

## 9. In war and peace

On the economic side in wartime I think the most influential advisers were ... Giblin, Copland, Melville and Brigden – and perhaps Roland Wilson.

*Paul Hasluck*<sup>1</sup>

### Introduction

It had been the Great War that had first brought Giblin's four together. In 1939 a still greater war was to unite them a second time. For the next six years they were absorbed in shaping Australia's war effort.

They were at the front of the helter skelter dash to build war industries and to marshall a workforce to man them. They educated two Treasurers about the need to consider resourcing the war effort in macroeconomic terms. With the approach of victory, they articulated similar Keynesian notions to preserve full employment in peace. With the global spread of the war, they strived to assure what they believed were Australia's interests in the approaching post-war international order. This was a struggle that culminated at San Francisco in 1945 in a bitter dispute over the place of the 'full-employment pledge' in the United Nations Charter (Crisp 1965).<sup>2</sup>

Yet it might be said that none of the four had 'a good war'. Their successes were mingled with frustration and bitter disappointment.

### 'Goodwill toward men'

'Fellow Australians. It is my melancholy duty to inform you officially that in consequence of the persistence by Germany in her invasion of Poland, Great Britain has declared war upon her and that, as a result, Australia is also at war.' With a formula of words resembling a telegram announcing a death to the next of kin, Prime Minister Menzies announced the advent of war to Australia. Many listeners shared Menzies' spiritlessness. Most elements of Australian political life had supported appeasement. Lyons hailed the Munich agreement, and had even sought to claim some personal credit for it. John Curtin, as Opposition Leader, congratulated Lyons on his stance. Highly contrary hues in the Australian ideological kaleidoscope concurred on the merit of appeasement, including Eggleston, *The Bulletin*, and the Catholic hierarchy.<sup>3</sup>

<sup>1</sup> Hasluck 1997, p. 55.

<sup>2</sup> The economic dimension of the Australian war effort has been extensively investigated by Walker (1947), Hasluck (1952), Butlin (1955), Butlin and Schedvin (1977), Watts (1983) and Ross (1995).

<sup>3</sup> H. C. Coombs has recorded in his memoirs that he was a 'pacifist' even after the outbreak of war in 1939. Giblin and Copland cannot be described as pacifists. Copland caused indignation by urging

In sympathy with this outlook, Giblin shared the widespread disquiet about any policy that increased, rather than reduced, the probability of war. Giblin believed, with Copland and many others, that the Treaty of Versailles had been unjust and inexpedient, and any war for the treaty would be unjust and inexpedient.<sup>4</sup>

On 16 April 1937, Giblin, Copland and four other members of the University of Melbourne, issued a manifesto: *Australia's policy – peace or war*. It was effectively addressed to Lyons:

20 years ago we crushed German imperialism, though it was touch and ago, and now Germany seems as strong as ever again. The job cost Australia 60,000 men killed, thousands impaired in health, and down to the present 470m pounds in money while we still owe 280m in war debts. Today aggressive imperialism has three heads – German, Italian, Japan[ese]. To scotch them for another generation is not likely to cost less than it did the last time, even if we succeed. Must we all go through it again in a few years time? Although the League seems at present discredited, war is even more discredited. The British Empire could cut the ground from beneath the feet of the dictators by offering to take steps to remove grievances.

Prominent 'steps' the Empire should take included reducing trade preference and a stricter internationalisation of League of Nations mandates. 'Both of these offers would be contingent upon fascist countries coming back into the League, and supporting collective security'.<sup>5</sup> This was the standard Chamberlain outlook, and in hindsight seems hopelessly thin.

With the advent of the Munich agreement of 1938, Giblin's position diverged from that of both appeasers and anti-appeasers. His key judgement was that Germany was strong and Britain was weak. And because of this strength, a war of any kind with Hitler would be 'madness'.<sup>6</sup> And because of this strength, German domination of the European continent was unstoppable – war or no. Giblin suggested that the most rational course of conduct for Britain was to 'cease

military training to be compulsory for Melbourne University undergraduates. Predictably, Giblin's interest focused on military training for schoolboys.

