6. The Great Depression and the battle for inflation

> 'I am sure the Premiers' Plan last year saved the economic structure of Australia.'
> *J. M. Keynes*[1]

> 'From the economists' side I don't think we have anything of the way of a plan to offer.'
> *L. F. Giblin*

If the welcome reception in mid 1929 of the *Enquiry* heralded the arrival of the economist in Australian public life, they were soon to face a stinging test of their usefulness. In the final months of 1929 the world began its skid into the Great Depression. Australia's national income was soon to decline by 30 per cent; her real national product by 18 per cent; and unemployment of trade unionists to reach 30 per cent in the second quarter of 1932. [2]

As the nation sought a resolution of economic turmoil, economists were awarded with an unprecedented eminence in national affairs. 'With judges, politicians and bankers all in the new classroom', as Jack Lang put it, the Australian economist became 'the nation's pundit' (Lang 1980). And, in a moderate measure, they became the world's. Keynes publicly hailed the deeds of Giblin and Copland. In 1933 Copland was invited by Cambridge University to deliver the inaugural Marshall Lectures on the subject of the advice of Australian economists in the Depression. In 1936, on the occasion of her tercentenary, Harvard followed with a similar invitation to Copland. Australia seemed to constitute an example to other nations. [3] It was her economists who had plucked a 'Plan' from pandemonium.

Their glory was, however, decidedly short-lived. The economic emergency passed. But the myth of the Plan endured. This was the myth of callous budget cuts and wage reductions decreed by the economists. This coloured Australian attitudes towards economists for at least a decade.

And, within a span of a few years, new economic doctrines arrived from Cambridge that left the prescriptions of the economists' plans looking, not merely

[1] CWJMK vol. 21, p. 94.

[2] See Haig 2001, p. 30; *Official year book of the Commonwealth of Australia 1935–6*, p. 395

[3] And Canada: Raymond Priestly noted in his diary in 1936 while touring Alberta: 'There were several humble admirers of Douglas Copland among my dinner companions. They are… great admirers of the way Australia extricated herself from her private mess, and Copland's name is mighty in the land …' (Priestley 2002, p. 173).

'stern', [4] but positively injurious. In the light of these new theories, some elements of the economists' advice caused perplexity. How is it that they recommend spending cuts and tax rises in the depths of a Great Depression? This perplexity is only multiplied by our knowledge that Giblin, Brigden and Copland subscribed to certain 'Keynesian' notions about aggregate demand. Thus almost as soon as the Depression began to abate, questions began to nag witnesses and historians. Was their advice helpful or harmful? Were they Keynesians *avant la lettre*? Or classical economists despite themselves?

We will contend that the thinking of Copland and Giblin was informed by a model that was neither purely Keynesian nor classical, but had elements of both. Yet their use of this model teaches what slippery tools analytic insights can be. Their multiplier analysis allowed them to predict the Depression, but its light was less successful in illuminating the remedy to them.

Perhaps the most arresting aspect of their advice was not how Keynesian or Classical it was – or how right or wrong it was – but how intermittently it was heeded. The urgent recommendations of Copland and Giblin, from late 1930, of a monetary loosening were rebuffed by political forces. Giblin's insistence of fiscal expansion towards the Depression's close was similarly doomed. [5] With the exception of the 'rushed' and improvised Premiers' Plan, their experience, rather than bespeaking power or influence, was in large measure one of frustration.

This chapter, then, tells the story of economists foreseeing, but not always understanding; of their best economic advice being ignored; and of their most heeded advice ignoring their best economics. It is a story knit together by the weave of personalities: of Copland's nervous drive and confidence; Giblin's pessimism and hesitancy; and Brigden's mental crotchets; of Giblin's patient leadership by conciliation; of Brigden's weakness for idealistic and lonely positions; and Copland's presumption of heading the charge.

Our method is for the greater part narrative: we patiently map the twisting track of their advice between the first signs of collapse in September 1929 until the defeat of the Lang Government in June 1932. The chapter traces how, in the first nine months, Brigden, Copland and Giblin spoke almost in one voice to persuade Australia to adopt policies that would minimise the impact of the slump in export prices. 'Adjustment' and 'absorption' were the key concepts here, and policy was 'defensive'. We then show how their unity broke, as Giblin and

[4] This was Copland's own description of the policy recommendations of himself and his colleagues.

[5] The knotted mat of those years has been unpicked many times. The Great Depression is surely the most intensely researched episode in Australian economic history. Landmarks in the post-war literature include Gregory and Butlin (1988), Schedvin (1970), Gilbert (1973) and Cain (1982, 1987). The role of economists in the events of the period is exhaustively re-examined in Millmow (2004b).

Copland were increasingly inclined towards an active policy of monetary stimulation, while Brigden remained essentially deflationist. The narrative concludes with Giblin distancing himself from Copland and striking out in favour of bold fiscal stimulus.

The chapter concludes by surveying Giblin, Copland and Brigden's efforts, after the passing of the crisis, to write into the public consciousness their own history of this difficult episode.

The twisted trail

The Constitutional Club and the coming blow

In trying to understand what the four believed, it can be helpful to forget some of what we remember. We remember the Great Depression – it is the founding myth of modern economic policy. But the Great Depression – that almost bizarre and still ill-understood phenomenon – was not the stuff of memory in 1929. What the economists could recall in that year was that, over the previous decade, Australia had seen several conspicuous but doubtful public investments, a popular clamour for tariff walls, and a spread of minimum wages and union militancy. There was, then, great difference between the 'past' that pressed on their minds, and the future that was suddenly to dismay them.

We have a picture of our four's mindsets on the very eve of the Great Depression. On 16 September 1929, at David Jones in Sydney, Brigden spoke to the conservative Constitutional Association on 'The economic position of Australia'. He foretold the approaching calamity with striking prescience. Using a multiplier of two, he predicted that the recent reduction in export prices and capital inflow spelled a fall in national income in 1930 'at least equal to 10%' (Brigden 1929). [6] This would be first felt by exporters, but would inevitably spread to wage earners. Regrettably, 'the present generation of wage earners in Australia has been brought up on the idea that its standard of living is a creation of Parliament. The natural thing to expect therefore is some barren trade union and political resistance to economic conditions taking the form of strikes and political instability'. [7]

[6] Real or nominal? 'Both' was probably Brigden's estimate. Since he took wage rates to be a given, he cannot have expected much adjustment in money prices.

[7] By this time Brigden, the former union official, had become a disenchanted detractor of the labour movement. 'I fear that the trade union superstition is so deep-rooted in Australia that anything that, with any show of reason, can be construed into an attack of unionism is bound to fail. Trade unionism has become a religion, and the fact that the priesthood of a religion abuses its powers has never been sufficient to overthrow it' (UMA JBB 10 July 1929, 'New South Wales Industrial Regulation'). In 1928 Brigden had proposed to Bruce that 'Works Committees' be created to replace registered unions as bargaining units. 'Within limits to be prescribed by the Court, and normally excluding standard

What might be done? No solution would be found in credit expansion: 'a permanent reduction in income … cannot be remedied by an inflation of credit'. Such an inflation would bring only 'temporary' benefit. Here Brigden hoists an anti-inflationist standard that he would keep flying throughout the most miserably depressed years of the 1930s.

