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Coombs the Keynesian

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It is a commonplace fact that H.C. ‘Nugget’ Coombs was among the first enthusiastic Australian Keynesians. Groenewegen and McFarlane, in their biographical sketch, call Coombs ‘a leading figure in the implementation of the “Keynesian Revolution” in economic policy’.² I would not dispute this, but I do not find it very helpful either, partly because in none of the 13 references that Groenewegen and McFarlane make to the ‘Keynesian revolution’ do they tell you what that ‘revolution’ consisted of. To label Coombs a ‘Keynesian’ is only the beginning of an effort to understand him as an intellectual.

A golden moment

The transformative impact of *The General Theory* on intellectuals such as Coombs has been much mythologised. By ‘mythologised’ I do not mean falsely rendered. Rather, the phrase ‘Keynesian revolution’ works as a conventional narrative device, a shorthand that effectively distances the historian from the people and events of the late 1930s and early 1940s, rather than bringing them into sharper focus. Furthermore, in the uses to which the name ‘Keynes’ and the soft focus phrase ‘Keynesian revolution’ are put I detect a yearning for simplicity, for a clear and unproblematic alignment of economic and political reason. The name ‘Keynes’ and the phrase ‘Keynesian revolution’ evoke a moment in the twentieth century that was in two ways a golden moment: first, liberalism seemed to have produced a practically workable model of society; and second, economists owned that model and were being invited by governments to apply it. The yearning for that golden moment is at the heart of the mythologising phrase ‘Keynesian revolution’.

1 This essay was first published in *History of Economics Review*, 30 (1999), 108–25. It is reproduced with the permission of the History of Economic Thought Society of Australia. Tim Rowse has made minor revisions.

2 P. Groenewegen and B. McFarlane, *A History of Australian Economic Thought* (London and New York: Routledge, 1990), 214.

One of the most florid recollections of that blessed conjuncture of reason and politics – the late 1930s, early 1940s – came from *The General Theory's* indexer, David Bensusan-Butt. In 1967, he wistfully recalled that he had found in *The General Theory*:

joyful revelation in dark times. We thought that Keynes had, to put it shortly, found the 'flaw in the capitalist system', and had proclaimed its remedy ... The mystery of contemporary iniquity had been unveiled by a masterpiece of sustained intellectual effort. All the other tangled turgid stuff which lesser men were producing to rationalise the mess around us simply faded away.³

Butt had found in Keynes' vision of a reformed capitalism

everything and more the Fabian generation had looked for in socialism: it was morally speaking egalitarian, it was fully employed, it was generous and gay; it was a very new sort of capitalism controlled not by the greedy votaries of Mammon but by the intellect and *joie de vivre* of an intelligent and robust democracy.⁴

The sovereignty of a cheerful reason is Bensusan-Butt's theme.

[*The General Theory*] was to us less a work of economic theory than a Manifesto for Reason and Cheerfulness, the literary embodiment of a man who, to those who ever saw him, remains the very genius of intellect and enjoyment. It gave a rational basis and a moral appeal for a faith in the possible health and sanity of contemporary mankind such as the youth of my generation found nowhere else.⁵

In 1967, Bensusan-Butt could distance himself from these youthful faiths and yet still find Keynes' book a wonder. 'From the grey depths of my cynical middle age', he wrote, 'I will not let great men account for much in the determinate sweep of history, but I keep a soft spot for *The General Theory*.'⁶

Three years after Bensusan-Butt's recollections, Coombs offered listeners of the ABC Boyer Lectures similar memories. For many of his generation, it had been hard to see 'in Stalin's Russia the model of a Utopia of which the young could dream and, as for revolution, its techniques had been taken over by the irrational right':

It was at this stage that the star of Keynes emerged as a focus for youthful enthusiasm and sense of revolt. Looking back, what he offered (or at first

3 D. Bensusan-Butt, *On Economic Knowledge: A Sceptical Miscellany* (Canberra: Research School of Pacific Studies, Department of Economics, ANU, 1980), 35.

4 Ibid.

5 Ibid.

6 Ibid., 34–6.

merely promised in due course to find) was unexciting enough – only a new understanding of the workings of the economic system. But it gave us justification for and words to express our scorn for the stupidity and ineptitude of our elders and the grounds to believe that we who shared this new enlightenment could end this miserable mean-spirited chaos of the great depression for ever. It made it possible for us to face the war without despair, believing that if we survived we could set mankind fair with following wind on the way to a new society. It seems to me now that the Keynesian reform program was the last hopefully inspired youthful revolt.⁷

Ten years later, Coombs recalled the publication of *The General Theory* as ‘for me and many of my generation the most seminal intellectual event of our time’.⁸ Though he recalled at first finding the book difficult and deceptive in its structure, it ‘did not fail to generate excitement from first contact, and soon I had become convinced that in the Keynesian analysis lay the key to comprehension of the economic system’. In this conviction he was strengthened by a technical breakthrough – the ‘almost simultaneous development of the National Income Estimates’.⁹ Coombs went on to tell the story of the Financial and Economic (F and E) Committee, which ‘progressively gave the economic planning of the war an *essentially Keynesian character*’.¹⁰

In the published memoirs of Bensusan-Butt and Coombs we find three elements of the Keynesian revolution as myth: (1) reasoned iconoclasm, taken up by (2) critical youth, and (3) applied to government in a far-reaching and ultimately effective shaking up of the system. I remind you that ‘myth’ does not necessarily mean ‘untrue’; rather myth is storytelling conventionalised by pleasurable reiteration. Let me throw into relief this myth of youthful-reason-triumphant. I will do so in three ways. First I will give you an account of a paper ‘Economic Theory and Economic Practice’ read by John La Nauze before the Melbourne Branch of the Economic Society in May 1937.¹¹ In this paper we find a young economist, fresh from reading Keynes, in a highly pessimistic mood about the future relevance and public authority of economics. My second strategy for highlighting the mythical quality of the memoirs of Coombs and Bensusan-Butt will be to show alternative ways of narrating the taking up of Keynes’ ideas in Australia. Finally, I will examine some policy contexts in which Coombs attempted to apply Keynesian ideas.

7 H.C. Coombs, *The Fragile Pattern: Institutions and Man* (Sydney: Australian Broadcasting Commission, 1970), 41–2.

8 H.C. Coombs, *Trial Balance* (Melbourne: Macmillan, 1980), 3.

9 *Ibid.*

10 *Ibid.*, (emphasis added).

11 J. La Nauze, ‘Economic Theory and Economic Practice’, typescript, Governor Herbert Coombs files, Reserve Bank of Australia RBA GHC-50-I, (1937).