<sup>4</sup> Like many war veterans, Giblin had a less negative opinion of Germans than civilians. At the close of the First World War he had affirmed in a soldiers' debate that Germans should be allowed to migrate to Australia. And while in 1933 he declared that 'Germany has cut herself from civilisation' (Giblin 1933), in 1937 he told James William Barrett (the Chancellor of Melbourne University), that, although Nazi methods were 'distasteful', 'one cannot quarrel with their aims' (4 May 1937, quoted in Roe 1984, p. 83).

<sup>5</sup> Specific reference is made to the Australian 'Mandate' of former German New Guinea.

<sup>6</sup> Why? Because success was uncertain and 'years of attrition' inevitable.

to be a European power', and 'play for an American alliance to keep freedom of the seas'. Such a withdrawal to the Channel would constitute an equilibrium: 'an armed peace for a generation or so, which would give time for reason to be born again in Central Europe, with help perhaps by cautious and indirect evangelisation from the outside' (UMA LFG 24 October 1938). Giblin, therefore, was putting his hopes in a cold war: an Anglo-American alliance that would withstand a continental menace, but with fascism rather than communism as the adversary, and with the Channel rather than the Elbe as the frontier. Europe's ultimate salvation would rest on a slow ideological conversion ('evangelisation').

Unlike the Munich signatories, no part of Giblin's analysis assumed the orderly conduct of Hitler. Giblin did not believe that Hitler had been cajoled, however reluctantly, into concert with other European 'great powers'. Hitler's letter of 28 September 1938, Giblin remarked, 'takes the mask off too completely'. It was 'seething with scarcely concealed contempt'. Did Chamberlain 'really think that in a year – or 18 months – England will be in a position to call the tune?' Thus both Giblin and the anti-appeasers agreed that Hitler would use his power just as he pleased. But their analyses drew different inferences. The necessity of war was inferred by Churchill's analysis, and the necessity of avoiding war by Giblin's. Churchill's policy was the nobler. In the upshot, it was also more expedient. Yet that expedience turned upon the totally unexpected collapse of the Western Front in 1940, and the consequent avoidance of the 'years of attrition' upon which Giblin premised his argument. Giblin had been tripped up by being *insufficiently* pessimistic about British inferiority. The calculus of events had proved inscrutable, even to that subtle reader of wind-scattered leaves.

## The reveille

When war came all four were rapidly summoned.

Brigden was quickly made the Economic Adviser to the new Department of Supply and Development that had just replaced the old Munitions Supply Board. On 1 January 1940 he became its Secretary.<sup>7</sup> Copland also became an adviser to government at the outset of the war. Appointed Commonwealth Prices Commissioner in 1939, he was appointed Economic Consultant to the Prime Minister in 1941, and held both positions until the end of the war.

Menzies had intended to appoint Wilson as his economic adviser for the duration of the war. But Wilson had been successfully arguing for the establishment of

<sup>7</sup> Brigden was from 1 December 1939, Acting Secretary of the Department of Supply and Development; from 1 January 1940, Secretary, Department of Supply and Development; from 8 August 1940, Secretary, Department of Munitions; and from 1 July 1941 Secretary of the Department of Aircraft Production.

a Department of Labour and National Service, and on a train journey from Sydney to Canberra, Harold Holt, the designated minister for the new department, offered Wilson the position of Secretary. In October 1940 Wilson was appointed (Cornish 2002, p. 23).

At Wilson's urging, Giblin was brought to Canberra at the age of sixty-six to be Chairman of the Financial and Economic Committee (F&E), a committee formally constituted as part of Treasury in September 1939.<sup>8</sup> It was composed of Wilson, Melville and Giblin, with Copland, Brigden and Coombs recruited later.<sup>9</sup> In Wilson's vision this committee would 'constitute a small central thinking committee', with 'its services ... available to Cabinet or to any other department'. The research was done by Wilson, Brigden, Melville, and Coombs; Copland was the conduit to the Prime Minister; and Giblin, 'the one full-time member [who] appears to have served as a one man synthesiser' (Maddock and Penny 1983, p. 31).

