawal from Vietnam
- The end of colonialism in Papua New Guinea
- The establishment of a principle of comprehensive national health insurance and health provisioning
- A more adequate and fairer social security system

But as well as that, there was a wish list by ministers who had been waiting many years to finally get an opportunity to do things. Some famous ones come to mind. Gordon Bryant trekking through the Torres Strait Islands with a suitcase of money, establishing crocodile farms, amongst other things. There were many of them. But portfolio based initiatives, in the main, and generally unaffordable - including making the public sector a pacesetter in wages. And in a period of rising inflation which spilled over into what became known as 'wage indexation'. The lock-in of inflation, with the ACTU playing a militant and generally unhelpful role.

The old Australian Defence Model which, of course, Australia had for over a century, was in decline. You have got to remember that in 1900 Australia had the highest per capital income in the world, high terms of trade – gold, wheat, wool and minerals paying for a very high tariff, afforded by arbitrarily set wages. That was the Australian Defence Model, later called the Australian Settlement. Everyone had a piece of the action. The farmers and the miners had the income; the manufacturers had the benefit of the tariff and protection from imports and the workers had their wages set by arbitral tribunals which gave them a standard of living commensurate with the kind of income the country had and the kind of tariffs the workers had to pay. And around that triangle Australia went for most of a hundred years.

It started to break down just about the time Robert Menzies retired. There was a post war boom in commodity prices when wool was famously a pound a pound and that had really started to change by the 1960s when we began to see a decline in the price in the things we sold and an increase in the price of the things we bought. The tariff was making local products unaffordable while inflationary and of low quality. The obvious thing that comes to people's minds is, of course, motor cars. They were very expensive and of very low quality.

The wages system became even more rigid, with national wage cases based around wage inflation indexation. So, what little bit of flexibility there was within the award system and within sectors, evaporated with the onset of inflation and with the public

sector as the wage pacesetter. The unions, the ACTU, went in hard for wage indexation, which essentially applied the CPI to wage adjustments. So within the wages community, it didn't matter whether you were good, bad or indifferent, you were locked in to a much more rigid system, with little possibility of increased productivity arising from it.

The fact was that the so-called Australian Settlement was in need of dismantling. And that task would have to wait for another Labor government a decade later.

The mixed economy and the hankering for national planning was still part and parcel of Labor thinking in the 1970s. The Labor Party then, with its ideological confusion and the lack of economic understanding, was still considering centralised economic planning. There would never be a Labor Party economic document that didn't have the magic phrase 'economic planning' in it. And then you had the Left running around talking about the success of east European states in economic planning. And I forget the name of the Left journal; Stephen Loosley's here, he will remember it, but it was always full of talk of economic planning and how this was the way to go.

But the problem was that the people on the right of the party had developed no economic framework of their own such that they were bumped around by these debates. At national conferences they would not really say, not only have we a mixed economy, but what we want is a smaller and better public sector, not a larger one, and a larger and stronger private sector with more employment. These phrases were utterly unutterable at these kinds of events.

So we had this debate going on, and of course, in those days, the barrenness of the Soviet structure had not yet been fully revealed and because the Soviets were pumping money into parts of eastern Europe, places like Hungary and other places had a sort of momentary lift and that was focused upon as the way forward. After the attack and collapse of Czechoslovakia in 1968, what was left of the Communist Party drifted into the Labor Party. While these people were mostly of good heart, there was not much going on in the cranium about how one should run an economy like this. And they would turn up at Labor Party functions of course. To say it was then a broad church, the Howard phrase, is an understatement.

The one truly internationally competitive set of industries we had – the mining and agricultural sectors – carried the dead weight of the tariff and put upward pressure on the exchange rate. In later days, I was the Shadow Minister for Minerals and Energy, and much of my economic framework developed during this period, when the one thing we truly had which we could rely upon, were those industries.

In 1974, Frank Crean as Treasurer, doing the Cabinet's bidding, presided over a growth in Commonwealth Budget outlays of over 30% in one year. This is without precedence in the OECD area and, of course, in Australian economic history. By contrast, in many of the years of the 1980s, when I was the Treasurer and Peter Walsh was the Finance Minister, we had outlays in the years of the Hawke government growing at less than the inflation rate. So if inflation was 5% we would sometimes have outlays growing at 3%. By contrast, these were outlays growing at 30% to 40% in this period. Of course, it completely dislocated national savings and with tear away wages, private investment.

The Labor Cabinet 1972 to 1975 had no overarching philosophy. Certainly no economic one. And the meetings, of course, were mayhem. Twenty seven ministers all having their say. Much of it entirely undisciplined. As one of the few people who sat through the Cabinets of those years and of the later years in the 1980s and 1990s, the difference could not have been starker. It was like comparing a well-meaning but ambitious group on a municipal finance committee with the people running the re-purchasing operations of the Bank of England. And you may think that is hyperbole but it is, in fact, not. In fact, in the Labor government of the 1983 to 1996 years, that government was more disciplined than the Bank of England. We had outlays growth lower than any OECD country in the post war years. The fiscal consolidation in Australia in the 1980s was without precedence in the post war years of the western world. That's the kind of difference that existed at the time.