Dr H.C. (Nugget) Coombs, 1950

Source: National Archives of Australia, M2153, 4/33

La Nauze's pessimism

What could Economics as a discipline do to win the respect of politicians and the public?, La Nauze asked. Economists were unworldly and so lacked authority, he complained. Orthodox economists condemned 'protection' as inefficient, yet this had no impact on the politicians' and the public's enthusiasm for protection policies. La Nauze argued that economists would continue to suffer popular incredulity if they accepted Lionel Robbins' argument that economists were value-neutral analysts of the means to attain ends and had no competence or duty to discuss those ends. In this they deceived themselves, argued La Nauze, for economists did, in fact, employ a conception of human welfare – one that equated welfare with monetary income. Such economists supported free trade because their theory told them that this would maximise income. They failed to realise that people and politicians had other aspirations for their nations: security, and safety in war through industrial strength. Economists had developed a concept of 'welfare' when international peace and prosperity could be assumed, and they had failed to adapt their notion of 'welfare' to more insecure times.

La Nauze offered further explanations of economists' lack of authority in public debate. To the extent that economists spoke in the language of everyday affairs, it was possible for every person to hold an opinion about the matters on which economists expressed themselves – there was nothing special about what economists said. Another problem was that economists devoted their efforts to improving existing institutions, but 'a growing section of the intelligent minority ... are not interested in the proposals of economists for the better working of existing institutions'. Neither of these problems was the fault of economists, La Nauze conceded. The problem to which La Nauze gave emphasis, however, was in his opinion of economists' own making. Economists persisted in making simplifying free market assumptions and in postulating narrow monetary conceptions of 'welfare'.

La Nauze then raised a second obstacle to economists' authority: their inability to promote, from outside political debate, a consensual view. Keynes was his main example. La Nauze disputed not the substance of Keynes' arguments in *The General Theory* but his polemical manner of expression. By denouncing theoretical orthodoxy Keynes risked discrediting, in the mind of the lay public, 'all economic theorizing, including that of Mr. Keynes'. In calling for greater decorum among economists, La Nauze seemed close to making the opposite complaint to that with which his talk had begun – economists were perhaps too worldly. Economists were unlikely ever to speak with one voice because they held too great a variety of opinions about the good society. As well, Australian politicians publicly endorsed the authority of economists whose advice suited

their politics and then ridiculed the same economists when they found their advice unacceptable. In this politicised atmosphere economists competitively solicited support, to the detriment of their 'true impartiality and detachment'.

After canvassing these explanations for economists' lack of authority, without assigning priority to any one of them, La Nauze was unable to point out any way forward in theoretical, methodological, epistemological or ethical terms. Rather, his dismal paper led the reader towards the conclusion that economists' authority was ever fragile. Would the demands of the looming war lead to a better economics or to better standing for economists? La Nauze doubted it. Indeed, 'I do not think that there is likely to be any revolution by which the world will turn from its irrationality to the comparative rationality of economic theory'. It is most likely, he thought, that 'we will be driven to escape into the worlds of elegant equilibria, or the history of doctrine, where we know we are safe'.

La Nauze was wrong in his prognosis – the Second World War was the making of economists, because it forced them into a relatively unified policy stance favouring a popular program – full employment – and because governments hired economists in order to run the war economy and to project a peace that inspired hard-pressed citizens. Nonetheless, La Nauze's forgotten paper is of historical interest because it is a contrary instance to the impression – gained from Coombs and Bensusan-Butt – that at the end of the 1930s, early career economists were seized with joyous optimism upon reading *The General Theory*.

Coombs' unpublished letters, 1936–38

Coombs and La Nauze were good friends in the late 1930s. Since Coombs was ambivalent about the Bank and missed the academic life, correspondence with La Nauze (then teaching economics at the University of Adelaide) was important to him. In his letters to La Nauze he could air – more in jest than in earnest – his worries that the bank ethos was eroding his political integrity and intellectual vitality. In February 1936 Coombs reported to his friend that he and Jock Phillips

lunch together each week and join in a chorus of abuse of Fascists and Conservatives. I enjoy meeting him exceedingly – as that is one aspect of this job which is less satisfactory than it might be. Apart from discussions with Melville on theory – I find it very hard to meet people with whom I can talk about things other than Banking. After Universities where one's

contacts are so varied and made automatically, it is hard to have to take thought to prevent one's interests being narrowed. Work at the Bank is pretty varied and interesting.¹²

In Coombs' letters at this time are scattered references to a number of economists he was reading: Bohm-Bawerk, Cassel, Durbin, Hayek. Then, in March 1936:

Have you seen Keynes' new book? Judging by the summary of it Walker used to damn the Commonwealth Bank with recently – it must be somewhat iconoclastic.¹³

Followed by:

A group of us, including Walker, Black, Butlin, Melville and I are to meet once a week to chew this book over. So I am reading it with some attention – the more particularly since its practical implications are important. At the moment I am not impressed – but am trying to keep an open mind on the question. It is useful to try and put one's impressions on paper.¹⁴

Coombs evidently attached some notes to this letter, but they have not survived. Later, he wrote again on Keynes:

I hear from Phillips that you have been wrestling with Keynes and find him a pain in the neck. I am struggling with him too ... so far I am more irritated than anything. His habit of having half a chapter of close and difficult analyses and then slipping into general criticism of the system which does not follow from the analysis is damned annoying. Of course the crux of the business is the theory of interest and there I think he's about half wrong.

And later in this letter:

By the way don't you think Keynes puts things into the mouths of Malthus and others when he seeks for his intellectual ancestors?¹⁵

In two subsequent letters, Coombs outlined his doubts and dissatisfactions with *The General Theory*. One was to do with Keynes' ideas about the rate of interest:

I have been trying to make sense of the theory of interest. Keynes' work I found unsatisfying and yet it seemed to me to have one aspect of truth

12 H.C. Coombs to J. La Nauze, 12 February 1936, La Nauze Papers, National Library of Australia (NLA) MS 5248.

13 Coombs to La Nauze, 18 March 1936, La Nauze Papers, NLA MS 5248. He was referring to Walker's recent appearance before the Royal Commission on Money and Banking.

14 Coombs to La Nauze, 22 June 1936, La Nauze Papers, NLA MS 5248.

15 Coombs to La Nauze, n.d., La Nauze Papers, NLA MS 5248.

– that interest is predominantly a monetary phenomenon. He goes wrong in confining the influence of the quantity of money to the yield on fixed money claims. The idea that I have been trying to follow up is that money is one form of property – the others being fixed money claims, equities, durable consumption goods and goods for immediate consumption and that a person at any time distributes his available wealth between those different forms in the way which gives him the maximum net satisfaction from the point of view of liquidity, income, immediate satisfaction, etc. So that the rate of interest will not (as Keynes suggests) merely be the rate which will make it worthwhile for people to hold money balances equal in aggregate to the quantity of money but that rate which establishes a relationship of relative attractiveness of the various forms of property as a result of which people will hold money balances equal in aggregate to the quantity of money. What this means is:

1. that the changes in the quantity of money affect the attractiveness of all forms of property
2. that equilibrium in money holdings is restored not by changes in the rate of interest only but by a reshuffling of all the forms of property
3. that the effects of any change in the quantity of money will be different according to where they come into the economy.¹⁶