## The bivouac

Wilson and Brigden left Canberra for Melbourne, where Manpower and Industry would be directed. And, in the opposite direction, Giblin and Copland left Melbourne for Canberra. The two shared digs in the capital, and Giblin reported to Eilean this arrangement was 'going well', despite his vexation at 'German music' being banned from the ABC. In June 1940 after reading some 'very depressing' cables from Bruce about the war in France, and presumably feeling his opportunities for leave from Canberra had suddenly diminished, Giblin beckoned Eilean to leave Melbourne for the capital. The hunt for quarters suitable for a couple began; Giblin discussed the possibility of using the Brigden's house, which was being rented to the United States 'legation'.

The Giblins settled down to the eccentric austerity of wartime Canberra: of meat and butter 'usually unobtainable'; bacon 'unprocurable'; the milk almost bluish in winter; wood hard to get (when seven tonnes might be needed each winter), and mysteriously sudden evaporations of particular commodities – bootlaces one month, envelopes another. But Giblin, of course, enjoyed the physical demands of this life. His letters record with satisfaction his 10 pullets providing eggs; the 130 lb of pumpkin he harvested; and the strawberry patch that yielded

<sup>8</sup> It was Wilson who had recommended initially that such a committee be established for the purpose of advising the government on the implications of possible blockades of shipping to and from Australia in the event of a war with Japan.

<sup>9</sup> At about this time Giblin described Coombs as 'a good fellow, solid, no frills, no disturbing ego, very reasonable, though there is ground where I – Wilson also – cannot follow him'. He told Keynes: 'do not take him too seriously' (KCLA LFG 14 May 1943, L/A/75).

strawberries so ample that their consumption would 'require the help of neighbours'.

