The Great War and the ‘Australian Settlement’: Social democracy, economic policy, and economic development in the long run, with some comparison with Finland.

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Prologue:

A Sketch of Two Regional Integrations and a Trans-Regional Comparison

The similarities in the history of economic and political development in the Australasian and Nordic regions are so strong that it is a major concern that so little has been done in this regard. Comparison is essential to social explanation. Furthermore, it is no longer sufficient to be transnational or regional in comparative focus. In the 21st century, global comparisons, or, more accurately, global trans-regional and trans-varietal comparisons should be made. In the cases of Australasia and Norden, the value of such comparisons seems quite clear. From the 1870s until today they have followed similar paths of commodity-export based industrial development (resource blessed development), social democratic political economy, socio-cultural and demographic integration, and social policy, and have achieved levels of economic and human development that are all near the top of various global comparative indices.

While the Australian colonies federated in 1901 and New Zealand remained more or less aloof, there has always been a closeness in policy, politics, culture, and administrative and military co-operation that is among the strongest of any two sovereign nations on earth. Similarly, while the Nordic countries have not federated their level of co-operation and integration have also been very strong both formally (such as the Nordic Council as well as many other co-operative arrangements) and informally in culture, trade, and policy learning.

Both regions have been internally united by history, language and culture. Only Finnish language is markedly distinct from the Scadinavian language cluster, but Swedish has always been an official language of Finland and was, at least until well into the 20th Century, the language of government, higher education, and administration, even during the Russian imperial era. Swedish was the linguafranca of the whole region but is now being supplanted to a significant degree by English. There has been significant movement of peoples between the four countries since the 1950s, made possible in part by the absence of formal migration barriers. Similarly, there is no official barrier to movement of people between Australia and New Zealand and this has occurred at a very high rate since the 1960s and 70s.1

1 The high rate migration across the Tasman Sea from New Zealand to Australia has long been a source of humour in both countries as well as some irritation and policy angst in NZ, and a clever joke about this by a former NZ PM, Robert Muldoon, is worth repeating. He said the migration of people from NZ to Aus raised the average IQ of both countries!
Geographically and socio-culturally, each of the two regions forms a coherent bloc. 2

Australia is a single continent and New Zealand, despite being 2000km away has very strong historical, cultural, transport, demographic, and economic ties to Australia. The total population of Australasia in 2014 is about 27 million with a density of only 2.8/sqkm in Australia and 16/sqkm in New Zealand. All four Nordic countries are physically joined, now that the Copenhagen-Malmö bridge has tied Denmark and Sweden together. The population of Norden in 2014 is about 26 million with an overall population density of about 7/sqkm, if Iceland and Greenland are included, varying from 126/sqkm in Denmark, 22sq/km in Sweden, to 17/sqkm in Finland, and 16/sqkm in Norway. The Nordic countries are also linked by a long history of economic, social, religious, and political interconnection, notwithstanding the partial delinking of Finland in the 1809-1917 Russian imperial era, during which connections with the Nordic zone remained strong.

Comparison of similar countries is essential for social explanation and even comparisons with dissimilar cases is often useful. For example, I have been involved with a book project comparing the socio-economic history of Finland and Japan, not countries that are easily comparable, at least prima facie, which has produced surprising and revealing results. As the above sketch indicates, there are many suggestive possibilities for historical comparisons of the Australasian and Nordic regions. Several forms of fruitful comparison come readily to mind. First, the economic history of these semi-peripheral regions of the world economy in the 19th century in terms of resource-dependence and transformation on the basis of highly valuable commodity exports and the linkages those had to industrial development upstream and downstream and the final demand effects in the wider economy. The regions are prominent examples of resource-blessed development in the 19th and early-20th Centuries but economically diverged a good deal in the latter 20th Century. Secondly, that divergence was associated with a divergence in the political economy and policy framework, which had had striking similarities in the late 19th and early 20th Centuries. Thirdly, interconnecting with the others has been the powerful influence in each case of geographical conditions – climate and soils and associated agricultural uncertainty, and mineral endowment. Of course these conditions vary a good deal within each region. Denmark and New Zealand have a natural richness of agricultural potential and parts of Australia and Sweden likewise. Nevertheless, the influence of geographical conditions, positively and negatively, is quite marked by comparison with other regions of the developed world. The place of harsh natural conditions

