Gough Whitlam’s death has evoked the usual hagiography from his ever-zealous band of true believers. A proper respect for the dead and a thoughtful sympathy for a man deprived, in 2012, of the companionship of all his friends for 20 years, will also greatly mute any more critical views.

Yet Voltaire famously said the only thing we owe to the dead is the truth, while Santayana noted that those who cannot remember the past are condemned to repeat it. So without, I hope, trampling My Whitman personally, this article seeks to assess his effect on our economy during his three years as prime minister.

Make no mistake. I hope to show—and abundant other evidence testifies—that the Whitlam government’s performance was dominated throughout by Whitlam himself, “handcuffed” in the nth degree.

Shortly after the December 2,1972 federal election (in which, regrettably, I voted for Whitlam), the Treasury secretary Sir Frederick Wheeler, head of the general financial and economic policy division Bill Cole and I, deputy secretary of the economics division, had our first meeting with Whitlam and his personal advisers. As Cole said, with our agreement, it was a pleasure to deal again with someone who, unlike his predecessor, seemed like a prime minister.

Before the election Treasury had prepared, under my direction, the “black book” — papers on which we thought the incoming government needed to be quickly briefed. I lest it be thought that preparing such papers was in some sense “political”, the same “black book” would have been presented to William McMahon and his treasurer had the Coalition won the election.

Most urgent of these papers was one dealing with the exchange rate. Hard to credit though it sounds today, Australia’s balance of payments current account had swung from a 2.1 per cent gross domestic deficit in 1971 to a 0.9 per cent of GDP surplus in 1972. Our exports (and our assets) were being sold too cheaply, and our imports bought too dearly. Treasury therefore said that, should Labor win the election, its extensive spending program would place pressure on domestic resources. By giving greater access to imports, an appreciation of our dollar (then pegged to the US dollar) would relieve that pressure somewhat.

On December 19, Frank Crean was sworn in as treasurer. Two days later his cabinet submission on the exchange rate was considered by Whitlam, deputy prime minister Lance Barnard and Gruen only, and on December 23 Whitlam announced a 7.05 per cent effective appreciation of the dollar. Relations between Whitlam and the Treasury thus got off to a flying and thoroughly harmonious start.

Given the economic destruction his government was to wreak over the next three years it is also fair to say Whitlam then appeared open, indeed receptive, to sensible economic argument. All that was to change for the worse.

One reason for that deterioration was that, whatever Whitlam’s own personal attributes, the team he brought into government (with a small number of honourable exceptions) was sadly lacking in either abilities or personal character. Think Jim Cairns, Lionel Murphy, Al Grassby.

The dangers inherent in that were greatly enhanced by a new phenomenon—numerous ministerial private advisers exercising considerable power without any resposi-

bility. Foremost among these ambitious opportunists was Peter Wilks, others included Jim Spigelman (subsequently chief justice of the NSW Supreme Court and now...
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chairman of the ABC, John Bannan (later Labor premier of South Australia), and several journalists, notably Brian Toohey, now a columnist with this paper, and a sub-editor of this newspaper, the late P.K. (“Paddy”) McGuinness.

Labour’s 23-year absence from office also meant for had almost no real time for working with those who were now its public servants. Indeed, it harboured grave suspicions about them and was determined from the beginning to trust them generally. The minister for minerals and energy RexConnor notoriously described Australian mining industry executives as “billiars”.

He was ahead of the board to publicise their shortfall of 125 per cent on July 18, 1973, which was insufficient to meet the manpower deficit by 20 years (see my article in The Australian of July 18, 2003).

More fundamental still was the recognition that headlong public sector expansion could not be accommodated by public servants. As the Economic Commission and the Treasury estimated, Federal government outlays, at 24.1 per cent of GDP in 1972-73, jumped to 33.1 per cent in 1974-75, to 30.9 per cent in the Whitlam year, and to 36.9 per cent in the Whitlam year’s statistics, none is more crucial to our understanding of the huge shock to the economy.

This 26 per cent rise in the proportion of economic significance of the Federal government carried obvious consequences. The spending increases involved could be financed by either higher taxes, borrowing, or both. Income tax paid by the households sector rose explosively: in 1973-74 by 34.3 per cent in 1974-75 by a further 24.5 per cent; and in 1975-76 by another 19.5 per cent — a total rise of 125 per cent over three years. Yet despite this massive expenditure, the Commonwealth Budget deficit, already 1.2 per cent of GDP in 1973-74, 3 per cent in 1974-75, 4.9 per cent in 1975-76, rising to 6.9 per cent in 1976-77, had consequential implications for monetary expansion. Between the end of B1/2 and end of 1977, M0 (base money) rose by 43 per cent; M3 (the most widely used index of money supply) rose by 46 per cent.