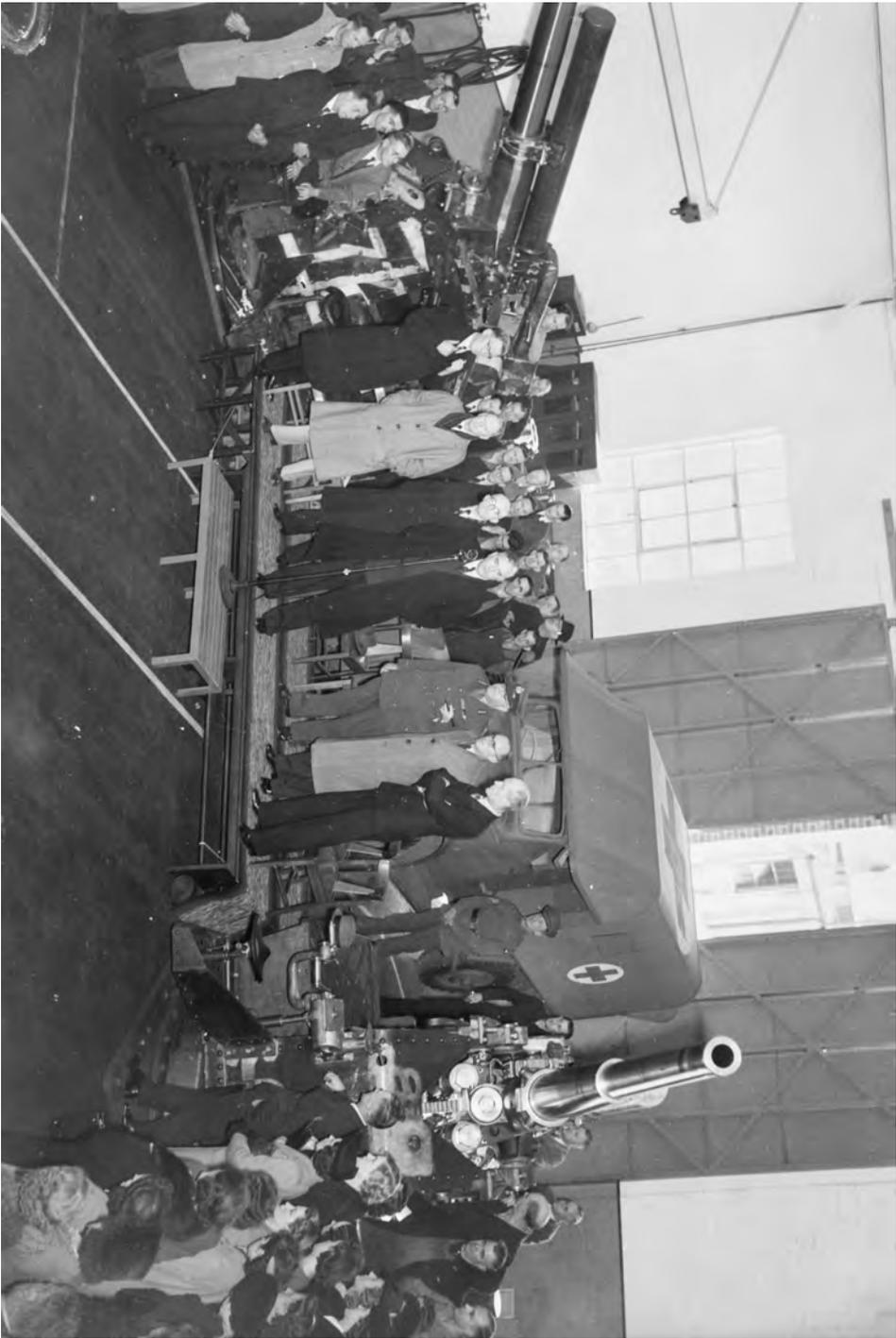
Each day Giblin, in 'a thick tweed suit, ... a badgeless digger hat; the same red tie, the clog like boots, large pipe ... and the huge bushman's pack' (Reynolds c. 1951) would make his way to the small room on the top floor of External Affairs and Treasury. In this 'sunny corner of the top floor of West Block, Canberra, ... he crouched over his pipe among a litter of papers, [and provided] not only a cell of economic thought but a place where many departmental and inter-departmental tangles were unwound by honest and straightforward commonsense (Hasluck 1952, p. 452). Hasluck later recalled it was a 'privilege' to work 'close to this great Australian, sagacious, humorous, kindly to persons, devastating to humbug (Hasluck 1980, p. 64). Giblin, said Hasluck, 'had a sanitifying influence. He showed us the things we had to think about and helped keep the thinking straight. His personality had the effect of sand paper, rough but polishing others' (Hasluck 1954, p. 138).

## **Churning butter into guns**

In Melbourne, Brigden was facing the most urgent problem of the war effort: the arming of Australia's military forces. This could not be done by relying on the arms industries of a larger nation. A heavy armaments industry would have to be created from scratch. In this task Brigden was, from the beginning of 1940, the senior public servant, being appointed the Secretary of the Department of Munitions, and later Secretary of the Department of Aircraft Production.

This was an arduous undertaking, with as many deep frustrations as rewards. The fundamental difficulty was Australia's state of industrial underdevelopment. Manufacturing output had doubled in real terms over the preceding 20 years (Butlin 1985), but manufactures were still dominated by food, clothing and furniture, and unprocessed or semi-processed products (such as steel). As of 1939, Australia had barely produced an aeroplane. She produced no aluminium, extracted no petroleum, and possessed no tankers to ship it. Cotton wool was imported. Newsprint was not produced, and even cardboard could not be made in the absence of certain imported ingredients. 'Nearly all' machine tools and factory plant were imported (Ross 1995).

