

australian ~ canadian studies

- a journal for the humanities & the social sciences -



vol. 6, no. 1
1988

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War and Social Policy in Australia and Canada — James Struthers

A Comparative Review of Rob Watts, *The Foundations of the National Welfare State*, Sydney: Allen & Unwin, 1987, 169pp.

Why did World War II transform the Australian state into a 'welfare' state? Upon what limited foundations and intentions was it built? These are the central questions asked by Rob Watts in his excellent revisionist history of the most critical years in Australian social policy. They are also questions asked recently by Canadian scholars who have re-examined the pivotal connection between war and social policy in their own nation.

The similarities between Watts' analysis and recent writing on the Canadian welfare state are striking. In both societies it is clear that the relationship between taxation and social policy, the impact of Keynesian macro-economic management, and the role of a rationalist, technocratic elite within the central bureaucracy are dominant themes for understanding the social reforms of the war years. In some cases specific individuals (such as Ronald Mendelsohn and his Canadian Fabian equivalent, Leonard Marsh), influential economic advisory committees, and even certain policies such as child endowments (or family allowances in Canada) seem interchangeable. Despite these parallels, it is also clear that fundamental differences in the interplay between class and regional pressures and the state shaped the pattern of social policy in Canada and Australia in divergent ways during the war years. But more on these comparisons later. Firstly, let me turn to the essential arguments of this fine study.

Watts sets out to make two principal points in his book. The first is to demolish the prevailing view that the making of the Australian welfare state in the 1940s derived principally from the ideology and commitment of the Curtin Labor government. He does this in two ways. On the one hand, Watts contrasts Labor's 1943 National Welfare Fund Act with the earlier and unsuccessful 1938 National Insurance Bill of the UAP Lyons government. The comparison is not flattering to the ALP. 'In its scope and complexity [the National Insurance legislation] far exceeded anything which the Labor Government later introduced by way of social policy', Watts argues. By giving due credit to the national insurance and child endowment initiatives of the administrations immediately preceding Labor's rise to power in 1941, Watts effectively stresses the continuities and non-ideological roots of social policy development in the 1938-45 era. The 'light on the hill' represented by the Curtin government burned dimmer than most have thought in comparison with other administrations.

On the other hand, Watts also underscores the extent to which social policy initiatives in the Lyons, Menzies, and Curtin administrations were rooted not in altruism, but rather in the inexorable pressures of fiscal policy. National insurance during the Lyons UAP administration owed its origins, in large part, to Treasury's

desire to rectify the 'mistake of 1908' by merging the existing, and increasingly expensive, non-contributory old age pension into a general contributory social insurance scheme modelled along British lines. Child endowments, in 1941, emerged as a wartime alternative means of channelling money to working-class families in lieu of an inflationary increase in the basic wage, a political rationale almost exactly duplicated in Canada three years later.

The National Welfare Fund Act of 1943, the crown jewel in Labor's reformist legacy, derived from the same prosaic concerns for fiscal management. Labor's toughest domestic political challenge in the 1940s, was not social security, Watts argues, but rather the need to reach deep into the pockets of its working-class constituency for more money. Treasury officials argued that a major expansion in the scope and rate of personal income taxation was necessary, on Keynesian grounds, not merely to finance the war effort, but to soak up excess income in order to prevent inflation. While in opposition, however, Labor had vigorously opposed any increased taxation of the working class, either through contributory social insurance or changes in basic tax rates. Once in power after 1941, the ALP found it had to discover a way of reversing this position.

Social reform provided the answer. Although it clearly met pressing social needs and was attractive on ideological grounds, the National Welfare Fund Act, Watts argues, was principally utilised as a 'smokescreen' to disguise the reach of state taxation down to incomes of £ 100 per year for the first time. This is his central revisionist argument. Previous historians of the Curtin government have focussed on the National Welfare Fund as the 'central element of policy', with increased taxation merely the means of financing it. In reality, according to Watts, the logic ran the other way.

The crucial issue was how to introduce heavy new taxation without undue or unpleasant political repercussions... Far from being oriented to the values and practices of egalitarianism, the fiscal foundations of Australia's welfare state were about reaching down to the very lowest-income earners in the name of preventing inflation (pp.96-97).

Why did altruism and concerns about social justice contribute so little to the motivation of social reform in a Labor administration? Here we come to the second major point in Watts' book: the subordination of social to economic policy and the emergent role of a Keynesian bureaucratic elite within the central state. After 1941, the critical dialectic in the making of the Australian welfare state lay in the tension between the laborism of the ALP government, and the Keynesian liberalism of key civil servants in the Treasury department such as L.F. Giblin, D.B. Copland and H.C. Coombs.