The best remedy, claimed Brigden, was a program of import replacement by means of cost reduction – achieved largely by an increase in effort, productivity and removal of restrictive conditions, that could 'get 10 per cent more' out of labour. 'Microeconomic Reform' in the language of a latter day. In addition, he used multiplier logic to assert that the required shift to home production would be much less than the £30m loss in exports faced by Australia; 'for local production would set going a cumulative demand for other products …'.

His advice, then, is not drastic and avoids many measures later urged by the Platoon. No reduction in government expenditure, no depreciation of the Australian pound, no reduction in interest rates. And, above all, no reduction in wage rates. That is spurned on the very same Keynesian grounds that was later spurned by the four:

> Reduced wages should be the last resource, because while ultimately prices would be reduced, the immediate effect is to reduce purchasing power.

Overall, it might be said that Brigden saw Australia's situation in September 1929 as serious, but not hopeless. In fact, the impending blow would be beneficial. For Australia had not 'roared' in the twenties. The Australian economy of the 1920s was overregulated and underproductive. The public's sense of enterprise had wilted. 'People of all classes seemed to expect the Government not only to spend for them, but to think for them [for example, 'find markets', 'settle disputes']' (Brigden 1928). [8] Australia had in that decade misspent its capital resources on mirages. Now this misconduct would be called to account.

> The crisis will be as severe as the resistance to it, but when it is over it will have weeded out the wasteful growths of the prosperous years, just

wages and hours, an Award or part of an Award or Agreement may be suspended by the Court or its subordinate authority on the application of a recognised Works Committee.' This has a resemblance to 'enterprise bargaining' and 'certified agreements' of the 1990s.

[8] In the same vein, Copland early in the Depression expressed the hope that the rigours of contraction would strengthen the economy. 'The conditions of high tariffs, heavy borrowing overseas, and high standards of living are not conducive to enterprise or efficiency. The depression has swept way the shelter under which these conditions developed, and it will undoubtedly bring an economic benefit to the country as a consequence' (Copland 1930b, p. 28).

> as a severe winter kills off the pests. In the long run it will have done good.

Brigden provided an example of prescience without policy. There was to be a Depression, but no special policy was urged. The Depression was to be the policy.

Australia, 1930

Brigden's relatively hopeful outlook soon perished. Over the next six months recorded unemployment amongst trade unionists grew from 12.1 to 18.5 per cent. On 28 April 1930 in a radio broadcast from 2BL Brigden told his listeners that 140 000 'breadwinners' (or 6 per cent of the labour force) had become unemployed over the previous 12 months. And things, he warned, would only get worse (*Sydney Morning Herald,* 29 April 1930).

On the same night that Brigden was addressing his invisible audience in Sydney, in Melbourne Giblin was mounting the rostrum of the public lecture theatre of Melbourne University to deliver *Australia, 1930*. Also using multiplier theory, he raised the prospect of an 'appalling result' of the contraction of export prices and capita inflow: one sixth of the population unemployed.

Giblin proposed a 'prompt surgical treatment' for this malady. It did not involve government spending; that was not mentioned. Giblin did moot a depreciation of the Australian pound, but it was secondary. [9] The primary treatment was a nominal wage cut of 15 per cent, which, he said, would amount to a real wage cut of five per cent. This would secure an improvement in the real exchange rate. Thus by April 1930, wage cuts were on the agenda. The 'Keynesian' style argument against wage cuts was now repudiated: '… a transfer of consuming power from, say, wages to profits does not involve a reduction of total consuming power because what is taken from wages is added to profits'. Purchasing power 'as a whole' 'would not be altered' (UMA LFG 30 October 1930 LFG). In the same vein, Brigden was to press on his readers of the *Economic News* (9 June 1932, p. 75) that 'Wage *rates* do not buy anything'; only wage incomes do (that is, the product of wage rate and employment). Deficits were rejected. 'Nor can the Government borrow in Australia from our reduced income without … merely transferring employment from production of goods which people can buy to the production of public works that do not add to income' (Brigden *Sydney Morning Herald,* 29 April 1930). Rather than becoming 'more Keynesian' in the face of the crisis, they were becoming less Keynesian.

In May 1930 Brigden published *Escape to prosperity*, an appeal to the public, priced at just 5/-, that sought to coax them into yielding to wage reductions. This public campaign extended to the 'gratuitous distribution' of three articles on 'The economic outlook' by Copland, from the 19–21 June issues of the *Argus*.

[9] In the December 1930 issue of *Australian Quarterly* Giblin supported a free exchange rate.

Also using the multiplier, Copland paints a foreboding picture. He calls for wage cuts, and favourably considers the impact of depreciation, without quite recommending this 'financial heresy'. At about the same time in the *Melbourne Herald* Giblin published some 'Letters to John Smith' that were designed to reconcile the public to the necessary policies.

The high point of this campaign was the so-called 'First Manifesto', a joint statement in May 1930 of the economists attending in Brisbane a meeting of the Australasian Association for the Advancement of Science. Reflecting the need to obtain a document that all would sign, it was a little muted, as Giblin sought a consensus to increase the impact of economists.

The manifesto's recipe had already been made familiar by Giblin in the preceding eight weeks: real wage flexibility is pressed hard, [10] and a floating exchange rate cautiously recommended ('free movement in overseas exchange will lessen the immediate evils'). It warns the 'remedy for our troubles is not to be found in exploitation of the note issue'. A new chord is struck with the recommendation for balancing the budget, on the not very urgent-sounding grounds of 'disorganisation'. This could be done without actual contractions in government programs: greater efficiency in administration and greater taxes on property should preserve a balanced budget. In summary, Australia should face up to the unpleasant reality of 'serious' loss of national income by cheapening her labour and currency, and making government services more expensive.

But the Labor Government that had arrived in power in September 1929 was hostile. The 'Manifesto' specifically rebuffed Scullin's pet remedy – ever higher trade barriers: 'Assistance to production by tariffs, bounties or otherwise should not be granted without careful inquiry into the effect on the costs of other industries'. Without an economic voice or auditor in government, Giblin, Copland and Brigden could do no more than attempt to influence public opinion through public lectures, public books and manifestoes.

But whatever momentum they might have been building was checked by the sudden advent of Sir Otto Niemeyer.