**Figure 9.1. Brigden (left), as Secretary of Munitions sharing a platform with R. G. Menzies**



There were also more human difficulties. Australia was distant from technological expertise. Brigden later recalled: 'Frequently there were no blue-prints. Critical parts were explained by crude picturegram'.<sup>10</sup> The factors of production did not always cooperate: one small arms factory was halted for three weeks while three unions fought a demarcation dispute over a single person. Brigden also lamented how the employment of women as factory hands was delayed by men:

Traditional trade union objections delayed the employment of women elsewhere in Munitions, except as laboratory workers etc, and in a somewhat furtive small way in factories. Yet it had been proved that a gauge lasted at least twice as long in the hands of a women worker as in the hands of a new male worker. (Brigden 1942).

Away from the factory floor, the gathering of sufficient and appropriate personnel for the Department of Munitions was a struggle. The Department grew from 14 persons at the opening of the war to 6259 at its peak in August 1943. Brigden could draw on the formidable capabilities of his deputy, J. K. Jensen. But in general the quality of the existing public service was weak. This necessitated recruiting over 90 per cent of staff from outside the ranks of experienced public servants, which itself produced some difficulties. Essington Lewis of BHP had been made 'Director-General for Munitions' by Menzies in June 1941, and endowed with great powers. But as Brigden commented: 'The man from business finds that public opinion will not allow him to behave in a businesslike way'.

Personnel difficulties extended to the executive. Menzies did not make a zestful commander. He styled himself Minister for Munitions, but seemed not to relish playing the warlord. He had told Bruce at the outbreak of war: 'Those who think about it, all feel sick about it – and those who don't want to feel sick, don't think about it' (DFATHP RGM 11 September 1939).

Months passed into years, but the art of fashioning swords from ploughshares remained stubbornly elusive. By November 1940 Australia was in possession of only 42 'modern' planes; all of them, in fact, obsolete. The project to manufacture Beauforts – that ultimately yielded in the last years of the war 365 Beaufighters – was, said Brigden, 'ill fated from the start'. By April 1941 Australia still possessed no naval mines. By May 1941 only 10 (light) tanks were available (Day 2003).

In a world at war, Australia's effort to arm herself seemed insufficient. As Menzies' Government did not command a majority in parliament, it was vulnerable to opposition assault on this matter. One avenue for the attack was

<sup>10</sup> Picturegram = fax. Since 1934 Siemens-Karolus equipment installed in Melbourne had supplied faxes from London. But this service was discontinued in 1942 because of the difficulty of obtaining (German) spare parts.

the role Menzies had given prominent businessmen in the direction of the armament program. On 5 June 1941 Norman Makin, the Labor member for Hindmarsh in South Australia, attacked the role of industrialists, such as Essington Lewis. In August 1941 H. V. Evatt and J. A. Beasley made 'scathing attacks'. 'Both suggested that Lewis was sacrificing his country's needs for his company's profits' (Blainey 1971).

But there was another avenue for attack: Brigden was the onetime advocate of the reviled National Insurance scheme, and still malodorous to some Labor members on account of his support for the Premiers' Plan. On 5 June 1941 Curtin attacked Brigden's appointment as Secretary to the Department of Munitions. On the following day, Curtin's deputy Frank Forde proposed that Brigden be transferred to the position of Director of Economic Co-ordination, 'a fantastic assignment' created early in the war, and abolished as soon as Labor acceded to office in October 1941 (NAA Advisory War Council Minute, 6 June 1941).

When Labor did obtain the government benches, Brigden's position as Secretary of the Department of Munitions was highly vulnerable. Copland was emphatic in pressing on the new government the progress that had been made in armaments:

In October 1941 the Economic Adviser to the new Curtin Government, Professor D. B. Copland, reported that the speed with which war industries had reached mass production stage had amazed even the experts introduced from overseas to supervise operations. At the outbreak of war, he said, Australia possessed only 1 manufacturer of lathes, two power presses, and one government machine factory. By late 1941 Australia was practically self-sufficient and over 30 firms were manufacturing machine tools. Munitions production had leapt 18 times in value. For every man at a bench or lathe in 1939, there were at least 20 by October 1941. (Page 1963, p. 294).<sup>11</sup>