In this passage we see Coombs pursuing a line of thought that would later be developed by Milton Friedman.¹⁷ The theoretical background against which he was reading Keynes was certainly eclectic, ‘the result as far as I can trace it of reading Cannan, von Mises and Melville’.¹⁸

Coombs’ second substantive criticism of *The General Theory* concerned the problem of conceptualising and measuring the propensity to consume – a point on which he had published a short article in the *Economic Record*.¹⁹

Since writing the note I have come to doubt whether it is possible to speak of the propensity to consume for the community as a whole at all. It is clearly possible to compile for an individual a schedule of consumption for given levels of income which would be reasonably valid for a short range of income on either side of the actual income. It is clearly impossible, however, to aggregate schedules of individuals

16 Coombs to La Nauze, 9 September [1936?], La Nauze Papers, NLA MS 5248.

17 M. Friedman, *Studies in the Quantity Theory of Money* (Chicago: Chicago University Press, 1956). I would like to thank Sean Turnell, Michael White and Roy Weintraub for helping me to place this line of thought within the history of economic theory.

18 Coombs to La Nauze, 9 September [1936?], La Nauze Papers, NLA MS 5248.

19 H.C. Coombs, ‘A Propensity to Consume, a Comment on the Note by Dr. Smithies’, *Economic Record*, 13 (June 1937), 250–5.

whose actual incomes are widely different, since the range of income for which their respective schedules would be valid would not coincide. At best it may be possible to talk of the propensity to consume of a representative individual – a very doubtful concept.²⁰

In Coombs' letters to La Nauze there is not only evidence that Coombs was working his way critically and thoughtfully through Keynes' *General Theory*; there are also passages of writing which suggest that Coombs found Keynes, for all his critique of classical economics, limited by the framework of a discredited liberalism. This scepticism about Keynes' liberalism emerged in two further letters from Coombs to La Nauze. The first is a comment on La Nauze's gloomy paper on economics' lack of authority, in which Coombs put the problem in historical terms. Economists' credibility had been high when their laissez-faire assumptions and convictions had expressed the interests of 'the rising small capitalist class ... the most dynamic section of the community', he suggested. Now capitalists were bent on maintaining 'large scale monopolistic units', and they no longer welcomed liberal economists' strictures against market-distorting political privilege. And if Laski was right in seeing the state as the instrument of 'predominant groups in the community' then economists could expect no better hearing from governments. Because there could be no return to capitalism's earlier laissez-faire stage, Coombs concluded, it was futile for economists to 'cry for the moon of free competition'. Either economists could cease to make any critique of capitalism and simply describe, without judgment, its contemporary dynamics; or economists could develop a critical conception of 'welfare' and throw themselves into the political process. As a bank employee, Coombs was clearly inhibited from choosing the second option. In a postscript mentioning the possibility of escaping from the Bank to a university job he asked: 'In view of the above can I remain in a bank and retain my integrity?'²¹

A sequel to this letter, one year later, survives in the La Nauze papers. Coombs again wrote down his thoughts about what economics and economists could hope to do. He and La Nauze had been reading Barbara Wootton's recent *Lament for Economics*, and Coombs found that book's argument 'hard to answer.' If there were hope for Economics, it lay in:

1. the adoption of a theory of the state
2. the willingness to consider people making economic decisions in statistical groups about which it would be possible to make judgments as to behaviour which would have [hold?] true for the group but not necessarily for the individual

20 Coombs to La Nauze, 20 September 1937, La Nauze Papers, NLA MS 5248. In this comment, Coombs parallels such post-Keynesian writers as Kalecki who introduce the complicating factors of class and income level into any attempt to measure and predict changes in the propensity to consume.

21 Coombs to La Nauze, 9 June 1937, La Nauze Papers, NLA MS 5248.

3. the willingness to abandon the search for certainty and to base economics consciously upon probabilities.

Of course if Economists will do this – they will reject equally the fictions of liberal economics and the limited interventions of Keynes, Meade, Harrod and co.²²

This is neither as reasoned nor as clear a comment as one might wish to read, but it supports my impression that Coombs' dissatisfactions with economics in June 1938 were those of a critical (if not Marxist) realist. As well as a theory of the state, a sociology of differentiated economic motivation would be required to give economists a purchase on social reality, and even then economists could hope only to rest their analysis on 'probabilities'. If the comment on Keynes, Harrod and Meade is a *non sequitur*, it nonetheless demonstrates that Coombs' restless intellect had yet not found what it sought in Keynes' liberalism. This mid-1938 letter does not sit well with Coombs' recollections of his Keynesian hierophany in *Trial Balance*, and with Melville's recollection that 'Coombs ... went the whole way with Keynes.'²³

If Coombs was going the whole way with anyone in 1938, it was with Barbara Wootton. Wootton's survey of the discipline made a particular target of Lionel Robbins' *The Nature and Significance of Economic Science*. She began by dismissing the assumptions dominant within economics: 'every encroachment of monopoly upon a competitive system narrows the field in which the economist's tools can ever be applied at all.'²⁴ Increasing state intervention similarly attenuated economics' pertinence. A world structured by monopoly and by state intervention was less and less amenable to economists' theory. Declining to suggest new theoretical paths for economics, Wootton cited Keynes only sparingly, but to good effect. By pointing out the possibility of equilibria in the midst of unused resources Keynes questioned economic theory's assumption of scarcity. Sometimes economic analysis could rest on the assumption of a prevailing scarcity, but in other situations, the opposite assumption was necessary. Keynesians were

at least trying to define the respective spheres in which each of the two mutually contradictory assumptions now offered as the basis of economic analysis is valid. But until this job has been satisfactorily completed, it is not to be wondered at if the economists stand helpless before urgent practical problems. Until they know which assumption it is appropriate to apply, they cannot even answer such an elementary

22 Coombs to La Nauze, 4 June 1938, La Nauze Papers, NLA MS 5248.

23 S. Cornish, 'Sir Leslie Melville: An Interview', *ANU Working Papers in Economic History*, 173 (1993), 19.

24 B. Wootton, *Lament for Economics* (London: Jonathan Cape, 1938), 82.

question as whether an increase in the total volume of employment is more likely to be brought about by increasing or by diminishing the general level of wages.²⁵

In her third and fourth chapters, Wootton declared herself unconvinced by arguments that economics is a science. Rather she sought to expose economists' unreasoned faith that free markets optimised welfare. In her fifth chapter, she found fault with the idea that the economic system is shaped by the choices made by all those within it; some peoples' choices, she pointed out, powerfully determined the options which the rest of us confront. Finally Wootton outlined a charter for economic studies that would require of economists:

a ruthless disregard of present boundaries and definitions. If anything substantial is to come out of the economists' work, he must be allowed to poke his nose into questions of the quality of social ends, and of the means by which these are formulated. He must retain his freedom to be as sceptical as he thinks proper about market optima, and to suggest alternative standards by which these may be checked.²⁶

She concluded by stating a research program for the reform-minded economist, a program whose breadth would not have shamed a school of social sciences, a program as broad as the range of research projects commissioned by the Department of Post-War Reconstruction after 1943.