2 The Nordic region does definitely include Iceland but it’s an outlier, in important respects, in the region – geographically, economically, demographically, and linguistically – and the discussion of this paper generally leaves it aside for practical purposes. Likewise the Danish autonomous territories of Greenland and Faroe are not included.
has influenced the culture of both regions. And finally, there are other aspects of the histories of the regions or parts of the regions that stand a close comparison, including the impact of the Great War on Australia and Finland.
The Great War: A Great Watershed? Towards a Framework for Analysis

The Great War and its concomitant and immediately following series of political, social, and economic events can be seen as a watershed in the history of both Australia and Finland, with several striking similarities. The war had important consequences for economic and social development, not least because of the internal conflict and division within the labour/social democratic political movement. The disastrous civil war in Finland in 1918, which severely divided the Social Democrats, and the political and industrial turmoil and split in the Australian Labor Party, with consequent loss of office and the rise of a new conservative nationalism, had important effects on political economy in the 1920s and 30s in both countries. In this research project, which concentrates on Australia with a comparative discussion of Finland, the interconnection between politics, policy, and economic change in the 1910s to 1930s period is re-examined in the context of the fundamental shifts in the structure of the Australian economy and its international connections.

Examining any major event or shock, such as a war or revolution or natural catastrophe, that is hypothesised to have had a significant macro effect on the trajectory of a society or economy or institution, is akin to asking the counterfactual question of what would have happened without it. That is, the event should be examined from the point of view of contingency, path dependency, evolution, development, and transformation within an otherwise more or less stable structural-historical context; with the implicit understanding, at least, that without it the trajectory might have been very different. Of course, that is the question: what would have happened over time without the event?

Furthermore, examining the consequences for the Great War on Australia is one way to approach the issue of the interconnection between material, social, and institutional influences in socio-economic development in the long run. That is, how did the forces of natural environment and natural resource endowment; institutional inheritance from the colonial foundation and early history; historical evolution of institutional innovation; social structural inheritance, conflict, and evolution; cultural constructions of nationality and state-society relations; and historical political development; all with path dependencies and ruptures; intersect to produce a particular historical trajectory? And how did major shocks such as World Wars impact the trajectory? Of course, this question is another way of asking, more generally, how do we explain Australian history (or the history of any country)?

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3 This is a much better term than 'World War One' because it in fact was not the first world-wide war, which should, rather, be understood to have occurred in the 1750s between Britain and France, being fought in North America, the Caribbean, Europe, and India, as well as many naval coastal battles around the world, culminating in the battles of Plassey in 1757 and Quebec in 1759 in which Britain asserted global geopolitical ascendency, which it did not lose until 1918.
Unfortunately, however, it is often the case that many of these forces are ignored or bracketed, especially in explaining economic development. It is too easy, I believe, to bracket non-economic forces. This becomes even more apparent when comparisons are made. Countries that might seem quite similar in broad material/economic terms (such as Australia and Argentina, or Uruguay and New Zealand) have quite different economic histories because of social, institutional, and cultural forces. On the other hand, it is also sometimes too easy for institutionalists to bracket material environments and endowments, under the label of ‘old-fashioned geographical determinism’. And then there is the problem of the complete failure of non-economic (social, cultural, political, environmental &c) historians, who are of course a much larger group than economic historians, to take any account of economic forces or to do any quantification. This gulf is now quite striking. Take, for example, a just-published book on *Australian History Now*, edited by Anna Clark and Paul Ashton (2013), which has no mention of economic or business history or any aspect of the study of economic and political institutions, and no mention of any degree of quantification. This kind of approach to history has now pushed general history writing into a narrow ghetto, devoid of any theorising, generalisation, quantification, or materialism.