Copland's ebullience should not be dismissed as self-justification, or simply as aid for a friend in need. Since 1990 a 'revisionist history' of the war effort has emerged that paints a far more positive picture of Australian re-armament than earlier analysts had accepted (Ross 1995). But, however justified Copland's case may have been, his evidence was tainted. Several branches of the ALP passed motions demanding Copland's removal from government service. The future Labor leader Arthur Calwell rose in the House of Representatives to ask if the Copland who was advising Prime Minister Curtin was the one and the same Copland who had in 1931 recommended a 10 per cent cut in wages?<sup>12</sup>

<sup>11</sup> Brigden noted with pride the export of machine tools to the United States. Optics, too, were an achievement.

<sup>12</sup> Copland had known the family of Elsie Curtin since his leadership of the WEA in Tasmania.

## How to pay for the war

Lying beneath the 'micro' problems of armaments were the more macroeconomic problems of maximising total available resources. In this, the four were significant in introducing a 'national accounting' mentality, and a Keynesian approach to government budgets.

## Deficits or doles?

The four's influence relied in large measure on the open-mindedness of the minister responsible for national economic management, Percy Spender, the new breeze in the listless United Australia Party. He had entered parliament in 1937 by defeating the UAP minister for defence. He was quickly recruited into the government, made Assistant Treasurer in April 1939, Acting Treasurer in November 1939, and Treasurer in March 1940. In 1943 he was to stand for leadership of the UAP, and lose by a single vote.

Spender was all energy and new ideas, and was a good foil for Giblin's proselytising of novel Keynesian precepts. There was sometimes tension between the two. On one occasion Giblin told Eilean:

The trouble is that Spender has no idea of the work involved and will not make or get decisions on essential points of policy. So there is continual recasting of the Financial Statement, and everyone is slaving to make it a decent document – which it can't be at the moment – or at least reduce the indecencies and crudeness of it. (NLA LFG 30 April 1940).<sup>13</sup>

But Spender was a ready pupil of Giblin.<sup>14</sup>

The first lesson involved the appropriate stance of government spending and taxation in the face of unemployment.

Unemployment had remained significant throughout the 1930s. In the September quarter 1939, unemployment of unionists was measured at 10.3 per cent.<sup>15</sup> Shortly after the outbreak of war Giblin drew Spender's attention to current levels of unemployment, asserting that unemployment 'threatens to become quickly an acute embarrassment to the government' (17 October 1939). The outbreak of war, he said, had sent a psychological shockwave through the business community, and consumers had stopped spending.<sup>16</sup>

<sup>13</sup> Giblin adds, 'Mac [Secretary to the Treasury S.G. MacFarlane] is in the depths of despair.'

<sup>14</sup> Spender acknowledges Giblin's role in his memoirs.

<sup>15</sup> In 1940 unemployment of unionists averaged at 8.6 per cent. By the last stages of the war this was to drop to 1.0 per cent.

<sup>16</sup> LFG to PS, 17 October 1939, NAA571/1/39/3799.

The government, said Giblin, had compounded the unemployment problem by excessive timidity in defence spending. 'The difficulty', Giblin argued, 'can only be met by more rapid spending – not planning, or commitments or raising loans, but spending; and spending for employment as much as and more than for defence'.

In his notes for the supplementary Budget speech of November 1939, Giblin asserted that: 'This is not the time to provide against the possibility of a deficit either by reduction of expenditure or by new taxation. For the next few months, the unemployment situation will be critical. Reduction of expenditure or increases of taxation would further depress unemployment. This is a proper occasion for deficit financing ... The same reason holds against any present increase in taxation to meet war expenditure'<sup>17</sup>

Treasury, however, was implacably opposed to any further increase in Commonwealth spending. But Spender refused to endorse the view of his own department. In this spirit of dissent, Spender put to Cabinet (13 November 1939) that 'no measures should be imposed now which would obviously have the effect of increasing unemployment'; any further 'increases in direct taxation at this juncture would cause uneasiness and tend to reduce employment'. 'An integral part of this policy is to avoid any increase in taxation likely to depress private enterprise.'<sup>18</sup>