Some policy contexts of *The General Theory*

My second approach to the question of Coombs as exemplar of the Keynesian revolution takes us away from intellectual biography in order to emphasise the continuity in Australian economists' policy advice before and after the publication of Keynes' 'seminal' book.

Such continuity is Neville Cain's point. Cain casts Ronald Walker as a leading advocate of Keynes to Australian economists, climaxing in his presentation of the gist of *The General Theory* to the Royal Commission on Money and Banking in 1936. However, Cain warns not to exaggerate the policy benightedness of Australian economists prior to the publication of *The General Theory*. 'By 1933 most of them had abandoned wage-cutting and warmed to treasury-bill financing of deficits and "minimal" public works (one or two indeed had pressed for a bolder line on works outlays).' The significance of Walker's work, Cain argues, was in 'giving intellectual credibility to the policy stance of an emerging group

²⁵ Ibid., 98.

²⁶ Ibid., 261.

of expansionists whose political strength was concentrated in Sydney.' Cain's footnote then lists Bertram Stevens, Alfred Davidson, Torliev Hytten, supported by L.F. Giblin and D.B. Copland – all urging the federal government and the Commonwealth Bank to loosen expenditure and exchange policies.²⁷

It would be consistent with Cain's point to emphasise the way that wartime circumstances forced governments to behave *as if* they were converts to Keynesian ideas. Recall Walker's observation in 1943:

In the library of the Australian parliament in Canberra there is a copy of the *General Theory*. The first three hundred pages, in which theory is worked out, are of virgin whiteness; the last eighty pages, with the practical applications, are well thumbed and heavily scored.²⁸

Sir Leslie Melville, interviewed by Selwyn Cornish, also drew a line between those attracted by Keynes' policy prescriptions and those agreeing with his theoretical arguments; the former were not necessarily 'Keynesian'. Thus, Sir Leslie was able to recollect which Australian economists were 'Keynesian', and to what degree they were 'Keynesian', by the Second World War.²⁹ Another economist who looked back, after the Second World War, on the Australian inception of expansionary economics, Douglas Copland, also seemed to distinguish theory from policy:

At the January 1939 meeting of ANZAAS Giblin and I put forward a resolution advocating the diversion of public works expenditure to strategic defence needs, and although it was received rather timidly it was not long before events themselves forced action along the lines we had been suggesting.³⁰

Copland went on to caution advocates of 'full employment' against placing 'too much emphasis on the Keynesian doctrines in circumstances in which it is difficult to apply them':

Full employment during and since the war has been inevitable and has not been due to any overt act on the part of economists *or* governments, so that there is no particular justification for self-satisfaction in that direction. If one thing is certain, it is this: when full employment ceases to be a reality there will be nothing straightforward about the measures needed to correct the situation.³¹

27 N. Cain, 'Australian Keynesian: The Writings of E.R. Walker 1933–36', *ANU Working Papers in Economic History*, 13 (1983): 17–18.

28 R.E. Walker, *From Economic Theory to Policy* (Chicago: University of Chicago Press, 1943), 72.

29 S. Cornish, 'Sir Leslie Melville: An Interview', 18–19.

30 D. Copland, *Expansion and Inflation* (Melbourne: Cheshire, 1951), 24.

31 *Ibid.*, 25–6.

Copland doubted, in 1950, that the lay public who believed in full employment had any understanding of the Keynesian measures: 'We have already seen him object when orthodox Keynesian theory, namely high taxation in a boom, hurts him.'³²

This alternative way of narrating the Keynesian revolution differentiates the theoretical conversion of economists from their endorsement, under well-defined circumstances, of certain policy prescriptions. Coombs' doubts about *The General Theory* were thus no obstacle to his pragmatic support, from 1939 onwards, for macroeconomic policies that managed effective demand in order to employ all available resources.

Further insights based on the theory/policy distinction can be found in a study of the Labour Movement. Kuhn argues that Labour intellectuals were strongly disposed to welcome any theory of the capitalist economy that laid emphasis on the problem of effective demand.³³ Labour leaders looked not to Marx but to the economists of 'underconsumption' such as J.A. Hobson. In mapping this theoretical tradition Kuhn casts Hobson in the 'real school' of underconsumption theory – concerned with income distribution – and Keynes in the 'monetary school' – concerned more with monetary policies. One might argue with such a classification of the mercurial Keynes, but Kuhn's underlying point is that Labour Movement intellectuals argued both versions of 'underconsumption' theory and, in doing so, found convergence with the populist economics that depicted the evils of 'Money Power'.³⁴

Though Labour Movement leaders in the 1930s could have cited Keynes in support of the expansionary policies that they favoured, they rarely did so until after the publication of *The General Theory*, argues Kuhn. He cites 'the suspicion of the profession that had been engendered by its behaviour during the Depression, and the participation of some of its foremost representatives in the preparation of the Premiers' Plan'.³⁵ A number of events helped to reconcile the 'Laborites' to the academic economist: the publication of *The General Theory* gave theoretical respectability to the advocates of expansion – Laborites and others; the Report of the Royal Commission on Money and Banking endorsed Keynes' and others' arguments for greater political accountability of finance capital (though there remained significant differences as to how to effect that accountability); and W.B. Reddaway's Keynesian analysis led him to advise the Arbitration Court in 1937 to grant a basic wage increase in order to dampen employers' inflationary optimism. Kuhn confines his story to the opinions and

32 Ibid., 26.

33 R. Kuhn, 'Labour Movement Economic Thought in the 1930s: Underconsumptionism and Keynesian Economics', *Australian Economic History Review*, 28 (September 1988).

34 Ibid., 59.

35 Ibid., 64–5.

actions of the leaders of the Labour Movement. Thus, he tells us nothing about the reception of Keynesian ideas in the non-Labor governments led by Lyons and then Menzies. However, Kuhn does note that Labor and non-Labor were converging around a Keynesian centre – at which point stood such figures as Bertram Stevens and Ronald Walker.³⁶ From the point of view of moderate Labor leaders, this was a welcome development – the tensions between Capital and Labour seemed to be eased by Keynes' theory and policy prescription. Kuhn's narrative of the Keynesian revolution thus brings us back to the mythical resonances of the phrase 'Keynesian revolution'. That is, Kuhn's account makes it clear that Keynes was read as addressing the political anxieties of Labour Movement leaders who were struggling against a popular economics still saturated with Douglas Credit theory and concerns about 'Money Power'. The phrase 'Keynesian revolution' persists as shorthand for an ideological conjuncture, when Capital and Labour seemed to be finding a new formula for peaceful coexistence. In *Trial Balance*, Coombs gave expression to such a memory – Keynesian analysis 'seemed to bypass the most divisive issues within our society'.³⁷

The war economy and the 'Keynesian revolution'

In a policy-focused telling of the story of the Keynesian revolution, the point is to define 'Keynesian' contextually. One way to do this is to pay attention to Keynes' 1940 pamphlet, *How to Pay for the War*. Keynes' preface sensitises us to the political issues of the Australian government's war-inspired policies of economic expansion.