This paper is part of a larger project that is examining Australia’s history from then point of view of the development of a capitalist economy and society and the role of social democratic ideas, social movements, and policies in that history (see references list). Another way to put this is that I’m seeking to examine the historical political economy of Australia but also placing institutional change within a *materialist* dimension. In doing so, comparison is being made with other settler economies and with the Nordic region. The place of Australia and similar countries in the comparative history of commodity-export led development over the past two centuries, both as a success and as a failure, is one central theme within the intersection of all the forces mentioned above. That is the broad framework

**Before the Great War – Political Economy of the Australian Settlement**

The so-called ‘Australian Settlement’ between capital and labour that emerged in the 1904-1914 period was an early form of historic compromise that was designed to not just harmonise and ameliorate social conflict but construct a framework of policy that would ‘civilise capitalism’ in such a way as to permit egalitarian economic development with full employment, high living standards, and economic security. This was a model that was clearly aimed at socio-economic development and prosperity, not the undermining of capitalism or growth. A repeat of the great crisis of capitalism of the 1890s was to be avoided by a set of institutions and policies that would not just prevent socio-political crises through encouraging
social integration but produce a high standard of living for all social classes, especially including urban working and rural small-farmer classes. Central to this was the promotion of industrial development as a policy aim, the instruments of which were industrial protection and high consumption through high wages and a closed labour market. On the other hand, quite obviously, enabling efficient markets and free-rein entrepreneurship were not aims.

A developmental state that played the central economic and social role was the core of the ‘settlement’, one supported by urban liberals, urban workers, and farmers. Transferring rents from commodity exports to suburban middle class social life was the implicit aim. A later addition to the settlement was organized, subsidised, and export-assisted and promoted, agricultural marketing. Resource curse could be avoided whileever the income and wealth effect was distributed in a more or less egalitarian manner (thanks to robust democracy and unionization, the causes of which are a matter for separate discussion) and the industrial sector was promoted. Of course not all segments of capital and labour supported this compromise and one impact of the Great War was a severe test of its strength and degree of support. Indeed, the years 1917-22 were crucial. It was contingent upon economic and institutional developments in those years whether the settlement would survive. The return to commodity-led growth was essential.

The Australian settlement was made possible, then, by the world’s first (along with New Zealand) fully democratic polity, which had been achieved for men in the 1860s and women in the 1890s. This voting power and the working class crisis of the early 1890s combined to produce the world’s electorally most successful labour/social democratic political movement of the early 20th Century. The only other country to rival the electoral strength of the ALP was the Finnish SD party after 1906 (Table 1).

By 1914, Australia had begun to develop industrially behind a protective tariff wall, which had first been erected in Victoria in the 1870s, and had become in the early 20th Century a central component of the labourist-protectionist framework of political economy (Lloyd 2003). The manufacturing share of GDP was about 13%, concentrated in light manufacturing (such as processing foodstuffs, TCF, and household durable goods) but also the beginning of engineering industries, such as farm machinery, railway rolling stock, and ships. All manufacturing output was aimed at the domestic market as import-replacement products but needed protection to survive.
Table 1: Social Democrat/Labour Parties: % of votes cast

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Economic Development, Diversion, Decline in Wartime

The Great War was an even larger source of protection. The industrial development of 1914-18 was due in large part to a combination of necessary wartime import-substitution and the existing foundation for that industrial diversification that already existed. The industries of iron and steel, munitions, chemicals, electrical goods, shipbuilding and mineral refining all grew. But on the other hand, the war represented a large drag on the economy because of the huge diversion of capital investment to wartime supplies and manpower with consequent neglect of public investment in railways, roads, housing and other urban infrastructure. The best estimate is that the economy shrank by about 10% during the war, with a particularly large loss of agricultural output and export income because of the disruption of shipping to export markets. And there was the large loss of men due to war casualties – more than 60,000 killed, 150,000 maimed, and another 60,000 dying within 10 years of returning from the war. This demographic shock of the most productive men was a significant factor in post-war recovery, as in all combatant countries.
Political and Economic Crisis 1917-22