And the Liberals, of course, out of office after 23 continuous years were already trying to refuse supply after eighteen months of Gough Whitlam being in power. Now the party of extremists, the party that believed it was all theirs, were in there trying to grab it back eighteen months later and actually refused supply, of course, after 33 months of the government taking office.

If the commentary is, whenever the Liberals think they have power, or whenever the government, a Labor government in the House of Representatives becomes unpopular, it is within their right to get the government to an election and have it defeated. They thought it was their right to try and chop it the moment it became unpopular.

Gough appointed Kerr. The thing about these kinds of appointments is that one should always look long and hard at who these people are. What does the man standing before you stand for? What is his claim to fame? What does he say and what does he do? I think any wise Prime Minister undertaking these kinds of appointments, whether it is for the governor generalship or for the High Court, should look behind the screen to try to see, to try to discern what you are dealing with.

I don't believe that Gough ever thought or would have reasonably thought, that the so-called reserve powers would have been used by any governor general against a government enjoying a majority in the House of Representatives. And against a government which had the confidence of the House of Representatives. But Kerr's treatment of Whitlam was completely devious.

And a little known fact. I attended with Gough the last meeting of the executive council with John Kerr on the Thursday before the dismissal. Gough came, I don't know why he came, probably to see Kerr, but nominally for the meeting which was to appoint Clem Jones, his friend and the former mayor of Brisbane, to the chairmanship of the Darwin Reconstruction Commission. At the time, I was the Minister for Northern Australia.

I waited with Smith outside in the hall while Gough had his meeting with Kerr then they called me in and we signed the documents. It was all bonhomie. All jolly. As we left the Governor General's office and walked down the long corridor towards the entrance with Kerr, Gough said to me 'look at that leonine mane'; this was Kerr's

shock of white hair. Hardly the kind of remark you would make about someone who was about to dismiss or execute you.

So I got into the car. Gough sat in the front and turned on some music and I was in the back and I said 'well, Kerr seems alright Gough'. And he said 'oh he'll be alright, he's entirely proper'. That was on Thursday afternoon about 3.30pm and of course, on the Tuesday the government was dismissed.

Of course, the great flaw in Kerr's tactic was that Fraser could never have delivered supply. All of these people who these days try to re-write the history; Kerr's design could never have guaranteed supply. Let alone waiting to see whether or not the Senate tactic might have failed. And of course, had Kerr revealed to his Prime Minister what he had in mind, then in the event the Senate had failed to pass the supply bill, when returned to the House of Representatives, the bill could have been rescinded, in which case there would have been no supply. And nothing for Fraser to present.

You know, that the House of Representatives immediately carried a vote of no confidence in Fraser and when the Speaker sought to present himself to Government House to seek to pass on this information, Kerr would not see him. Kerr was prepared to walk past the House of Representatives – the duly constituted, duly elected chamber. Had he said to Gough, 'look, I don't think this is capable of resolution. You will have to recommend to me a double dissolution, but you go to the election as Prime Minister', as we said, the Prime Minister would have known what his options were.

Now, the fact is, we had seen all of this before with Lloyd George's budget of 1913. In those days the establishment and the king, King George V, were much more closely involved in politics than 50 years later, Queen Elizabeth II would ever have been. After much pressure by the House of Lords, with all the established families represented, all the landed gentry, in the end the king complied with the policy of Asquith and Lloyd George and upon advice, appointed so many peers to the Lords as was necessary to pass the vote. In which case the modern test of these reserve powers was resolved in favour of the people's house and the government of the day.

King George V was a constitutional monarch who resolved not to use the royal reserve powers capriciously or in a partisan way.

This was not the case here.

Here, we had the position where a pumped up bunyip potentate thought he might dismiss the elected government. To use the powers a king had declined to use.

On the day, I was a minister, though a junior one. Gough never quite liked the NSW Right, even though we anointed him and crowned him. And as I was one of the guys in the dark suits from Sussex Street I was also kept at arm's length. I told Daly that we should put Kerr immediately under house arrest. And I meant it. Had I been Prime Minister, I certainly would have. In the event, Gough would have had no recourse then but to take the country to an election but with him as Prime Minister; a different circumstance altogether.

As it turned out Kerr more or less got away with it. Not in moral terms but in constitutional terms. And lest you think that my view was on some way anti-constitutional, as to that kind of advice, when it was my turn to recommend a structure for the republic in the House of Representatives as Prime Minister in 1995, I recommended a model that maintained the reserve powers.

There has got to be some figure in the system able to resolve deadlocks between the Senate and the House of Representatives. Because with a proportional voting system in the Senate these days, as the population grows, so too will the House of Representatives. And with the nexus in the constitution, the Senate must be near enough to half the size of the House of Representatives, so the Senate will grow in numbers.

As the Senate grows in number, the quota needed to elect each senator will be lower. So all sorts of flotsam and jetsam will roll into the Senate and you will have periods of instability. There has to be someone on the top of the system who can resolve such impasses.

