

MAJOR ISSUES – THE ECONOMY, SCANDALS AND THE LOANS AFFAIR

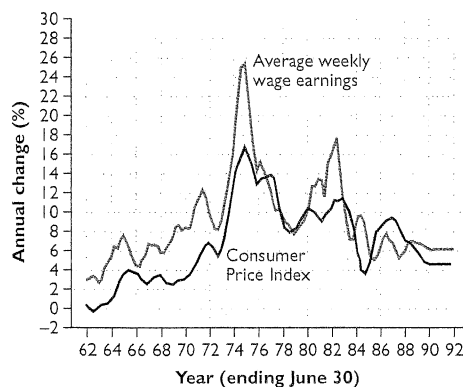
By early 1974, three major problems — a weakened economy, the 'loans affair' and ministerial scandals — were undermining Labor's authority.

ECONOMIC PROBLEMS

In the early 1970s there was a world recession. Most of the world's developed countries were experiencing increased unemployment, low economic growth and inflation. One of the main reasons for this economic downturn was the decision made by the Organization of Petroleum Exporting Countries (OPEC) to reduce oil supplies to Western nations. Consequently, prices rose and produced high inflation.

In Australia the inflation rate, which had stood at 4.4 per cent in early 1972, had reached 7 per cent by the time Labor came into government, and climbed to 15 per cent in 1975. At the same time, wages increased from an average 13.6 per cent in 1973 to an average of 30.8 per cent in 1974. Unemployment increased from the 1972 figure of 2.2 per cent to 5 per cent in 1975. A wage–prices spiral in 1973–74 saw food prices increase by 19 per cent.

Source 11.4.1



Graph comparing the consumer price index (CPI) and average weekly earnings, 1962–92. The CPI is a measure of changes in the cost of a standard basket of retail goods and services.

Funding Whitlam's social reforms became hard to sustain amid these economic problems and increased demands for money for welfare. If the government failed to cut back on expenditure, it risked appearing ineffective in managing the economy. Yet if it cut back on its reform program and limited welfare benefits, it would be open to

accusations that it was not fulfilling its election promises. Continuing government expenditure on reforms added to the destabilising impact of the world recession on the Australian economy.

REX CONNOR AND THE LOANS AFFAIR

Scandals involving various Labor Party ministers indicated the party's lack of experience in government and the political naivety of some of its key figures. Frances Xavier ('Rex') Connor (1907–75) was the Minister for Minerals and Energy. His dream was to 'buy back the farm'; that is, to ensure Australian ownership of the country's resources. He wanted to borrow US\$4 billion to assist in buying out foreign control of Australia's resources and enable a natural gas pipeline to be built across the continent. On 14 December 1974, the Executive Council granted approval to obtain this loan. At its meeting on 28 January 1975, the amount approved was reduced to US\$2 billion.

Source 11.4.2



Rex Connor during his time as Minister for Minerals and Energy

From late 1974, Rex Connor had been attempting to obtain a loan from financial sources in the Middle East. Officials within the Treasury Department disapproved because they believed loans should be obtained only from traditional sources in the United States or the United Kingdom. On 20 May 1975, the Executive Council completely withdrew its permission for this loan. Connor was so committed to his dream of 'buying back the farm' that he continued trying to obtain a loan.

A journalist following up the story of the 'loans affair' tracked down Mr Tirath Khemlani, who had been negotiating the loan on behalf of the Australian government. Mr Khemlani had a telex from Connor, dated 23 May 1975, telling him to continue negotiations. This was three days after permission to seek a loan had been revoked. Connor had misled Federal Parliament by denying this, so Whitlam demanded Connor's resignation.

JIM CAIRNS (1914–2003)

Dr James (Jim) Cairns was a well-respected member of the Labor Party and was also highly regarded for his leadership of the Vietnam moratorium movement (see page 172). In 1974, Cairns held the roles of both Treasurer and Deputy Prime Minister. In 1974–75, he made a number of decisions that brought his judgement and the credibility of the Labor Party into question.

In late 1974, Dr Cairns appointed a woman named Juni Morosi as coordinator of his office. Many believed that she had gained the position more as a result of her looks than her qualifications. In February 1975, a newspaper report of an interview with Cairns had the headline 'My Love For Juni'. Placed in context, Cairns appeared to be referring to his admiration for Ms Morosi's intellectual talents. As Dr Cairns and Ms Morosi were both married to other people, Cairns's use of the word 'love' appeared naive and inappropriate.

The media interest in Cairns's relationship with Ms Morosi was enormous and, according to some commentators, distracted attention from the government's activities.

Source 11.4.3



Photograph of Dr Cairns in 1972 at a demonstration against French nuclear testing

Cairns's more serious error involved an agreement he denied having made. On 6 March 1975, the Executive Council granted approval to seek an overseas loan of US\$500 million. The following day Dr Cairns, without consulting his colleagues, arranged for a Melbourne businessman, George Harris, to investigate possibilities for obtaining this loan. He gave Harris a written promise of a 2.5 per cent commission if he succeeded. When questioned on this in Federal Parliament, Cairns denied the

existence of such an agreement. When evidence of the existence of the original letter was produced, Whitlam sacked Cairns for misleading Parliament.

Source 11.4.4

An extract from an article by Labor senator Fred Daly

... Cairns's career suffered because of the innuendo that was splashed around. No matter how innocent it was, it simmered for months and caused a lot of trouble.

Dr Cairns, a man of principle, stuck to Miss Morosi through it all. He felt she was a staff member who was being unfairly and viciously attacked ... he stuck to his guns just as ... he had stuck to unpopular issues like the Vietnam War.

It proved once again that men in public life come under the most intense scrutiny. Politicians live in a goldfish bowl, and the most innocent action can be interpreted wrongly.

Miss Morosi, whom I have met only a few times, is a charming young lady who is very loyal to her boss ...

Dr Cairns is a great crusader, and a most likeable man. But he suffered, as most of us did, from those long years in Opposition. His best years were wasted.

Public opinion does not worry him, but sometimes his crusading zeal hinders his leadership qualities. He can be emotional when leaders should be cool and calm.

Sun, 7 March 1976.

In 2002, the year before his death, Dr Cairns surprised ABC interviewer John Cleary by volunteering the information that he and Juni Morosi *had* had an affair.



Check your understanding

1. What problems did the Labor government face in 1974?
2. What were the causes and evidence of Australia's economic problems around 1974?
3. What headline would you choose for an article about Connor's 23 May telex to Khemlani?
4. Explain why Connor and Cairns lost their positions in the Whitlam government.

Using sources

1. Use source 11.4.1 to answer the following questions.
 - (a) What was the CPI in 1972 at the beginning of the Whitlam government's term of office?
 - (b) When did the CPI reach its highest point?
 - (c) What does this graph show about the economic problems of the Whitlam government?
2. How did the impression Cairns created by his presence at the rally shown in source 11.4.3 contrast with his involvement in the search for a foreign loan?
3. How accurate was Fred Daly's assessment of Jim Cairns in source 11.4.4?