Coombs' publishers cut from the draft of *Trial Balance* words that illuminate the politics of war finance. For example, when Coombs wrote that the F and E Committee 'progressively gave the economic planning of the war an essentially Keynesian character', he had added the words 'but success in establishing this character was not immediately or easily won'.³⁸ What did he mean? One possible answer to that question can be found in Maddock and Penny's study of the F and E Committee, which draws attention to the issue of how to distribute the burden of financing a larger government budget.³⁹ In neither the published nor the draft version of *Trial Balance* did Coombs comment on the redistributive impact of the Menzies and Curtin governments' approach to the war economy.

36 Ibid., 70.

37 H.C. Coombs, *Trial Balance* (Melbourne: Macmillan, 1981), 146.

38 H.C. Coombs, *Trial Balance*, unpublished typescript in the author's possession.

39 R. Maddock and J. Penny, 'Economists at War: The Financial and Economic Committee 1939–44', *Australian Economic History Review*, 23 (March 1983).

From the point of view of any historian who wishes to trace the 'Keynesian' character of both policy advice and policy this was a significant omission, because in *How to Pay for the War* (1940) Keynes had given prominence to his recommendations' consideration of distributive social justice.⁴⁰

Keynes argued for an explicit political pitch for the British population's consent to the privations of war. 'In peace time ... the size of the cake depends on the amount of work done. But in war time the size of the cake is fixed. If we work harder, we can fight better. But we must not consume more.'⁴¹ How to get the public to swallow this inescapable economic truth? Keynes admitted that in his first thoughts on the war economy – three articles in *The Times* in November 1939 – he had ignored this issue, for he had been

mainly concerned with questions of financial technique and did not secure the full gain in social justice for which this technique opened the way. In this revision ... I have endeavoured to snatch from the exigency of war positive social improvements. The complete scheme now proposed, including universal family allowances in cash, the accumulation of working-class wealth under working class control, a cheap ration of necessaries, and a capital levy (or tax) after the war, embodies an advance towards economic equality greater than any which we have made in recent times.⁴²

The concern for social justice was not at the forefront of Australian economists' public consideration of war finance issues. When four Australian economists – Butlin, Critchley, McMillan and Tange – reviewed the first 20 months of the war economy in 1941, they took little interest in the political question that had impressed its importance on Keynes – whether a program of social justice was essential to winning popular consent to the war economy. Butlin and his colleagues decided to leave to others a study of the distributional effects of wartime taxes. They could not ignore completely the political challenges of wartime economics, but where Keynes laid out a program that might woo the masses, Butlin and his colleagues evinced a fear and loathing of the public. Not for them Keynes' confident appeal to the public's interest in what he called 'social justice'. Such a phrase was not in the four authors' vocabulary. Rather, they expressed fear of the public's irrationality:

[M]ost are ready to be carried away by muddled catch-cries. The economic superstition which passes for theory about the mysterious

40 For British discussion of the social justice issues of Keynes' pamphlet see B. Littleboy, 'The Wider Significance of *How to Pay for the War*', *History of Economics Review*, 25 (Winter–Summer, 1996); and J. King, 'Oxford versus Cambridge on *How to Pay for the War*: A Comment on Littleboy', *History of Economics Review*, 27 (Winter, 1998).

41 J.M. Keynes, *How to Pay for the War* (London: MacMillan, 1940), 4.

42 *Ibid.*, iii–iv.

virtues of the Commonwealth Bank, the sedulously cultivated doctrine of 'maintain private spending', and the indestructible faith in unlimited idle resources, make it extremely difficult for any uncourageous government to avoid inflationary finance. Reinforcing the faith in witch words are the natural disinclination to face unpleasant readjustments of living habits, and the equally natural tendency to identify the interest of one's class with those of the community.⁴³

Butlin and his colleagues favoured taxation as a method of war finance, but they did not declare support for any particular mix of taxes and so, unlike Keynes, they declined to let the problem of political consent to the war economy shape their consideration of that economy's fiscal techniques. When they turned, unavoidably, to the question of how to win popular consent to restrictions on consumption, the four Australian economists could only appeal in the most general terms to the necessity for government 'propaganda'⁴⁴ – a term whose lame centrality to their discourse passed unnoticed by whoever compiled the book's index.

Australia Foots the Bill thus departed significantly from its Keynesian precedent – *How to Pay for the War* – in the paucity of its political and social vision, and in its effective refusal to consider the psychological and ideological underpinning of a war economy. We might say that in being so apolitical, these economists were 'essentially unKeynesian'. That is, until the last few pages of their book. There, Butlin and his colleagues *did* express an opinion about the Menzies Government's taxes – they were too regressive, and this was 'inefficient'. More money could be raised if the government would target the better off. As well, the economists were critical of the risk of inflation courted by the Menzies Government's decision to use loans from the Commonwealth Bank. To counter the inflationary effects of this increase in the money supply, Australians should be required to set aside some of their money until after the war. Less well off consumers could be invited to divert their expenditure into 'contributory unemployment and old-age insurance and similar social services'. Whatever was done to siphon off the public's money, its impact should be progressive: 'Any scheme of finance which does not conform to these principles is not a Keynes Plan.'⁴⁵

If progressiveness in taxation and in compulsory levies was the essence of Keynesian fiscal policy at this time, then we are in a position to mark one of the

43 S. Butlin, T. Critchley, R. McMillan and A. Tange, *Australia Foots the Bill* (Sydney: Angus and Robertson, 1941), 10.

44 *Ibid.*, 71.

45 *Ibid.*, 122.

limits of Keynesian influence in Australia. According to Maddock and Penny, the F and E Committee's 'commitment to equity was never really transferred into policy' by the Menzies Government:

Suggestions for income taxation increases made considerably less progress than the Committee had hoped, with indirect taxes assuming a correspondingly more important role. Schemes for a national minimum income or unemployment insurance also made little headway.⁴⁶

Whether Australian fiscal policy during the war ever became as 'progressive' as Keynes hoped is a matter that could be debated. Butlin and Schedvin made no explicit evaluation of this point in their *War Economy 1942–5*. They note merely that the Curtin Government lowered the taxation threshold to encompass low and middle income earners, while gathering a higher proportion of net company income as well.⁴⁷ Rob Watts' negative evaluation of the Curtin Government's approach to social equity is based on the former fact.⁴⁸

Once again, our judgment of the reality and thoroughness of the 'Keynesian revolution' in wartime economic policy is dependent on our definition of 'Keynesian'.