The essential bridge between these two perspectives lay in their shared belief that 'full employment' provided the principal answer to the abolition of both poverty and 'the profound inequalities of Australian capitalism' (p.75). For Labor, the priority of an attack on unemployment flowed logically from the memory of the Great Depression. For Keynesians, abolishing joblessness was the essential precondition for the economic growth needed to finance a welfare state. But as

Watts points out, the surface 'affinity' between laborism and Keynesianism disguised the gradual subordination of the ALP's previous commitment to a 'radical redistribution of income' to the Keynesian project of an efficient, managed capitalism which eschewed any fundamental state challenge to the private ownership or control of investment or the existing distribution of national income.

As a consequence, the Australian welfare state which emerged by 1945 under the aegis of the ALP bore features which party supporters in the 1930s would have found curious. It was disproportionately financed by increased taxation on low incomes; it incorporated benefits which institutionalised pre-war levels of poverty for the purpose of reinforcing 'less eligibility'. Above all, it offered the false promise of full employment while denying the state the full range of economic powers needed to achieve it. By opting for a faith in its ability to manage capitalism, Watts argues, the Curtin government ensured that the amelioration of poverty and the reduction of inequality in post-war Australia would assume peripheral importance as a policy goal. 'From the start of the "welfare state", the welfare aspects of state policy were effectively subordinated to the overarching goals of economic growth and development' (p.121). By 'wallow[ing] in the Keynesian deluge', Watts concludes, the ALP 'preempted any possibility that a working-class policy for change would be attempted' (p.123).

From a Canadian perspective much of Watts' argument sounds familiar. Altruism is of as little use in understanding the making of the Canadian welfare state in the 1940s as it is in Australia, a point underscored by a number of recent studies of the wartime Mackenzie King administration (Struthers, 1983; Granatstein, 1982; Campbell, 1987; O'ram, 1986; Naylor, 1986). Indeed, the fact that social policy initiatives of similar scope, if not design, were implemented by a Liberal government in Ottawa reinforces Watts' point concerning the over-emphasis on Labor party ideology in previous interpretations of the Curtin welfare state reforms.

Keynesian liberal economists seem equally well-placed in the strategic policy-making centres of both nations during the 1940s. In both central governments a small circle of economists, working within the Australian Treasury and Canadian Finance departments (L.F. Giblin, D.B. Copland, and H.C. Coombs in Australia; W.C. Clark, W.A. Mackintosh, and Robert Bryce in Canada), successfully asserted their dominance over the formation of social policy in the face of rival claims from existing line departments and parliamentary committees charged with nominal responsibility for social policy planning for the post-war world. In both nations this subordination of social to economic policy goals would be crystallised in very similar 1945 White Papers on employment, which held out the illusory goal of full employment, not a comprehensive welfare state, as the essential guarantee or security and social justice in the post-war era.

The critical linkage between taxation and social welfare also emerges as a parallel theme of central importance in understanding the formation of both the Australian and Canadian wartime welfare states, but with a revealing twist. For Watts, the wartime welfare reforms, however virtuous in and of themselves,

would not have emerged when they did without their utility as a legitimation for the more important centralisation and expansion of national government taxation, the essential fiscal tool of Keynesian macro-economic management.

Watts interprets this linkage in class terms. The welfare state made higher levels of taxation palatable to the working class. State governments were also major losers of income in this change and vigorously opposed uniform taxation in 1942, but their loss of fiscal sovereignty is a relatively minor theme in the book. Seizing the States' right to levy income tax, Watts concedes, was a 'risky' political exercise, but one which paid enormous permanent dividends to the Commonwealth government. The States challenged the constitutionality of the action but lost in the High Court, giving the federal government thereafter an 'effective monopoly of income taxes' (p.88). The real obstacle to the new tax regime imposed by the Curtin government lay in the potential resistance of Australian workers whose incomes were the principal target for the Keynesian attack on inflation.

In Canada the relative importance attached to the class as opposed to the constitutional linkages between taxation and social policy is almost exactly reversed. The provinces, not the working class, emerge as the principal obstacles to Keynesian macro-economic management in the 1940s. The literature on Canadian social policy in the 1937-46 era is dominated by the shadow of the Rowell-Sirois report on dominion-provincial relations, the Reconstruction Conference of 1945-46, and the politics of fiscal federalism.