Fighting Sir Otto

On 14 July 1930 Sir Otto Niemeyer of the Bank of England disembarked on Australian soil, and there began one of the weirder episodes in Australian history;

[10] The Manifesto: 'A system of machine-made wages destroys the hope of increasing real wages as prosperity increases, and in times of crisis concentrates the burden through unemployment upon the minority least able to bear it … A revision of this practice of wage fixation is urgently desirable'. But it is not just wage rates that need correction, 'some fall in profits and real salaries is inevitable' (in Copland and Shann 1931, p. 16).

a freak child of the ill-conditioned Anglo-Australian embrace of the inter-war years.

Neimeyer's arrival was a 1930s version of an International Monetary Fund 'mission' to a developing country in financial crisis, but without the capital injection. Niemeyer, representing the Bank of England, along with Professor T.E. Gregory of the London School of Economics, had ostensibly been invited by the Prime Minister to 'observe' the economic situation in Australia. During his lengthy stay Sir Otto did not so much observe as decree. His advice was stark, pre-emptory and commanding: the Premiers were to balance their budgets immediately.

Regrettably, Niemeyer was ill-suited to furnish good economic advice. Without a grain of sympathy for the country or any stake in its success, he might not be expected to give good counsel. And in addition, for all his severity, there was basically a lack of seriousness about him; there was a distinct element of performance about his conduct. Nor did his general intelligence preclude a streak of absurdity. During his four-month junket of port drinking and golfing, he floated a series of astringent judgements about his host country that ranged from the dubious to the near asinine. Productivity per head in Australia had fallen six per cent in 20 years; Australia was 'overpopulated'; Australia was a 'poor' country. Finally, the Commonwealth Bank's own suggestion that Britain would soon leave the gold standard was 'staggering'. Niemeyer's resistance to this last contention is understandable: he was one of the chief architects of the ill-starred British resumption of the gold standard in 1925.

The truth is that Niemeyer cannot be taken seriously as an economic advisor, and should not have been taken seriously. But he was. He successfully intimidated the Australian elite and has done so since. The few points of resistance amongst the elite were the 'Melbourne' economists, Giblin and Copland.

Not long after, Giblin recalled: 'I remember fights with both Niemeyer and Gregory from the day they landed in Melbourne' (quoted in Schedvin 1970, p. 219). For himself Niemeyer recorded:

> I thought Giblin pretty disappointing … Giblin, and to some extent Brigden, were still hankering after an extension of secondary industries, apparently by means of further protection, because they had the strange idea that secondary industry in Australia would absorb more people than primary industry … .(Millmow 2004a, 2004b).

This curious statement includes a number of Neimeyerisms. Was it 'strange' for Giblin to think secondary industry could employ more people than primary industry when it already did so? [11] What *is* strange is that Niemeyer could believe that Giblin advocated protection, when Giblin and Brigden had publicly opposed further protection (for example in the 'First Manifesto'). Their hopes for secondary industry lay in cost reduction, deregulation and depreciation. But depreciation was abhorred by Niemeyer. Any influence of Giblin's opinion on this matter vanished in the face of Niemeyer's disgust. To strengthen the Commonwealth Bank against the siren call of inflation, Leslie Melville, perhaps the most committed deflationist at this time amongst the Australian economists, was appointed to the Bank with Niemeyer's blessing. The apparent triumph of Niemeyerism was capped by Scullin's reappointment on 25 August 1930 of Sir Robert Gibson as chairman of the Commonwealth Bank for a seven-year term, just as Scullin was departing Australia to attend an Imperial Conference in London.

The quest for inflation

The overall impact of the Niemeyer event was to raise tension. Fissures became fractures as Niemeyer gave courage to pre-existing deflationist sentiments in financial and academic circles. Back in England, he urged Melville to wage war on the 'dangerous nonsense' of 'Copland and co' (Millmow 2004a, p. 155). So having spent a year fighting off 'the left' over wages and work practices, Giblin and Copland were now facing a newly rallied front on 'the right'. But at the same time, an opportunity presented itself with Lyons becoming Acting Treasurer in lieu of Scullin during his absence.

This was a critical period. The prices of Australian bonds in London slumped in the first three weeks of September 1930. [12] Early that month Giblin had written Lyons a baffled and despairing letter. He was 'much oppressed' 'with the danger of our not getting through without a bad smash with a chance of revolution and chaos'. 'I think the break up of the Labor Party is almost inevitable'. And then a remarkable confession: 'From the economists' side I don't think we have anything of the way of a plan to offer. For myself, as for others, I don't think I see light on the whole problem' (NLA JAL: LFG 1 September 1930). Rather than economists dogmatising as the guardians of some therapeutic plan, they do not 'have anything to offer'. This modesty is very Giblinesque.

[11] Secondary industry in 1928–29 employed substantially more people than primary industry.

[12] This may seem puzzling. Lang was yet to be elected premier of New South Wales. And Australia, in the event, was to observe strictly all her debt-servicing obligations to overseas bond holders. Giblin blamed 'ignorance and tendency to hysteria on the part of the oversea investor' (Giblin 1930a). Perhaps more to the point was the fact Australian debt securities had during the 1920s been the subject of an assiduous and well-planned campaign of denigration by certain City finance houses (see Colebatch 1926).

‘We are badly scared … I think you are our last hope …’ wrote Giblin, sharing a mood that was highly characteristic of the moment in Australia.

Three days later Giblin had evidently rallied, and wrote again, now with firm resolution. [13]

> September 4 1930
>
> *Confidential*
>
> Dear Lyons
>
> … the question of general monetary policy is of such outstanding importance that I must worry you about it.
>
> We appear to be taking a blind course towards deflation and restoring parity with sterling without an adequate consideration of the alternative. We have discussed it a good deal in Melbourne, businessmen and economists, and there is a strong feeling it will be a fatal mistake. We have inevitably a very bad place to get through with our loss of income from exports and loans together. A policy of monetary deflation may add so much to the inescapable difficulties as to make successful issue impossible. (NLA LFG 4 September 1930).

Giblin dismissed the ‘scare of inflation’. ‘I admit the danger of encouraging wild inflationists, but the danger is really made less by admitting the small amount of solid truth which is in their theories. A policy of drastic deflation might v. well end in an orgy of inflation, when the string gets to breaking point.’ ‘To be scared of such a policy is as sensible as to avoid a glass of beer for fear of delirium tremens’ (quoted in White 1987).

On 18 September 1930 Giblin, Copland, and Dyason submitted *A plan for economic readjustment* (Giblin, Copland and Dyason 1930). The plan reaffirmed the importance of real cuts in wages:

> Of overwhelming importance is the quest of unemployment. We are unhesitatingly of the opinion that without a drop in real, as distinguished from the nominal, wage level the unemployment menace cannot be met; temporary suspension of all awards.

This emphasis on *real* wages is no accident. For the key novelty in the *Plan for economic readjustment* is its identification of a new enemy: ‘deflation’. It was the uniform fall in the money prices of labour and goods – deflation – that was the villain. There was an urgent need of some re-inflation, as soon as real wages were reduced.