The longer it continued the more divisive the war involvement became in Australian society and politics. Australia did not have a revolutionary situation in 1917-19 but there was substantial socio-political and labour unrest. Major participation in the Great War as a close ally of Great Britain was a highly divisive policy in Australia and one of the consequences was a severe split in the Labor Party and labour movement more widely, accompanied by an upsurge of left-wing labour militancy. The all-volunteer Australian army, 415,000 strong at its peak, suffered 61,000 killed in the Gallipoli, Palestine, and Western Front theatres. Entry to the war had been made by the Labor government led first by Andrew Fisher and then William Hughes but with substantial social and political opposition within the Labor Party and more widely in the country. Opposition was led in part by working class, Irish Catholic elements in the society and Labor was in some respects an Irish Catholic, anti-imperial, Party. The attempt by Hughes in 1916 to introduce military conscription for the war split the government. Hughes and his minority of followers were expelled or split and they joined with the conservative opposition to form a new Nationalist government to continue the war policy, which retained majority public support as reflected in the Nationalist’s victory in the 1917 election. But military conscription was twice defeated in referendums. Trade union and socialist unrest over the war, and over war-induced inflation and unemployment, escalated in 1917 into a near general strike in New South Wales. After the Bolshevik Revolution and other uprisings of 1917-19 a significant move was made within the Party to push it in a more radically socialist direction. This failed, leading to secession of the militant left, which coalesced into a communist party by 1922 (O’Farrell 1963).

The Labor split of 1916 and the return to peacetime moderate labourism, after the fierce internal debates over the war and the European revolutions, with the loss of the radical wing to communism but with a socialisation objective adopted in 1921, meant that the Labor Party struggled unsuccessfully to regain office in the 1920s in the two-party system, despite polling 45% in 1925. Nevertheless, the regime of political economy that had been established in the years before the war was left in place by the post-war Nationalist government. This was made possible by several crucial developments. First was the relatively rapid return to

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4 O’Farrell (1963) neatly summarised the effect of the ideological struggles within the ALP over Bolshevism by 1921: “The dreams of the visionaries dispersed in the face of Russian reality. There was no further room for utopian illusions. … The Russian revolution dealt a grievous blow to both idealism and transmutative socialism as formative forces within Australian labour, an injury all the greater for the hopes which at first the revolution had raised. If Russia was socialism, then socialism was in vain. Better to settle for the hum-drum and the second rate, the politic and the popular.” (p 194)
prosperity after the war because of the rise in agricultural export prices in the early 1920s. The absorption of the returning troops into the workforce was assisted by an extensive range of repatriation programs of training, job creation through extensive public investment in housing and infrastructure through foreign borrowing, and soldier settlement schemes. The state was in effect mobilised to overcome the war effects. The rise of the Country Party from 1919 added to the consensus on protectionism and the agricultural industries joined the settlement. And, indeed, the level of protection afforded by the war was institutionalised by the substantially higher Greene Tariff of 1921. The industries created by the war were to be protected in order to continue. And finally, the Court of Arbitration and its Harvester Standard became even more central to national life. The workforce became increasingly unionised on a trade or skill basis, partly in order to access the centralised arbitration system, and award wages were beginning to catch up to wartime inflation. Socialist ideology and attempts to form One Big Union faded in significance with the return to peacetime normalcy.

The Australian Settlement in the 1920s: Critiques and Defenses

The consensus on economic and social policy that had been reached before the war held until the mid 1920s. The Hughes Government did nothing to undermine the labourist-protectionist system. The Country Party was a political movement in support of ‘protection all round’ (or protection from the negative effects of industrial protection on the agricultural export sector) and so by the early 1920s there was no significant opposition to the L-P system. The Country Party joined the conservative coalition under Prime Minister Bruce in 1922, an alliance being thus established that more or less sustained the Protectionist system into the 1960s. But the Labourist component (epitomised by industrial arbitration) of the pre-war system came under attack as the 20s went on. The management prerogatives of capitalists and their opposition to the centralised wage system, as well as the inefficiencies of protectionism, became topics of debate among academic economists and corporate interests. Most of the leading economists and economic historians of the 1920s were classical market liberals (cf Lloyd 2014). Indeed, a gap opened in the intellectual discourse around economic policy and development and imperial economic connections between liberals and socialists in the 1920s. The 1929 Brigden Report, into tariffs, however, took a centrist line and made the case for the Australian version of the infant industry argument, as long as tariffs rose no higher. This reflected the position of Prime Minister Bruce and the Nationalist-Country Party government. But industrial relations was another matter.