Kerr did not create the problem. It was created by Malcolm Fraser and his opportunist party. Kerr got saddled with the resolution. The problem with Kerr was that was he was one of those kind of people who hear voices as to their own importance; his own place in life and who he might consult other than the Prime Minister. He forgot altogether the principle of acting on the advice of his ministers, preferring to see the then Chief Justice of the High Court and other people, for advice of the kind he was looking for. Looking for corroborating advice for a course of action he had already determined. And he kept this course of action away from the Prime Minister through the period. So in the end, the matter was resolved in favour of the opportunist, Malcolm Fraser.

But he too inherited the post war slump which began in 1974. He arrived in 1975 while the next wave in the twentieth century did not begin until 1982. So he had a very poor period through this, aided and abetted by an ordinary government and need I say, a very ordinary treasurer, who had no hope of dealing with wage inflation and stagnation. Stagflation.

In fact, his Treasurer, John Howard, presided over the biggest wage breakout in Australia's history which put inflation into double digits at 11%. A 17% growth in nominal wages. A blowout in 1981-1982. And who has since traduced the Hawke government and me for shifting wages down from his unaffordable level to rebuild the profit share to re-start economic growth and get employment going again.

These days he trots out wages growth figures about his years, of course, created by us, the new wages system of productivity based enterprise bargaining and talks about the decline in wages in the Hawke years, which was in fact, the Hawke government doing the nation a favour repairing the mistakes of Fraser and of Howard.

So it was an ill gotten government and Malcolm, of course, has suffered as a consequence ever since. Even though, we see virtues in Malcolm these days, we couldn't see then. But mind you, given the current government, that is not hard to do.

Just being a democrat is enough. In fact, it was an unhappy period for both the Labor party and for the Coalition.

So, there has to be a lesson in all that. I think one of the lessons in it is this.

The model I introduced for the republic I recommended that we have a president appointed by the houses of parliament. Because John Howard did everything to scuttle the republic referendum failing to defend that model, that model has now fallen into disrepute. People think there should be an elected person as the president of a republic. But, if the reserve powers reside with an elected person, the Prime minister representing the cabinet (and the Prime Minister can only ever be the member of a constituency chosen by his peers to be the leader and prime minister), presents himself before a president elected by the nation as a whole, enjoying a popular national mandate, there is no way that there will not be a transference of real power from the prime minister and the cabinet to the presidency. And with the reserve powers, this will become as near as you would ever see to the kind of predomination of power of a kind I do not think, in the diffuse power of Australia, we would ever really want.

Now people say the answer is to codify the powers. But to try and write down all the contingencies that may arise between the House of Representatives and the Senate or in a national emergency, so as limit the powers of the presidency is nigh on impossible. Once popularly elected, that task is unfathomable.

In the end these powers are best left other than codified. To codify them is to make them justiciable. These matters should not turn on the attitude of a judge. Someone has to be able to resolve a deadlock but let us not let that person hear voices in the way that John Kerr heard voices in 1975. I do not think that God was actually on his side.

So, it was a momentous period. Politics is, of course, about making the turns. It is not about simply running the country. The country more or less runs itself. Politics is about change and only about change.

Whitlam made the turn. He made the turn in our sense of ourselves, in our foreign policy, in our culture, but his party was not up to it. The cabinet was not up to it. The people he had running the economic portfolios were not up to it. And as a consequence he led himself into danger at the hands of an opportunistic opposition and an unscrupulous Governor General.

That's what happened. And one may say well, maybe Gough should have had a better economic set of ministers. I don't think that in the end it would have mattered much because they'd all grown up in the immediate post war years. Most of these people were elected to parliament in 1948 and 1955, or something like that, through the growth years. They assumed, growth was always going to be around and their lives were about focusing on distributional matters. And Gough's was too.

By the time the Hawke government came to office it was clear to us that the secular decline in the terms of trade was virtually a permanent feature of the landscape. That inflation remained at double digits, that the wage share was out of line, that the

financial market was sclerotic, that the exchange rate was poorly set, that the tariff was a structural problem and as a consequence, a group of ministers decided to change the basis of Australian wealth. This would never have happened in the Whitlam government no matter who was the treasurer.

So, we give marks for the turn. And the turn was, in 1972, to give Australia a place in the world of the kind we had never had before; to focus on some of the social issues like health and social security. But it all went up in smoke to be inherited by a conservative government that would have control of both houses of parliament yet no plan for Australia's salvation.

Michael's book focuses on the last gasp of it. And some in the middle of it, but mostly on the last gasp of it. Its sober treatment does the nation a service in having testimony by an insider as to how it really all was. So gilding the lily is that much harder.

Let's render to Caesar the things that were Caesar's and not others. That is, let us give credit where credit was due but not otherwise. This book on this thirtieth anniversary is an important milestone in that.

I am here out of respect for Michael and his work in public life and for his recording of this most important epoch. I wish him and the book well.

I congratulate the publisher Henry Rosenbloom and Scribe.