[13] MS366/5/35

> If this condition is fulfilled it will then be possible by a sound monetary policy to restore industry, and employment, and thus to counteract the repercussions of the first loss of income and to provide a means of escape from indirect losses.

The 'sound monetary policy' would consist of a 20 per cent depreciation of the Australian pound, and the Commonwealth Bank's support of all commercial bank advances on sound security. The Bank was to re-establish the 1929 price-level, amounting to, they believed, an increase in prices of four per cent. The operation of monetary policy was to remain solely in the hands of an independent Central bank: 'The exclusive control of the note issue by the Board for a period of years might be usefully reaffirmed in a solemn act of parliament'. It is all quite familiar to the present day reader: give the central bank an inflation target, and let the central bank get on with it. The small stimulus they proposed targeting would have the additional benefit of largely solving the 'problem' budgets: 'The main cause of budget deficits is languishing industry and the cause cannot be removed until industry is restored and the fall in national income checked'.

Copland was, it seems, central in the formulation of this plan. It displays his characteristic push. [14] The Plan pronounced: 'We emphasise the urgency of immediate action'. But Scullin, in thrall to Sir Otto and Sir Robert, told Lyons he could not entertain such notions. [15] Lyons pigeonholed the 'plan' (Giblin 1951, p. 95).

Fighting each other

Giblin and Copland's attempt to re-inflate was also hampered by a split amongst the economists. Melville and Shann had publicised their opposition to reflation. Shann had blasted these proposals for leaving 'undisturbed the whole Symian bag of tricks – tariffs, wages-fixation, bounties and bonuses', and for being 'frightened' by 'the very look of falling prices'. 'The proposals of the Melbourne School for a stabilised price level', said Shann, 'will serve as a stalking horse' for a centralised and politicised banking system that is a requisite for socialism.

In an attempt to diffuse this conflict, Giblin 'wired to the half-dozen people':

[14] The idea of price level stability resonates with the precepts of the new book of Copland's favored author, Keynes: the *Treatise on money*. But Copland could not have seen this book at the time of the plan. The *Treatise on money* was only published on 31 October 1930. And when he did see it, he was not impressed. 'In February I read Keynes and ran out my own version of his equations. I was not satisfied with my grasp of his theory and came to the tentative conclusion that he did not understand his own theory' (UMA DBC 13 April 1931). A harsh conclusion, but not unjustified.

[15] On 5 November 1930 Scullin wrote to Lyons: 'All this talk about creating credit and inflation is most damaging' (quoted in Shann and Copland 1931, p. 63).

> There has been some difference of opinion between Melbourne and Adelaide on monetary policy, which unfortunately has become exaggerated in public statement. Melville has offered to come over here for a couple days with a view to [removing] our differences (NLA LFG). [16]

Giblin proposed that Brigden, Shann, Hytten and Ronald Walker would, at their own expense, join Melville and himself in conference on 27 November 1930 at Dyason's house in Melbourne. At the conference Giblin pressed the necessity of vigorous credit expansion. Within the 'general scheme of … reduction in wages and salaries and public economy and high taxation of fixed incomes', 'it will be necessary for the banks, Commonwealth, trading banks and savings banks – to take very vigorous combined action to provide money at lower interest rates for all legitimate purposes'.

> Objection has been made to the monetary policy of this paper on the grounds that it will encourage reckless inflationists in the community. The argument runs that as we support an anti-deflation policy we are comparative inflationists, and so opening the door to wild inflation; and secondly sentences would be torn from this context in support of crude inflation. We cannot accept the principles of conduct implied by this criticism which would make for discussion of any subject impossible. There is no proposed policy of any kind that is not likely to be misrepresented … Nothing is to be gained by the somewhat hysterical rantings against inflation that are popular today. (NLA LFG). [17]

But Giblin did not persuade. There was no agreement. The economists remained separated. Giblin and Copland 'reflationist'; Brigden, Shann and Melville 'deflationist'.

The upshot was a weak compromise document, 'First steps to economic recovery – statement by economists', an insipid document, searching for what they could agree on.

Events were soon to widen the fractures amongst economists over reflation. In late 1930 the premiers had appointed Brigden (now working for the Queensland Bureau of Economics and Statistics), Shann, Hytten and four treasury officials, to prepare under Gibson's chairmanship a program for the restoration of public finances. Just as the committee first assembled, word arrived that the Bank of New South Wales had decided to depreciate the Australian pound against the pound sterling, after long resisting market pressure to do so. Copland, Shann and Melville had met the general manager of the Bank of New South Wales,

[16] MS 366/5/366.

[17] MS 366/9/101.

Alfred Davidson, at his house in Leura in the Blue Mountains, and urged depreciation. [18] But Gibson was adamantly opposed to devaluation. 'Gibson nearly tore out his hair and whiskers on hearing the news' (Hytten 1971). He then 'sat down, closed his eyes, and with a cigarette bobbing up and down started a seemingly endless tirade against private banks, and the world in general'. In order to disburden themself of this 'chairing', the committee broke into three subcommittees, and a draft report was pieced together.

Brigden's presence was critical in formulating the draft, since he had struck an 'anti-inflationist' posture since 1929, although under implicit pressure from Giblin he attempted to admit something of Giblin's expansionism. 'It is almost certainly impossible for Australia to recover … without some alleviation through expanded credit' (Brigden 1930b, p. 2). Regrettably, velocity would increase with recovery; there would be an overshooting; the subsequent correction would require a 'heroic procedure'. It was all too tricky to pull off. Brigden, then, had what might be called the 'competence objection' to credit expansion. It was a remedy, but a dangerous one, one that could kill as well as cure; its successful application required more knowledge than actual monetary policy would heed. [19]

As a consequence, the committee's draft report for the February 1931 Premiers' Conference rejected any schemes for reflation. 'It would be only too easy to gloss over our loss of prosperity by a loss of purchasing power of the currency. This is not the road to recovery but collapse' (Brigden, Hytten and Shann 1931, p. 9).

The Giblin–Copland tendency ignored the committee's report. Giblin described it as 'narrowly deflationary in tone' (Giblin 1951). To another later anonymous commentator, probably Roland Wilson, the report 'preserved much of the deflationary tone of Sir Otto Niemeyer's statement' (*1937 Official Year Book of the Commonwealth of Australia*). [20] More than disregard, the committee's report was quietly disowned by most other economists. There is in Giblin's account the definite suggestion that Brigden had nothing to do with the recommendations

[18] Davidson had reasons of its own: the Bank of New South Wales was losing customers to non-cartel dealers offering scarce pounds sterling at higher than official prices. 'The economists were among the first to congratulate him on his courageous action' (Holder 1970, p. 686).

[19] Brigden took a simpler message to the public. 'The government might need all its moral strength to resist the demand for currency inflation in the near future. And with unemployment rife and depression upon us it will not be easy to convince ardent advocates that a small inflation is bad' (Brigden, *Sydney Morning Herald* 9 December 1929). Brigden noted that devaluation 'would assist recovery' but is 'dangerous'.