There was substantial opposition to unionism and centralised arbitration and conciliation among business (especially mining) and agricultural interests. In 1928-29 Bruce refused to
increase the welfare system and, attempting to undermine union power, tried to abolish the federal court of arbitration to return the power entirely to the states in the expectation that unions would be divided and ruled more easily. The centralised system that had regulated the labour market on the principle of wage fairness defined by the Harvester cost-of-living principle was thus threatened. But his government was forced to the polls when the bill failed in 1929 because of a split (due in part to the defection of Hughes and some followers). Bruce lost his own seat in the landslide to Labor in 1929. The opposition of conservatives, capitalist interests, and orthodox economists to the labourist-protectionist system thus suffered a significant defeat when Labor was swept back into office on a platform of continuing the regime of L-P regulation. The obvious conclusion from that is that by then the L-P system had become socially and politically entrenched and attempts to weaken or destroy it would be politically difficult or impossible. The ALP had become closely associated with the historic compromise and has more or less remained so ever since, notwithstanding the quasi-neo-liberal reforms of the 1980s.

Not a Watershed? The Great War in Retrospect
Shocks or turning points are significant only in retrospect and that retrospective point of view is constantly changing as time recedes. From the point of view of 1929 the Great War could be seen as an interruption rather than a watershed. Labor’s return to office after the turmoil and defeats of 1917-28 saw the L-P structure still in place and the conservative attempt to transform the industrial relations system was a failure. The historic compromise and its institutionalisation of the 1904-14 era remained. Trade unionisation, centralised industrial relations, protectionism, manufacturing development, White Australia, and social welfare, had not changed significantly. The critique of the market liberals remained but they had been eclipsed, at least for the time being.

Political ‘Resolution’ and then Depression: The Settlement under Threat
The Scullin Labor government’s ongoing defense of L-P from 1929 was not very successful, however, because of the almost immediate onset of depression. But the growing opposition to protectionism was instantly ignored as tariffs were raised to unprecedented levels in an attempt to retain the home market for Australian producers and thus save employment. Choking off imports was the policy of choice everywhere in the face of the economic

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5 It can be argued that this situation pertains to this day in a sense, as evidenced by the 2007 election in which Labor returned to power on the basis of resurrecting the centralised IR system and PM Howard lost his seat, eerily reminiscent of 1929.
collapse. Such ‘beggar thy neighbour’ policies led to a severe decline of global trade. Wage levels, however, were not protected and the Arbitration Court, abandoning the Harvester Principle, delivered an across-the-board wage cut in an attempt to stimulate investment and employment. The opposite happened. Deflation was the consequence. By the mid-1930s the Keynesian critique of austerity as the wrong policy in the face of depression and advocacy of fiscal stimulus was beginning to be widely debated if not yet implemented. Roosevelt’s New Deal was the shining example of the power of state intervention for employment, welfare, and depression-recovery although deficit financing was not a main strategy. The ALP, moving in a vaguely Keynesian direction in the late 1930s began to assimilate the new economic thinking into the L-P framework.


By 1937-38 the recovery from the depression was stalling at levels of unemployment still well above those of the late 1920s. A counterfactual question like that posed about the Great War regarding the effects of the Second War should also be asked. In this case the effects on industrial development and the economy more generally were more transformative. The total mobilization of economy and labour for war from late 1941 with extensive planning of production, manpower, and prices, produced absolute full employment, low inflation, and extensive further industrialization. Now the full range of industrial production was achieved – heavy engineering, ships, aircraft, motor vehicles, petrochemicals, and electrical goods.