Although a dramatic downward shift in the reach of personal income taxation, similar in scope, timing, and intent to Australia's, also occurred in Canada during 1942, its relevance as a motivation for the welfare state reforms of that decade has received relatively little attention.¹ Instead, Canadian scholars have been more preoccupied with which level of government controlled income tax, rather than the level of income being taxed. The surrender of tax powers by the provinces, not the coughing up of working-class dollars, is seen as the essential challenge to the Canadian Keynesian project in the 1940s. At the 1945-46 Reconstruction Conference federal government spokesmen argued strenuously that only the federal government's permanent acquisition of the provinces' powers to levy personal and corporate income taxes would make Ottawa's Green Book proposals for contributory old age pensions, national health insurance, comprehensive unemployment assistance, and regional equalisation grants, affordable.

At this point, the fiscal history of Canadian federalism takes a radically different turn from Australia's. Canada's wealthiest provinces refused to agree to any surrender of their financial autonomy and, in contrast to the Australian case, the federal government could not legally monopolise their tax fields once the war emergency ended. Unable to reach agreement on taxation, the Reconstruction Conference's planning for a post-war welfare state broke off in failure in 1946. Thereafter, the Canadian government would have to negotiate with the provinces for the exclusive tax powers its Australian counterpart simply seized in its 1942

uniform taxation coup. Welfare reforms offered as a package in 1945 would emerge on a piecemeal basis over the next twenty years.

Provincial rights, and the greater sense of regional identity on which they rest, thus play a critical role in the literature on the Canadian welfare state. Equivalent pressures appear markedly absent in Watts' study of the same crucial years of Australian history. As the most recent Canadian analysis of social reform in World War II concludes:

if there was a new acceptance of the positive state... the mandarin's view that the Dominion government should direct that planning was rejected... [I]n spite of their attempt to promote a planned and centralist view of Canada, the positive state would emerge not by means of a rational, efficient, and bureaucratically dominated Dominion government but as a series of compromises between the demands of industrial society and the public on the one hand and the realities of a federal constitution and regional divergence on the other. [Owram, 1986: 325]

Similarly, the greater emphasis on universality in Canadian social programs and the Australian aversion to contributory social insurance seem also related to the relative balance of regional and constitutional, as opposed to class, factors in the politics of wartime social policy in each federation. Universality was essential to the spending power upon which Ottawa based its right to intrude into sensitive areas of provincial jurisdiction. It also reinforced the primacy of national as opposed to provincial citizenship loyalties in a federation with powerful centrifugal tendencies. Within Australia, by contrast, where, by the 1940s, national identity was assumed, universality as a legitimising device for national social programs was of much less relevance. At the same time, the contributory principle which informed the Canadian unemployment, old age, and sickness schemes proposed in the 1940s offended a longstanding Australian Labor Party belief that social programs should be financed out of general revenues, not workers' paycheques. As a consequence, Australian welfare reforms of the 1940s would be not only more means and work tested, but also more redistributive in effect. Canada's, by contrast, would be more universal and rely more on the contributory insurance principle. The greater salience of regional and constitutional factors in Canada, and the greater strength of class traditions in Australia, combined to shape the warp and woof of social policy-making in each nation in different ways.

Still, the limited achievements of the Curtin government's welfare state reforms, despite the absence after 1942 of comparable constitutional and fiscal barriers, should make Canadian historians look hard at the emphasis they have placed on provincial rights as an explanation for the patchwork welfare reforms which emerged in Canada by 1946. A shared and ultimately misplaced confidence in the Keynesian promise of full employment as a guarantee of economic security, and the stimulus needed for private enterprise to achieve it, seem to have played a more critical role in deflecting governments in both Canada and Australia from earlier wartime proposals for a more comprehensive welfare state. Whether through permanent occupation or merely rental, the expansion of taxing power for purposes of macro-economic management was the

primary economic objective of both central governments in the 1940s. Social policy was a useful, although in the end not critical, component of this quest.

After 1945, Canadians and Australians alike would discover that the illusory promises of their governments' respective White Papers on employment would offer cold comfort to those falling through the holes in the piecemeal 'safety-nets' erected during the 1940s and beyond. Rather than providing a rationale for the welfare state, Keynesian thinking in both Canada and Australia seems more accurately to have resulted in a diversion from its fulfilment. Now that the marriage between Keynesian liberalism and social policy has come unstuck in both nations, Rob Watts' excellent critical reappraisal of the flaws in its Australian foundations should be essential reading for those interested in rehabilitating the vision of a welfare state in the two sister federations.

Notes

1. The one major exception is Bob Russell (1984).

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