[20] A reviewer of Brigden's *Escape to prosperity* noted: 'Some at least of his criticisms will now be found in Sir Otto Niemeyer's speech to the Melbourne Conference' (Anon. 1930).

of the report (Giblin 1951, p. 91). Yet it is unmistakably Brigden's work. [21] Giblin's apparent disinclination to acknowledge this suggests Giblin's quest to find allies rather than adversaries – to provide a united front.

The Treasurer E. G. Theodore and Scullin repudiated the report: they would not have it signed by their public servants. Gibson then refused to sign it. The report was never issued.

The first attempt of economists to provide a solution under the auspices of government had been defeated. The government and the central bank were left at loggerheads. In the face of this impasse, Theodore announced the 'Theodore Plan': a legislative attempt to secure a monetary expansion that the Commonwealth Bank was refusing.

With almost one voice the Australian economists were hostile to the Theodore Plan. Brigden was particularly strident. He had circulated a memorandum among the February 1931 Premiers Conference committee, declaring that Theodore's ideas were worse than Lang's. He attempted to sound the alarm for Australia at large in his February 1931 book, *P.P. On purchasing power and the pound Australian*. He announced:'We are in the transition towards rising prices and progressive inflation' (Brigden 1931a, p55). [22]

Copland was also hostile. This is less explicable, since he had already pressed the case for monetary stimulus. Theodore's declaration that: 'The big task was to get money values back to the 1929 level' is obviously resonant of Copland's 8 September 1930 plan. In June Theodore had told Keith Murdoch he was 'intensely interested in Professor Copland's ideas' on stabilising the price level. And Copland was protesting his own attachment to credit expansion. Yet Copland now maintained that: 'By refusing to accept the report of the experts committee … the Scullin Ministry is raising an effective barrier to economic recovery'. (*Argus,* 23 February 1931). [23] The Theodore Plan, said Copland, would depreciate the exchange rate to 50 to 60 per cent down from the old parity (Copland 1931a, p. 23). Giblin, too, criticised the 'foolishness' of printing notes in his 'Letters to John Smith'.

[21] The Brigden archives at the National Library contain a copy of the report (Brigden, Hytten and Shann 1931). At its head is written in Brigden's hand: 'Please keep this as strictly confidential in this form'. It ends with the names Brigden, Hyttten and Shann, and then Gibson followed by six treasury officials. In Brigden's hand the names of Gibson and the Treasury officials are struck out.

[22] 'Everyone is waiting until prices reach bottom, and in waiting they are letting it sink lower still' (Brigden 1931a, p. 50). This sits awkwardly with Brigden's other assertion that the economy is experiencing a 'transition to rising prices', and, indeed, 'progressive inflation has already begun' (p. ix).

[23] Theodore replied: 'The bankers are saying that the prevailing high rates of interest are the direct result of shortage of money. Very well, let us increase the supply' (*Argus*, 24 February 1931).

At this moment of crisis, Giblin – the tireless conciliator – was brought to one of the wings of power. On the morning of 2 February 1931, Wickens – in an attempt to budge the February 1931 Premiers' Conference committee from its 'deflationary tone'– had released, as Commonwealth Statistician, and while the committee still sat, data on the most recent fall in prices. That afternoon Wickens was felled by an epileptic fit. He had been the solitary official in the Commonwealth Government who could claim an expertise on economic issues. Having disposed of the Bureau of Economic Research, the government was now wholly bereft of professional advice. The minister responsible for replacing Wickens, Arthur Blakely, had in 1929 denounced the Bureau of Economic Research in particular, and Australian economists in general. 'The economist is academic, conservative and anti-working class and lives in a world of his own'. He now entreated Giblin to fill the position of Commonwealth Statistician. [24] Giblin replied:

> May I state my own feelings in the matter? I am naturally very loth [sic] to interrupt my work here … My domestic arrangements, particularly in view of my wife's state of health … will also be seriously discomposed by a temporary residence in Canberra. On the other hand, if I can be of any service to the Australian Government at this critical time … I should wish to do my bit. (NLA LFG 27 March 1933).

The plan

Giblin arrived in Canberra at a critical time. The Senate rejected the Theodore Plan. Parliament was paralysed. A new bargain was to be attempted. Shann was asked once more to join the craftsmen, but Brigden and Hytten were dropped. Copland was placed in the chair; Giblin and Melville were added.

They produced the Copland Plan, which was to be the basis of the Premiers' Plan. It recommended a reduction in the deficit from £39m to £11m, to be secured by a £13m reduction in outlays, £12m increase in taxes, and £3m from reduced interest. There was to be a 20 per cent cut in expenditure, and a 15 per cent reduction in interest payments.

The Plan was hardly a policy; it was a deal, a deal specifying how the pain would be shared out; it sought to establish agreement by observing measures of equality of sacrifice. Australian bond holders, public servants and pensioners were all to take a cut. (Bond holders experienced the heaviest proportionate contraction in incomes: legislative fiat reduced interest on government debt by 22.5 per cent.) This universal sharing of the pain made it universally unpopular. It was

[24] The falsehood of all four of these contentions is well demonstrated by this volume. Copland complained to Brigden of Blakeley's 'rather sticky article in the Labor press giving economists a hard time' (UMA 23 October 1929).

hated by the left and right, and the principal coming personalities of each ideological current rejected it. Thus Curtin argued that Labor should surrender government rather than accept the Plan (Ross 1983)[25] , while R. G. Menzies dubbed it 'the Lang plan plus hypocrisy'.

But this plan was accepted by the federal Labor Government which set about destroying itself by implementing it.

Giblin believed its truest implementation required one specific action by himself. His salary was paid for by the University of Melbourne. It was, therefore, exempt from the cuts applied to public servant salaries. This anomaly left him uneasy. He wrote to the Chancellor of the University of Melbourne, Sir John Monash, requesting his salary be reduced by 25 per cent (UMA LFG 11 June 1931).

Failing with Lyons and stung by Keynes

In the wake of the plan's implementation the Labor Party disintegrated. Elections were called for 19 December 1931, and the United Australia Party (UAP) won them in a landslide. Joseph Lyons, having left the ALP for the UAP, became prime minister.

The political crisis was now solved. And budget discipline recovered. But the economic malaise seemed unresolved. And the new government seemed inert. Giblin told Eilean he was 'rather uneasy about the new Government's general policy – they were talking about further retrenchments and cuts, and the Bank pitched in with a long letter, wind up about deficits, and almost suggesting a new Premiers' Plan' (RBA LFG 17 January 1932).