A Milton Friedman had pointed out, inflation "is always and everywhere a monetary phenomenon"; not surprisingly, therefore, inflation accelerated. In 1973-74 the consumer price index jumped 13.1 per cent. In 1974-75 by 10.7 per cent. In 1975-76 by 12.6 per cent — some 40 per cent in three years. The non-farm GDP deflator showed even greater increases.

Interest rates, naturally, soared: certificates of deposit yields almost trebled, to 17.2 per cent by June, 1974, with 90-day bank bills then yielding 18.1 per cent. Confidence evaporated, the All Ordinaries share index tumbling 39 per cent between June 1972 and June 1975.

Even before they read of the Khemlani loans affair scandal, Ay-Ilinois (and foreigners) generally had come to see the whole style of government as one of utter confusion. Indeed it was. For example, a September 14, 1973 treasury note for file records a meeting between Whitlam, Crean, the minister for social security Bill Hayden, the minister

for transport Charlie Jones, Spiegelman and Sir Peter Abeles (then chairman of the major transport company TNT). ACTU president Bob Hawke and Wheeler were also present. The meeting derived from an Abeles proposal for government assistance in facilitating, and in large part financing, a TNT takeover of the nationalised Shaw Savill shipping line. A week later this was ramped up to taking over Furness Whitby, a much larger UK-domiciled shipping company of which Shaw Savill was a component.

In Treasury, Crean and Hayden shared strong doubts about this proposal. Jones, after originally agreeing with them, changed position after Hawke (a long-standing friend of Abeles) backed his support. For six months the paperwork mounted, with Whitlam clearly supportive and ever more bizarre possibiliti- es canvassed by Spiegelman and Wilenski.

Only the May 1974 election put an end to a matter of such politically explosive poten- tial. (Incidentally, thanks to the loyalty of those despised public servants, this incident, apart from a brief reference in Hayden’s autobiography, has gone pub- licly unremarked.)

To sum up, the Whitlam government inherited an economy in which unemployment (then measured by persons registered for employment with the Commonwealth Employment Service) was declining, to 18 per cent of the labour force in August, 1973. Two years later it had more than dou- bled to 37 per cent.

But the truly serious figures were those for employment. Over the three years to 1976 full-time jobs actually fell by 56,000 (2.1 per cent). The small rise in total employment was far more than wholly due to a jump of 171,000 (24.8 per cent) in part-time employment.

In 1973-74 the stress applied by the economy actually fell 18.5 per cent from three years earlier. Meanwhile, the average duration of unemployment had almost doubled from 9.3 weeks in August, 1973 to 17.5 weeks in August, 1976.

Looking back over those three years, I identify the “point of no return” as immedi- ately after the May 19th, 1974 election. Four days later, Whitlam convened a dinner meeting at the Lodge with Crean, deputy governor of the Reserve Bank Wheeler and me. My note for file records Crean indicating shock therapy was under consideration, adding, “after his discussion that afternoon with the Treasury/Reserve Bank team, he felt at any rate had certainly been shaken.” It was agreed to set in train “the Kirkhill House process”, with a meeting there two days later.

The Treasury paper of May 24 prepared for consideration that day began: “The eco- nomy being the political party in the grip of a severe, deep-seated and self-per- petuating stagnation, and unless something is done about it, the situation is likely to worsen progressively as the year progresses. On the other hand, the longer action is delayed, the harder it becomes to deal with the situation effectively.”

Many further (and further expanded) meetings followed, but this initiative to tackle inflation, well motivated by Whitlam personally at the outset, ran steadily into the sands of his colleagues’ growing objections. When the matter finally came to a conclusion on July 22, Whitlam found himself almost totally deserted — even by Hayden. From that point, the downfall of the economy accelerated.

Opinions may differ on such matters as the Whitlam government’s social policies or its constitutional policies, both of which I happen to think were as damaging as its economic policies. However, there are no reasonable grounds for difference on the latter, which produced the most massive effects on our economy of any government in our history up until that time.

This attitude of Labor to the economy increas- ingly lead to a defeat at the fed- eral election on December 13, effectively bringing the political career of Gough Whitlam to an end.

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