Giblin's concern about aggregate demand was underpinned by a vision that efficient conduct of the war effort required looking at the economy as a whole. The key insight here was that, in an economy seeking to maximise war material, *unemployment was as wasteful as consumption*. Spender took this point readily. Thus, in response to Giblin, Spender wrote to Menzies on 25 October saying that the 'the view of our economic advisers' is that 'maintenance of employment ... is of paramount importance in lessening the burden imposed by war. In short, the burden is the diversion of human labour to war purposes, which can only be lessened, apart from reducing expenditure, by increasing the national income, which in turn can ... be accomplished by bringing into productive employment people not presently engaged therein.' And Spender went on: 'One of the objectives of our present policy is to restore and increase the national income. This will enable us to divert resources to defence without encroaching unnecessarily on existing standards of consumption.'<sup>19</sup> He was convinced that 'Giblin's suggestion means a sound national approach to our national problem,

<sup>17</sup> NAA 571/1/39/4105, 'Prof Giblin's Notes', October–November 1939.

<sup>18</sup> NAA PS 13 November 1939, 'Revision of Budget, 1939–40', 184/8/Bundle 1.

<sup>19</sup> NAA PS to RGM 25 October 1939, 571/1/39/3799.

which I need hardly say would be of tremendous political value to ourselves'.<sup>20</sup>

A third lesson was the outlook on the government budget. The F&E put to him that the budget should be regarded not only as a device to manage the government's own incomes and outlays, but also as a part of an algorithm that assisted the government to manage aggregate demand in the economy as whole.

In his memoirs Spender found fault with the first Menzies war budget for not recognising this:

The Budget of September 1939 was, in effect, just another traditional budget that did not vary from the peacetime pattern. There was nothing ... to indicate a financial policy geared to war, or any statement of principle or planning as to how the economy of the nation was to be organised for war. (Spender 1972, p. 43).

In contrast, Spender's supplementary Budget brought down in 30 November 1939 was built around Giblin's approach to war finance. Spender argued that:

In view of the ... uncertainty resulting from the outbreak of war and the recent decline in employment, the Government is of the opinion that to increase taxation at the present time would merely delay the recovery of our economy, retard the full utilization of employable labour, reduce the potential of our national income, and consequently interfere with the full prosecution of our war programme. It has been decided, therefore, not to increase further the burden of taxation for defence purposes in this financial year.<sup>21</sup> (Butlin 1955, p. 200).

If there ever was a 'Keynesian Revolution' in Australian economic policy, it may be argued that it arrived at this time and in this way: in 1939, and from Giblin, through the F&E, to Spender.

## Reflation or inflation?

A second difference between orthodox finance and the F&E came over the prudence or imprudence of funding some war requirements from central bank

<sup>20</sup> To strengthen the Treasury's economic expertise, Spender endorsed the suggestion, put to him by Wilson, that Coombs should be seconded from the Commonwealth Bank in Sydney, where he was Assistant Economist, to become Economist at the Treasury.

<sup>21</sup> Spender's supplementary budget of November 1939 reflected in large measure the approach that had been adopted by the F&E. Unemployment remained at unacceptable levels and therefore it was possible, the Acting Treasurer declared in the budget speech, to fund some of the increased war expenditure from loans borrowed from the banking system, including borrowing from the central bank. Defence borrowing was raised from £19m to £46m, and the reliance on tax revenue was reduced from £6m to £2m.

borrowing (that is, 'printing money'). The Commonwealth Treasury had resolved in its own mind that war expenditure should be financed from taxation and loans from the public. Borrowing from the banking system, especially from the central bank, was to be avoided like hellfire. That expedient had been over-used in Australia – and elsewhere – during the First World War, and had led to inflation or even hyper-inflation, exchange rate depreciation, and economic turbulence.