The context – the establishment of political stability and the improvement in the budget, but continued stagnation and policy passivity – prompted Giblin to make one last attempt for some activism in policy, despite being beset by stress-related illness. [26] In March he privately declared: 'There is a need for bold perhaps desperate, policy to keep things together here' (RBA LFG 9 March 1932). The new government was persuaded to form a committee to provide a 'Preliminary Survey of the Economic Problem'. The committee was to be the same as that of the Copland Committee, with the addition of Sir Wallace Bruce (a past Lord Mayor of Adelaide). But this scheme for membership was disrupted by news from New Zealand in March. 'We shall be without Copland, who has

[25] Norman Makin, who was the Scullin governments' speaker and was to come into conflict years later with Brigden, also repudiated the Plan.

[26] A lowered immune system – perhaps caused by stress- had seen Giblin's childhood chickenpox reactivate into shingles. 'I have crashed again' (RBA LFG 20 February 1932). 'I am remaining on as a bed and breakfast patient at the hospital. My scars take some time to dry up and clean up, and I have twice a day spraying and bandaging' (RBA LFG 3 March 1932). He would remain in hospital for six weeks.

just wired from Wellington that he will be weeks more in hospital there.' Giblin took this to be another psychological mishap. 'Copland had a bad break down in New Zealand in March. He had been working at top pressure …' (RBA LFG 23 March 1932). But to Copland's mind it was not, thankfully, a nervous condition. 'I am glad to say there is no recurrence of my old complaint' (UMA DBC 30 March 1932). It was an attack of duodenal ulcer, and so quite in conformity with the theory of the period that ulcers were the bane of hard-driven executives. He had been instructed to neither smoke nor drink for six months. Copland finally returned from New Zealand in April, and Giblin reported to his wife:

> He is convalescing pleasantly, lives well and enjoys life but … has a strict diet, no tobacco and only gentle exercise. He is very disgusted with New Zealand and all her works and most of her men – at least politicians, treasury officials, bankers and businessmen. Thinks she is in for a worse time than Australia because she won't take it and do something. (RBA LFG 18 April 1932). [27]

Copland now believed that if budget deficits were reduced by £8m, then half of that reduction might be properly diverted to unemployment. But Copland was not hopeful about the new enquiry. Of Wallace Bruce: 'Unless his education has improved considerably I am afraid he is not likely to be very helpful' (UMA DBC 30 March 1932). And Copland's replacement by Mills had shifted the committee's composition. As Giblin explained to Eilean,

> The four of us are very fairly agreed in principle and it comes to balancing the best of two courses, both dangerous. Melville's instincts are strongly conservatism, more than Mills, and Shann oscillates, so the balance is on that side. So the prospects of the four coming out strongly for a positive policy are poor … so I am not very hopeful. (RBA LFG March 1932).

Giblin's fears were born out. The resulting report was similar in content to previous attempts to achieve a common position. A 10 per cent cut in real wages was again recommended; as was depreciation. There was approval for some monetary stimulus (advances on debentures to large-scale enterprises for which three-quarters of the needed capital had been privately subscribed). Well and good. But to Giblin's disappointment what it did not do was propose a 'Keynesian' style public works. Instead it timidly mooted a program of public works, but only after cost reductions made it possible for such works to earn interest. [28] 'I

[27] MS 366/1/584.

[28] In mid 1932 Copland was still publicly expressing a wish to 'wipe out' government deficits. 'We have been constantly revising upwards our ideas of what is a reasonable deficit. I suggest that this

was still opposed to public works', Melville recalled 40 years later. 'I think that came out in the Wallace Bruce report, didn't it?' (Melville 1973, p. 35).

Giblin wrote to Lyons to express his 'disagreement' with the report.

> It is not a matter of principle but of weighing the seriousness of two admitted dangers – the break-down caused by over-strain on the unemployed and one caused by an unbridled loss of confidence on the side of business finance … I find each danger equally likely to threaten the social structure and would accordingly without deviation from the principles laid down, put a good deal more emphasis not only on the possibility but on the necessity of active means to reduce the strain of unemployment. (NLA JAL:LFS 13 April 1932).

Giblin urged the Prime Minister to approve 'immediate expenditure on a large scale' on timber and forestry.

Giblin's immediate challenge, however, was not to persuade the Prime Minister to take greater steps, but to persuade the government to embrace even the timid suggestions of the report.

> It scared the government stiff at first, but [Assistant Treasurer] Bruce swallowed it with a gulp … We have nursed most of the Premiers to some measure of tolerance … It still has a chance. (RBA LFG 14 April 1932).

Giblin sought to use the press to increase his chances through the support of Keith Murdoch, the proprietor of the *Herald*, and former student of the London School of Economics. Murdoch was sympathetic and had at about that time invited Keynes to Australia for a fee of £2500 (about twice the annual salary of a professor).

> I had a talk over 'doing something' with Murdoch a month ago and he suggested a Press conference in Melbourne at the same time as the Premiers Conference. Last evening, Murdoch collared the editors at Clive Ballieu's, and I talked to them – and Melville and Shann supported. We finished after midnight. Effect I think good … Murdoch saying he is not sure he agrees but we must go bold-headed for 'something' – some plan – and this is the only reasonable plan in the field.
>
> Tomorrow, the economists talk to the premiers about it, in Conference, and that will be ticklish. (RBA LFG 14 April 1932).

is bad for our morals, and that it involves an abuse of credit … it ought to be possible to devise a plan that will reduce deficits substantially for next year and to wipe them out altogether in the following year …' (*To-Day*, 25 June 1932).

As the days passed he grew 'uneasy'. 'Banks, Chambers of Commerce, Trades Hall and Mr Lang abuse it in terms of equal intensity' (quoted in Millmow 2000, p. 144). Giblin had one other card to play: his acquaintance with Keynes. He sent the 'Wallace Bruce Report' to Keynes (and Clapham). But Keynes' response was to very publicly stymie it. In the *Melbourne Herald* of 5 June 1932 Keynes wrote:

> In truth I am a little disappointed with the [Wallace Bruce] report. The reasoning in it seems too *simpliste*. The statistics seem to show that the position of Australia is in many respects better than that of many other countries. I should repeat my advice that the main objects of statesmanship should be to stagger along somehow until the rest of the world pulls itself together.

It seems that Keynes was affronted by a strategy where one country – in this case, Australia – seeks to improve itself by a reduction in its costs relative to another country – a 'beggar thy neighbour policy'. More specifically, he found general wage cuts were objectionable. And the report's assertion that export prices were currently 20 per cent below costs factually incredible. Giblin glumly conceded to Copland: 'I am afraid the statistical case is hard to make convincing'.

Giblin's last foray had failed. [29] His audience was reduced to the students' Shillings Club of the University. [30] The Club's secretary minuted: 'At the July [1933] meeting, professor Giblin treated us to a further instalment of the expansionary policy which we suspect is dear to his heart'.

The very last scene belongs to Jack Lang, the punchinello Premier of New South Wales. Giblin had never anathemised Lang. 'Lang is bad, but so far as the Premiers' Plan is concerned Q[ueensland] and W.A. are very little better' (RBA LFG 2 February 1932). And Giblin was doubtful about the confrontationist posture the new Lyons Government adopted towards Lang. 'It seems to me to be perfectly mad, to destroy Aust. Credit in this way with nothing to gain by it. They seem to have rushed into it … Part of the feeling that they must do something different from Scullin and Theodore' (RBA LFG 2 February 1932).