By 1945 Labor had presided over a successful war effort, militarily and economically, and the political climate had been transformed by practical-material and intellectual developments. The return to peacetime without significant recession and the ‘takeoff’ of the postwar recover, further assisted by the Korean boom, set the scene throughout the Western world for the new Keynesian-Bretton Woods international settlement. Social democratic Welfare Capitalism became entrenched in the advanced Western countries and the long postwar boom sustained it. In Australia there was no strong demand for the end of labourist-protectionism, now reinforced intellectually by Keynesian state management ideology. After Labor’s defeat in 1949 the policy consensus continued under the Liberal-Country conservative hegemony but which slowly stultified until the late 1960s and early 1970s when the next crisis occurred. But that’s another story.

From this brief sketch, I think it can be seen that the Great War was not the great watershed that perhaps might be thought but that the regime of political economy that has emerged
before the war continued after it. The macro economic and social consequences of the great depression, likely to have been of enormous significance in the longer run, were obliterated by the Second World War’s total economy planning, which completed industrialization, full employment with low inflation, and a shift in ideology towards a social democratic developmental state throughout the Western advanced countries. Thus it can be argued that the 1941-45 experience was much more important than the Great War.

The Finnish Case in Comparison: A Very Brief Summary

In the case of Finland the years 1917-1920 were much more violent and transformative than in Australia. The Finnish Social democrats were the leading political party after the constitutional reform of 1906 and introduction of universal suffrage. Table 1 shows that they reached 47% of the vote in 1916, resulting in a majority of seats in the parliament. But being popularly supported was no guarantee of power within the increasingly interventionist Grand Duchy regime from Moscow.

After the Bolshevik Revolution, Lenin’s government acquiesced in Finnish independence. But at the end of 1917 a power vacuum existed in Helsinki because of a deep conflict between the Social Democratic dominated parliament and the conservative Senate or cabinet government. In January 1918 there was a rapid drift to conflict between the Reds, including the radical wing of the Social Democrats, with their armed militia, and the Whites, centred on the Senate government and their white Civil Guard or militia. The Finnish events mirrored the Russian turmoil. The Reds seized power in Helsinki and Tampere in January 1918, following the Bolshevik model. The subsequent three-month civil war saw the Whites victorious with the assistance of a substantial German army, including a Finnish (Yäger) force that had been part of the imperial German forces on the Eastern front. The deaths of 36,000 from violence, terror, and concentration camp starvation was an enormous toll in a nation of only 3 million (Haapala and Tikka 2012). Most of the deaths were on the Red side. All the leadership of the Reds was eliminated either through death or exile in Russia. But, remarkably, the Social Democrats recovered quite quickly after 1921, in part due to the split over the revolutionary road versus parliamentary reform and in the 1919 election managed to poll 38%. Henceforth, the evolutionary democratic path was the ideology and strategy of Finnish social democracy and overt communism was outlawed until 1944. But the party never regained the electoral position they had achieved up to 1916 until the late 1960s although being part of coalition governments after the Second World War.
Finland maintained a democratic parliamentary regime throughout the post-1918 era, including during the Second World War and post-war intervention by the allied (mostly Russian) control commission. It was not until the late 1960s and 1970s that a social democratic historic compromise emerged in Finland although a welfare state was certainly developed in the interwar period.

Finnish industrialisation occurred on a substantial scale after the Second World War, with the forest products sector being a leading engine of growth via its linkages to industrial processing, machinery manufacture, and final demand linkage via widespread forest ownership by small landowners. In 1945 about half the Finnish workforce was still in the primary sector of farming and forestry. A rapid transformation of employment and urbanisation then occurred in the 1960s and 70s, including a large outward migration to Swedish industrial centres. Nokia is an interesting case of a paper-making company diversifying into many other industries, such as communications cables, tyres, and electronics, and eventually mobile phones. Despite selling the handset business to Microsoft it remains a major company making integrated systems and mapping software.

Today Finland is still a centre of high-tech manufacturing (including a car industry), with several global firms apart from Nokia, such as Kone and Abloy, and a wide range of smaller firms, and now a major centre of software development, particularly for games, such as Angry Birds and Supercell. Substantial investment in R and D (one of the three highest in the world at around 3.5% of GDP) and technical higher education. Finland has been much more successful than Australia at converting its commodity-export sector into advanced technological manufacturing and retaining markets around the world in global era.
REFERENCES