Post-war blueprints

Finally, the theme of Coombs as Keynesian exemplar can be filled out by referring to the Keynesian provenance of some of Coombs' (among others) schemes to reconstruct capitalism along more socially equitable lines, chiefly by committing governments to practicable policies of 'full employment'. I make two kinds of criticism of this theme: we should not ignore Coombs' essays on future possibilities, which owe nothing to Keynes; and in the politics of the 'full employment' crusade, there is no clear Keynesian line.

Coombs did not enlarge, in any document that I have seen, on his remark that Wootton's 'lament for economics' was 'unanswerable'. However, I see a resonance with Wootton in Coombs' 1942 paper to a meeting of the Economic Society of Australia and New Zealand. His experience of being director of Rationing, since the beginning of 1942, deepened his sympathy for the thought

46 Maddock and Penny, 'Economists at War', 39. W. Coleman, S. Cornish and A. Hagger, *Giblin's Platoon: The Trials and Triumph of the Economist in Australian Public Life* (Canberra: ANU E Press, 2006) discusses the politics of economic policy at this moment, commenting that 'the inability to implement a politically acceptable policy of war finance was the principal reason for the failure of the Menzies and Fadden governments ... Labor attacked the Menzies and Fadden Governments unmercifully on the grounds that their financial and economic policies – including the compulsory loan – were inequitable' (p. 193).

47 S.J. Butlin and C.B. Schedvin, *War Economy: 1942–45* (Canberra: Australian War Memorial, 1977), 578.

48 R. Watts, *The Foundations of the National Welfare State* (Sydney: Allen and Unwin, 1987).

that 'experts' might determine more rationally than markets the allocation of society's resources. Just as *Lament for Economics* had argued that economists made far too much of the sovereignty of the utility-maximising consumer, so too had Coombs witnessed and indeed brought about the practical attenuation of consumer choice under wartime rationing. Wootton had written that

the really fundamental choices are made by those who decide what options to put before us. We never knew that we wanted cars and gramophones and cellophane wrappings until these things were actually produced, and we found ourselves buying them.⁴⁹

In her view, 'the right of choice can be an affliction just as much as a privilege'.⁵⁰ Coombs applauded the way that rationing relieved consumers from that affliction. Was it not possible, Coombs asked, that wartime arrangements demonstrated a better way for allocative decisions to be made – the expert estimation of people's needs? 'The economist has always tended to discount the value of expert opinion as a proper basis for action in economic fields', he suggested. He put it to his audience that consumers' sense of value was, to a significant degree, artificially constructed by advertising. It was time that economists dethroned the consumer from his/her bogus sovereignty and considered a more rational mechanism for the allocation of resources. Wartime management of the economy was already demoting those unreliable and irrational figures, the private investors; now rationing had begun to rationalise consumer behaviour. He asked: 'Will we have a place for the estimation of people's needs, of objective standards by appeal to experts, and will we find that production can be guided, with the maximum social benefits, by objective standards rather than by the private motive?' Leaving that provocative question unanswered, Coombs nonetheless hailed rationing as 'the application to the social problem of cooperative principles'.⁵¹

Such opinions are not easy to contain within a formula which characterises Coombs as a leading figure in the Keynesian revolution. We might rather call this the Fabian Coombs. In contrast, there can be no doubt of the Keynesian inspiration of Coombs' 'positive approach' to the international discussions about trade liberalisation. Coombs set out to persuade political leaders in Australia and abroad that dependent economies such as Australia could accept the United States' wish for free trade if the United States would, in turn, commit to domestic policies of full employment. If global 'effective demand' was sustained by American imports, then all trading nations could be 'positive' about protecting their domestic markets less.

49 Wootton, *Lament For Economics*, 203.

50 Ibid., 234.

51 'The Economic Implications of Rationing', n.d., Coombs Papers, National Archives of Australia (NAA) CRS M448/1/179.

What, in Keynes' view, was the relationship between trade policies and full employment? When nations afflicted by the Depression had got together in London in 1933, Keynes had dismissed as a 'waste of time' the 'pious resolutions concerning the abatement of tariffs, quotas and exchange restrictions'. Protection policies he saw as symptoms, not causes. Symptoms of what? Of popular economic insecurity. In *The General Theory* Keynes had argued that if policy-makers focused on maintaining effective demand they need not be so worried about keeping a favourable balance of payments. Keynes was highly critical of an economic orthodoxy – associated with Britain's dominance within the global economy – that, in order to keep the nation a net creditor in its financial dealings with the rest of the world, it was justified to allow internal interest rates to rise (attracting other nation's currencies) and to push wages (a major cost of production) down. High domestic interest rates and low wages enabled a nation to attract more currency than it spent. In pre-Keynesian orthodoxy this combination of policies had been thought 'financially sound'. Alternative ways to maintain a positive balance of payments, such as altering the value of the currency or restricting the flow of money in and out of the country were not so 'sound', according to orthodox opinion, because they compromised the sanctity of the pound sterling as a medium in which the value of other currencies was to be measured. To Keynes the folly of this high interest/low wages orthodoxy had been demonstrated in the economic stagnation of the 1920s and 1930s. Recovery from the Depression would have been quicker had interest rates been kept low (to encourage investment), had governments spent freely and had the value of wages been maintained (to encourage spending on the products from which investors hoped to profit). If such recovery policies caused a nation's balance of payments to fall into the negative, then either this was a short-term problem which should be tolerated, or, if the problem persisted, it was better to change the value of the currency or to intervene in the flow of money in and out of the nation.

Nations that refused to manipulate the value of their currency and that wished to avoid the social upheavals of a high interest/low wages strategy had only one option, Keynes pointed out in the penultimate chapter of *The General Theory* – aggressive trade policies. But aggressive trade policies required some nations to fail if others were to succeed, giving rise to 'increasingly internecine' international relations – war and/or increased protectionism. Keynes insisted that it was therefore a mistake for governments to define the national interest too much in terms of defending their balance of payments. Better to make it the primary objective of economic policy to set interest rates and government expenditure at levels that would encourage investment, employment and consumer spending consistent with full employment. While the resulting prosperity of the domestic market would stimulate imports, this would be balanced by the simultaneous

stimulation of the export trade. In a brief and isolated remark on the possible future of international trade, Keynes foreshadowed, in very broad terms, Coombs' 'positive approach':

And it is the *simultaneous pursuit* of these policies by all countries together which is capable of restoring economic health and strength internationally, whether we measure it by the level of domestic employment or by the volume of international trade.⁵²

Though Coombs' positive approach was of Keynesian inspiration, Keynes' internationalism, during the war, was *tactically* at odds with that of Coombs. Preoccupied with arguing for his International Clearing Union, Keynes waited until after the war before he promoted his views about trade policy. His sympathy for American free trade proposals, according to Harrod,⁵³ did not crystallise until late in 1945, when Keynes heard American government officials explain the trade policies they would expect Britain to endorse if the American public was to support lending Britain billions of dollars for reconstruction. Coombs recalled that Keynes was known to be rather contemptuous of economists who took a great interest in trade policy.⁵⁴ For Keynes, the paramount issue for those designing the post-war global economy was currency. Britain had damaged the social fabric of capitalism, thought Keynes, by trying to maintain sterling as the currency in which much of the world's trading bills were paid. It was not necessary, he argued during the war, for any one nation's currency to be the pre-eminent medium of post-war international exchange. Keynes' proposed International Clearing Union would have created a genuinely international currency, and it would have set up mechanisms by which no single country could hold so much of that unit of exchange that other nations had insufficient for their own buying and selling. His scheme can be interpreted as recognising the impossibility of Britain maintaining hegemony over the global economy, while attempting to make it unnecessary (and indeed impossible) for the United States to succeed to that hegemonic position.