For his part, Lang was happy on stage to conjure up Giblin's spectre, anathematize him - and then absolve him. As Giblin recorded,

> On one occasion, he mentioned my name to one of his enormous audiences and there was a storm of boos. 'Oh no' said Lang, 'you must not boo him. If it had not been for him it would have been much worse' And then there was an equal storm of cheering. (RBA LFG 15 June 1932).

[29] Not entirely failed. At the Premiers' Conference of 14–21 April 1932 it was decided to raise a loan of £2 400 000 for expenditure on unemployment relief works.

[30] The 'Shillings Club'? See Rule no. 2: 'There shall be no more than 20 members of full legal tender'.

The roots of this degree of mutual toleration are not clear. But Giblin had never been aghast at the prospect of not servicing, in the present circumstances, foreign debtors exactly as contract stipulated. Had not the Premiers Plan repudiated the contracted debt service for domestic debtors?

Lang was defeated massively in June 1932. Order had been secured. Unemployment slowly subsided. Finances improved. The fire slowly burnt out.

With the wisdom of hindsight

Why wage cuts?

This policy was the one in which the economists were united, and which they repeatedly pressed. This was the single most controversial measure, and differentiated them most sharply from the 'Keynesians', who thought wage cuts were, at best, unnecessary, and at worst counter-productive.

Why did the four recommend them? Characteristically, Giblin advances his advocacy (in *Australia, 1930*) with considerable caution:

> This belief that wagesmust fall comes too easily to many of us. Easy beliefs are dangerous. This is the best I can make of an answer to John Smith, and you see I have made but a poor job of it. All this will not be very convincing to him. It is all too uncertain, too much a matter of good judgment based on experience and knowledge.

This is perhaps a record for public humility, even if followed by a less humble, implicit claim of authority.

What do their own models predict? Not all their models imply a need of a real wage cut.Indeed, the shock which Australia had experienced in 1931 – a decline in the price of food, for a given price of manufactures - will *increase* real wages in the *Enquiry* model. This is because the decline in the price of food induces labour to shift from food to manufacturing. This does not reduce the marginal product of labour in manufacturing, as marginal productivity in that sector is assumed to be constant. Thus the manufacturing wage is unchanged. But as food production has declined, the marginal product in food has increased. The food wage has increased. Thus workers have benefited from the slump in food prices. Landlords, of course, have suffered.Thus in the *Enquiry* model there is no need for any fall in price of food to be 'shared', as Giblin's endlessly urged during the Depression: its burden falls entirely on the owners of land. Worker consumption increases, although by less than landlord consumption decreases.

By contrast, the formalisation of the *Australia, 1930* model (contained in the appendix to chapter five) does imply that living standards of labour must fall in the face of a fall in the money price of food, if full employment is to be preserved. This is because a fall in the money price of food requires the money wage to fall, if full employment is to be preserved. And as the money price of manufactures is unchanged, this fall in the money wage implies a fall in the real wage in terms of manufactures must fall. T. M. Fitzgerald once suggested that, in using the multiplier to rationalise wage cuts, 'Giblin drew the most perverse conclusions from his multiplier'. Not perverse in the present analysis, but wholly consistent.

Why spending cuts?

The cuts in government outlays recommended by the report of the Copland Committee were extraordinary by modern standards, amounting to two to three per cent of GDP. With a multiplier of two, that might have been responsible for a five per cent reduction in GDP. Copland himself allowed for the existence of an impact of government spending on activity: 'Economy in Government expenditure, whether from loans or revenue, will mean some increase in unemployment immediately' (Copland 1930b, p. 24).

There are, however, several exonerations of this radical tightening of fiscal policy in the depths of depression:

First, 'everyone' favoured cutting. The majority of the Labor Party, as well as the Opposition, approved the Plan's cuts. Scullin was against all but 'revenue-producing' public works. And Theodore told the *Argus*:'I have not argued against substantial reductions in government expenditure'.

Second, by the time the Premiers' Plan was agreed to (the last days of May 1931), the contraction in GDP had already taken place. The worst was already over. Australia had already hit rock bottom, earlier than most other economies; 1930–31, not 1931–32, was the trough year in Australia in terms of real GDP. Thus cuts may have made things worse in a *ceteris paribus* sense, but they cannot be blamed for the 20 per cent fall in GDP between peak and trough; that had already occurred by the time of the plan.

Third, the fiscal integrity of the state may have necessitated the cuts, regardless of their contractionary impact. If a government's debt is not to blow out to an unlimited extent, the present value of government outlays must equal the present value of its revenues.

$$G+\frac{G_1}{1+r}+\frac{G_2}{[1+r][1+r_1]}+\ldots+D[1+r]=T+\frac{T_1}{1+r}+\frac{T_2}{[1+r][1+r_1]}+\ldots$$

The reduction in terms of trade, if nothing else, would have reduced T, tax revenue, and so reduced the magnitude of the right-hand side. If government debt, D, was not be renounced, a reduction in the present value of government spending, G, or an increase in the present value of taxes, was compelled. And if that had a contractionary impact, then that impact was one price of preserving solvency of the state. And to preserve that solvency was necessary to preserve foreign investors' confidence in almost everything in Australia. It was to this 'confidence' that sacrifices were to be made.

Fourth, although the *Australia, 1930* model has an export multiplier at its centre, it does not so easily assimilate a government spending multiplier. The marginal propensity to save is zero, recall. So the private sector does not wish to spend less than its income; there is no 'gap' for government spending to fill. At the same time, owing to the absence of capital flows and the shortage of foreign exchange reserves, an attempt to create income by government spending would produce a foreign exchange crisis.

Finally, a favourite theme of Brigden in the mid-1930s: the cuts weren't true cuts at all. They were cuts in inverted commas: 'cuts'. Presumably by his use of inverted commas, Brigden is saying that while the Plan involved reductions in money wages and incomes, these were only rolling back the increases in real wages and incomes that had taken place since 1929, on account of falls in the cost of living which, until the Plan, had not been matched by falls in money wages and incomes.

None of these considerations makes an overpowering case for the cuts. To err with everyone is still to err. To be not blameable for the fall in national income that had already occurred, does not make for blamelessness: the cuts may have cut short an incipient recovery and prolonged the trough. The preservation of government solvency in the face of a declining tax base does not require an increase in *current* tax rates; a (credible) undertaking to restore taxes in the future would have equally served to preserve solvency.