Keynes' diplomatic endeavours in this cause failed, but his pursuit of them determined his immediate response to Coombs' 'positive' approach to trade policy. Coombs met Keynes in London in June 1943, dining in a restaurant off Piccadilly and finding him 'stimulating and charming'. But a subsequent exchange of letters did not produce agreement about how Britain and her Dominions should approach the foreseeable agenda of international discussions

52 J.M. Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), 349 (emphasis added).

53 R. Harrod, *The Life of John Maynard Keynes* (London: Pelican, 1972), 721–2.

54 H.C. Coombs, conversation with the author, 2 September 1995.

on currency, trade and employment.⁵⁵ On 3 September 1943, Keynes assured Coombs that although ‘we do not differ about the importance of the subject [of employment]’, they differed in their tactics:

[A]t this stage more is likely to be achieved by tackling the problem of unemployment indirectly than by calling an international conference, which might find itself overmuch concerned with what were little better than pious resolutions ... though it is quite possible that at some later stage, when the ground has been more fully prepared, a conference of this kind, or possibly one of even wider scope, might be of help both in educating public opinion in the various countries and in facilitating the international acceptance of whatever plans may ultimately be agreed upon in the monetary, commodity, commercial and investment fields.⁵⁶

Keynes’ sympathy for Coombs’ ‘positive approach’ never made him their wartime advocate. Keynes’ focus was on how to modify the American proposals for a Stabilisation Fund so that they did not recreate the constraints, on governments facing unemployment, of the old gold standard. To advocate an international commitment to full employment, to a New Deal administration on the political defensive for its leanings towards ‘socialism’, would have seemed to him an additional burden on British diplomacy. Indeed, the Australian emphasis on ‘full employment’ as a condition of free trade was seen by some North Atlantic officials as Australia’s ingenious, but disingenuous, way to avoid the challenge of free trade. British officials such as Keynes could not afford to be seen to be obdurate on trade policy if they were to bargain successfully with the Americans on the design of post-war currency arrangements.

My final comparison of Coombs’ and Keynes’ ‘blueprints’ concerns wages. In drafting the White Paper on Full Employment in 1944–45, Keynes’ followers in the Department of Post-War Reconstruction, including Coombs, were attempting to solve one of the unsolvable mysteries of Keynesian economics: in an economy in which the demand for labour slightly exceeds supply, how would governments limit trade unions’ pursuit of higher money-wages? Without an answer to that question, ‘full employment’ would probably bring with it both inflation and crises in the balance of payments.

Lord Kahn, Keynes’ colleague, has stalked this issue through Keynes’ published and unpublished writings, concluding that Keynes’ thoughts on the money-wage problem were ‘unsystematic and unsatisfactory’. As Kahn pointed out, wage discipline had hardly been threatened by Depression levels of employment, when Keynes was writing *The General Theory*; when war made labour scarce, it

55 Ibid. I am grateful to Sean Turnell for sharing with me his copies of these letters, which are to be found in British Treasury records, Public Records Office (London) T 247/84 15587.

56 Keynes to Coombs, 3 September 1943, NAA CP 43/114311324/1.

also supplied extraordinary political instruments for labour discipline. In a 1943 debate with Friedrich von Hayek, Keynes acknowledged that it 'remains to be seen' whether 'a capitalist country is doomed to failure because it will be found impossible in conditions of full employment to prevent a progressive increase in wages.' In correspondence in 1943 and 1944, he suggested that the problem was not one for economic theory but for politicians to solve.⁵⁷ When the Australian White Paper on Full Employment appeared in 1945, Keynes remarked to S.G. McFarlane, secretary to the Australian Treasury: 'One is also, simply because one knows no solution, inclined to turn a blind eye to the wages problem in a full employment economy.'⁵⁸

Coombs and his colleagues did not turn a blind eye. Stimulated by another of Keynes' Cambridge colleagues, Joan Robinson, their early drafts of the White Paper explored the political economy of wage earnings in the new social order. However, the political sensitivities of the Labor Cabinet forbade all but cursory mention of full employment capitalism's most important problem – the abandonment of capitalism's discipline over the working class, the threat of unemployment.⁵⁹ Perhaps this omission is what helps to make the White Paper Keynesian – just as Keynes had nothing constructive to say about wage and work discipline, so did the Curtin Government, unlike Coombs and his colleagues, prefer silence on an issue so provocative to Labor's constituency. Thus, Coombs' comment in *Trial Balance* that Keynesian analysis 'seemed to by-pass the most divisive issues within our society'⁶⁰ takes on a more ironic and even critical meaning.⁶¹

Conclusion

I began by suggesting that autobiographical accounts of the impact of *The General Theory* can be understood as myths of youthful, critical and relevant Reason. I then reviewed some other ways of telling the story of *The General Theory's* reception, and I suggested that the adjective 'Keynesian' begged the distinction between

57 For references to Keynes see R. Kahn, 'On Re-reading Keynes', *Proceedings of the British Academy*, 60 (1974), 387–8.

58 J.M. Keynes, *The Collected Writings of John Maynard Keynes Vol XXVII* (London: Macmillan, 1980); Keynes to S.G. McFarlane, 5 June 1945.

59 S. Cornish, *Full Employment in Australia: The Genesis of a White Paper*, Research Paper in Economic History, No. 1 (Canberra: Department of Economic History, ANU, 1971).

60 Coombs, *Trial Balance*, 146.

61 I have examined the Labor Government's consideration of this issue in the context of the drafting of the White Paper in T. Rowse, 'Full Employment and the Discipline of Labour: A Chapter in the History of Australian Social Democracy', *The Drawing Board: An Australian Review of Public Affairs*, 1, no. 1 (July 2000), 1–13, www.australianreview.net/journal/v1/n1/rowse.html; 'Curtin and Labor's Full Employment Promise'. Seminar Paper, 'From Curtin to Coombs: War and Peace in Australia', 25 March 2003, Curtin University of Technology, john.curtin.edu.au/events/seminar2003_rowse.html.

supporting Keynes' theoretical innovations and being attracted to his policy solutions. To what extent was Coombs 'Keynesian' by theoretical conviction, and to what extent 'Keynesian' by force of policy circumstances and opportunities? The evidence from the correspondence is admittedly fragmentary, but it does not support a story of Coombs' rapid theoretical conversion to an economics of hope, reason and joy. I have noted, with some sympathy, a way of telling the story of the 'Keynesian revolution' that puts the emphasis less on theoretical conversion than on force of circumstances: the war demanded expansionary policies. Recall Wootton's point that economists had been deprived by Keynes' arguments of any firm theoretical conviction about the postulate of scarcity. Could we not say that the war economy compelled governments and economists to decide that 'scarcity' was farther away than anyone had dared, in peacetime, to suppose? The phrase, 'Keynesian revolution', implies a rationalist view of history, raising theory over circumstance and understating the Second World War's contribution to resolving (or perhaps deferring) economists' doubts about the cogency, relevance and authority of their discipline.

I would like to differentiate my approach to 'the Keynesian revolution' from that of Selwyn Cornish.⁶² Cornish proposes a tension in the making of public policy between adherence to Keynesian theory and susceptibility to political exigencies. Thus 'as with the Labor government, so with the Coalition, political dogma and election priorities, rather than Keynesian economics, exercised the minds of policy makers'.⁶³ For this to be a sustainable framework, however, Cornish would have to be able to specify the 'Keynesian' prescription for each of the policy conjunctures which he analyses. He is unable to do so because, as Cornish points out, in neither his definition of the objectives of good policy – full employment without inflation – nor his indication of possible means to determine aggregate demand was Keynes clearly prescriptive, though it is plausible to argue that for Keynes 'full employment' usually meant unemployment of 3 per cent. The burden of demonstrating that a policy is/was *not* 'Keynesian' tends to fall, in Cornish's analysis, on adducing two kinds of evidence: material showing that politicians took notice of sectional interests when making policy; and quotes from reputable economists (Meade, Perkins, Arndt, Coombs) complaining that such policies strayed from what they understood to be Keynesian orthodoxy. In the post-war years, up to the mid-1950s, such economists characteristically complained that more fiscal and monetary *restraint* was needed to curb the inflationary tendencies evident in high levels of demand. Cornish is unable to show – only to assert – that these economists were truly 'Keynesian' in their identification of the trade-off between inflation and unemployment. The precise definitions of 'full employment' and of 'inflation' are essentially political;

62 S. Cornish, 'The Keynesian Revolution in Australia: Fact or Fiction?', *Australian Economic History Review*, 33, no. 2 (1993), 64.

63 *Ibid.*, 64.

equally, our notion of a successfully managed employment-inflation trade-off is essentially contestable. Economists' opinions about these matters are of great historical interest, but they do not bind us to any view about what policy instruments, rates of inflation and rates of unemployment are truly Keynesian and what are not. In the absence of clear prescriptions by Keynes, we are entitled to be sceptical before any invocation of the great economist as an arbiter of the degree to which a specific policy is 'Keynesian'.

My understanding of the relationship between 'politics' and 'economics' thus differs from Cornish's in that I see no basis to judge the former from the standpoint of the latter. To judge policy from the standpoint of its fidelity to a theory or a theorist is a way of thinking which arouses my curiosity as an historian, but I see no good reason why, as an historian, I should see in the contingencies of 'politics' betrayal of the purity of 'economics'.

Let me further illustrate my point. I differ from Cornish in my reading of Coombs' paper 'Australia's Ability to Avoid Booms and Depressions'.⁶⁴ We agree that Coombs was arguing that the experience of post-war economic management had revealed the practical weakness and/or political unavailability of some instruments of macroeconomic policy foreshadowed in the White Paper (such as large public works and schemes for the stabilisation of export incomes). However, Cornish does not point out that Coombs was equally concerned to show that other instruments remained, in his opinion, effective and politically available. He pointed to 'automatic' stabilisers, such as consumer spending. 'So long as people get incomes they tend to spend approximately the same proportion of it.' Social security and taxation policies could also be aimed at further stabilising consumption, he hoped. Governments' spending on consumption goods (such as health and education) was another stabilising factor. Though private investment was volatile, its gyrations were becoming more predictable, with new government surveys of business intentions, and the joint stock company was a form of private capital capable of longer-term development planning. Could not private investment be encouraged by tax incentives? The government, for social reasons unlikely to be challenged, was committed to a certain volume of house construction. Finally, the spending by governments' nationalised industries was a factor for stability.

This list indicates a Keynesianism seasoned in the practicalities of politics and administration. Its author celebrated progress – 'we are certainly better equipped than ever before to deal with economic fluctuations.' Coombs' survey of practicable policy concluded that 'the difficulties are primarily political and social rather than economic and technical'. When Cornish quotes this conclusion – 'It is not always politically practicable to do things which economically appear

64 H.C. Coombs, 'Australia's Ability to Avoid Booms and Depressions', *Economic Papers*, 8 (1948).

necessary'⁶⁵ – we should not understand it as Coombs endorsing Cornish's generalised tension between the 'economic' and the 'political'. For it is quite clear that for Coombs the possibility of doing 'economically necessary' things was *no less an effect of politics* than the impossibility or difficulty of doing other things. Politics never presents economic rationality with an open and unlimited palate of options, but nor do any useable options in economic management exist outside of political circumstances. It is not a matter of getting politics out of the way of economics, as Cornish's antithesis implies, but of working out politically appropriate instruments of economic management. This essay has suggested that there is no theoretical formula which can predictively encompass the contingencies of *Keynesian politics*.

It is therefore fitting to close a paper on the contextual political meanings of the phrase 'Keynesian revolution' by quoting the most ironical Australian Keynesian of all, Trevor Swan. In 'The Economic Interpretation of J M Keynes',⁶⁶ he delighted in distinguishing Keynes' theoretical acuity from his political banality:

the fact is that the heretical doctrines of *The General Theory of Employment, Interest and Money* are even more revolutionary than their author conceives them to be ... it is in the direction of revolution that a realistic interpretation of the arguments of *The General Theory* points.⁶⁷

War took all participant nations 'in the direction of revolution'. War necessitated the rapid introduction of a new politics of the economy; a reconsideration of the social contract, and new controls over investment and consumption, approaching a condition which Keynes called – in a teasing adjective – 'socialisation'. The outcomes of such experiments were not predictable in any economic theory. If I had to make a case that Coombs was an exemplary Keynesian, I would point not to any theoretical conviction nor to any policy preference but to Coombs' willingness – like Keynes in *How to Pay for the War* – to make political innovation integral to his conceptions of economic rationality.

65 Coombs cited by Cornish, 'The Keynesian Revolution in Australia: Fact or Fiction?', 50.

66 T. Swan, 'The Economic Interpretation of J M Keynes', *The Australian Quarterly*, 11, no. 1 (March 1939), 62–70.

67 *Ibid.*, 70.

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