A full absorption of Keynesian notions would have overpowered these considerations. But their multiplier ideas still left them a long way from the Keynesian conception of the generation of national income. Brigden seems to have fully held the 'Treasury view' on government expenditure. 'The amount of credit used for ordinary government expenditure will decrease the amount of loanable funds in the community and make less available for capital expenditure' (Brigden, Hytten and Shann 1931). In this vein Brigden stated in the midst of the Depression that excess savings were not a problem. [31] At the same time Copland expressed a similar attachment to the 'Treasury view': 'What is required is … a reduction in public expenditure as would enable the banks to divert some of the credit they are now creating for governments to industry' (Copland 1931a, p. 23).

[31] Brigden's position seems to have been that 'supply' is necessary for 'demand'. He blamed the Depression on interferences with supply. 'The world as a whole is suffering to-day from 'depression' caused as much by unprecedented post-war tariffs as anything else', (*Australian Quarterly* June 1930). To Giblin the Depression was 'due primarily to failure to ration the available supplies of gold and the hoarding of the US, Argentina and France'.

Their approach to the Depression was founded on the simple instinct that in adversity one must suffer to make the best of things. The collapse of the value of Australian exports had made Australia poorer, and it would only be made worse by not consuming less. That consuming more might be a solution offended this respectable and simple intuition.

Writing the history

The struggle to capture the history of the Depression began as soon as it had passed its crisis point. The first move was made by Copland with his delivery of the inaugural Alfred Marshall Lectures in the University of Cambridge during October and November 1933. The lectures had been established by the Faculty of Economics and Politics the year before, and have since usually been delivered by an outsider, but very rarely an Australian. [32] His topic was to be the economic policies that Australia had pursued. Copland gave eight lectures – comprehensive, lucid, and factual; confident without being arrogant. Australia, he declared, had undertaken '… a bold and unorthodox policy at a time when most other countries either refused to take stern measures, or sought to conceal from their people the fact of the depression'. [33] He claimed a triumph.

But it was his auditors in Cambridge, the very hosts of his triumph, that produced a new logic that allowed a doubt to creep over the whole 'policy' of the Plan. Very soon Ronald Walker, just returned from Cambridge, was articulating the new understanding of saving and investment in the pages of the *Record*, and Copland seemed quick to absorb them. By 1934 he was writing,

> The Paradox of Saving
>
> It has been assumed, all too frequently, that the mere act of saving would itself lead to investment, but experience of the past four years everywhere in the world has shown this not to be so. If investment stops, the national income must fall. During 1931 in Australia we reached a position when investment almost reached a standstill. (*To-Day,* 16 October 1934)

This sits ill with the Plan.

But the gap between this new thinking and the old was widest over the policy the economists pressed longest and longest – wage cuts. This was manifested with the arrival in Australia of Brian Reddaway, in 1936, with some proofs of the *General theory* in his luggage. He began making appearances before the

[32] Trevor Swan is the only other Australian to have been a Marshall Lecturer.

[33] 'Australia refused to take the half-measures of deflation that are usually recommended to countries in similar difficulties. That was deliberate choice. She also refused to pursue the course of inflation taken by so many nations after the war. That also was deliberate choice. She pursued a middle course that had not hitherto been fully explored.' (Copland 1934, p. 10).

Arbitration Commission, arguing the legitimacy of wage rises in the light of Keynesian theories of effective demand and the economic recovery that had, by then, taken place.

In 1936, not long after Reddaway's arrival, Copland supplied an unexpected interpretation of the Plan.

> The orthodox portions were only smoke screens for things that were really done under the Plan. The things included a depreciation of the currency, the heavy and substantial reduction in interest, the conversion loan of August 1931, and the definite inflation which took place in 1930 to middle of 1932. It was a tragedy that wages and salaries had to be reduced. (Reported in *Westralian Worker,* 21 August 1936).

With Brigden, there was no talk of 'smoke screens' or tragic necessities, but of paradox. 'The Australian Plan' he said in 1937 'was a paradoxical programme of cut and spend', but it 'suited the facts and the ebb tide turned' (Brigden 1937 p. 5).

Whatever Brigden was doing in this statement, he was not making any concessions to permeation of the climate of opinion in the late 1930s by Keynesian ideas. He remained resolute in opposition to any notion of 'excess savings'.

> The menace of thrift is a new vice that has sprung up in the last few years. I think Mr Keynes and his school suffer from the same disability as Adam Smith did in his time, in that they have looked too closely within the range of their own national experience. Great Britain is a country exporting capital, and it is just possible that there may be too much saving for the good of the people of Great Britain. But I do not see the time coming very soon when we here shall be saving too much, enough to do without the importation of capital from abroad. (Brigden 1939b, p. 147).

Brigden's lack of assimilation of Keynesian theory is evident in this argument. In an open economy the menace to full employment lies not in the possibility of an excess of saving over investment at full employment – that, certainly, has rarely happened in Australia – but in the excess of saving + imports over investment + exports, at full employment; another proposition altogether.

Brigden's rebuff of Keynesian theories of national income was complemented by his steady resistance in the late 1930s of Keynesian theories of the price level.

> I understand the new orthodoxy [i.e. Keynesianism] to declare that the continued expansion of credit does not lead to inflation until there is full employment. I understand the new credit theory has been acted upon very successfully in Nazi administration … It seems to require the same conditions which were available to Dr Schacht …

(a) a closed economy with neither free migration of men or money

(b) severe labour discipline with wages pegged at or about depression levels

(c) a comprehensively controlled social system such as the German; and

(d) a popular willingness to work under such conditions

I deny the theory is a good working basis for any sort of thinking in a democracy. It is just another mistake, and none the better for being a fashionable reaction from older mistakes. We in Australia can make our own mistakes. We do not need to import them. (Brigden 1939a, p. 237).

Giblin had no concern to fight Keynesianism, but as late as 1942, he was concerned to defend the plan.

> Unemployment began to improve from the date of the Premiers Plan. That it did not improve more quickly is due chiefly to the fact that the Scullin government, which recognised the value of monetary expansion in promoting employment, was defeated and went out of office at the end of 1932. [34]

That Giblin thought it was worthwhile to defend the plan ten years later in drastically altered economic circumstances shows how much reputations had – perhaps unwittingly – been invested in the plan. It shows the tenacity of resentment. The economists had attracted some very specific parliamentary billingsgate. John Cain senior (later to be Labor Premier of Victoria) used the chamber in December 1933 to accuse Copland of a very personal hypocrisy in refusing the reduction in his own salary that he had proposed for others. 'The professor of economics has been advocating reductions for everyone else, but does not want to share the responsibility … He was one of those who advocated at the first Premiers Conference that there should be a 20 percent reduction in adjustable government expenditure, including the salaries of public servants … I feel that I should … give the professor a taste of his own medicine'. [35]

[34] NLA LFG 6 November 1942, 'The Premier's Plan Myth, MS 366/2/228.

[35] It was recorded in the next day's debates that the Registrar of the University of Melbourne 'pointed out that Professor Copland had not only accepted a salary cut but was the first member of the University staff to propose it. His salary had been reduced 120 pounds a year'.