But whereas the Treasury dismissed such borrowing as unsound, the economists were more ambivalent. Giblin, as chairman of the F&E, helped to forge a common view among economists: as long as resources – particularly labour – were not being used at full capacity, it was legitimate to 'borrow' from the Commonwealth Bank. As Giblin told the Secretary to the Treasury, S. G. MacFarlane: 'central bank credit should be injected in times of depression and withdrawn in times of prosperity and the net result should be zero'.<sup>22</sup>

Not long before the outbreak of war, at the invitation of the then Treasurer R. G. Casey, both Wilson and Brigden had prepared notes on the efficacy of borrowing from the central bank.

Wilson had argued that 'if the economic system is not working to full capacity', 'there is in general a good case for finding money for reproductive works. There may even be a good case for finding money for works which are not reproductive in the financial sense of returning full interest to the Treasuries, but which are reproductive in the wider economic sense.' He declared, moreover, that it 'may well be that this money should come from an expansion of central bank credit ...'. It was true that foreign reserves might be depleted in the process; that private enterprise might be adversely affected if interest rates were to rise; and that appropriate labour skills might not be available from among the unemployed. But when 'incomes have fallen and unemployment is increasing', he concluded that 'an increase in public spending, assisted by central bank credit, is probably desirable to stimulate activity'.<sup>23</sup>

Brigden, vigilant as ever in the face of the siren call of inflation, was more wary than either Wilson or Giblin. He did acknowledge that 'present opinion tends ... to support the use of central bank credit as a substitute for taxation or as a

<sup>22</sup> Giblin's views may be contrasted with those of the Treasury, which early in 1939 had drafted speech notes for Casey on the subject of war finance. The notes referred to recent suggestions that 'defence should be financed by some form or other of national credit'. The effect of that, the Treasury asserted, would be 'to destroy confidence in the existing currency. The currency would depreciate, costs of living would rise and all titles to money – including *Savings Bank Deposits* [italics in the original] would become less valuable. In fact, their value might even go the way of other countries and become almost negative.'

<sup>23</sup> NAA RW to RGC November 1938, 'Finance and monetary policy', 1968/391/140.

means of increasing employment or the national income or both'. But this opinion, he said, had been influenced by the writings of Keynes, and had been based on the assumption that wages would not increase when there was unemployment. Yet in Australia, according to Brigden, 'each degree of increase toward full employment is accompanied by increases in wage rates and ... labour costs'. If central bank lending was resorted to, controls over foreign exchange, investment and labour would be required: 'control must follow as the Government under public pressure, seeks to avoid the adverse consequences of its action'.<sup>24</sup>

As for Giblin, since unemployment existed, he believed it was quite legitimate for central bank credit to be used 'to set working all the unused resources of labour in the country'. 'In general an excessive issue is necessary as a first step followed by a corrective withdrawal of the excess'.<sup>25</sup>

But Giblin foresaw an inflationary pressure. In his notes for the November 1939 supplementary Budget, he wrote that: 'The policy proposed is to use the stimulus of central bank credit to finance the initial period. So far the procedure may be called reflation. If this method were to be continued we should have inflation beginning gently but accelerating to a dangerous rapidity'. As a consequence, 'After the initial period then, say from next May, the war should be financed jointly by taxation and current savings, invested in loans on the market. Only by adhering to this principle of finance can inflation be controlled'.<sup>26</sup>

The end of Giblin's 'initial period' might be said to be signalled by Coombs' F&E paper of 7 December 1940 headed: 'The banking system and war finance'. The banks were now in a highly liquid position and were seeking investment opportunities to maintain their profits. Coombs was fearful that these circumstances might spark a 'dangerous inflationary process'. He proposed that the banks' advance policy and their liquid assets should be subjected to tighter control. Two alternatives were proposed: a system of minimum variable liquidity ratios, or a uniform minimum ratio that would be sufficient to control the most liquid of the banks, bringing the other banks up to that level by exchanging liquid assets for government securities. Wilson suggested, however, that the time might be right for the introduction of what he called the '100% money plan', by which he meant that all increases in bank assets from a particular date should be lodged with the Commonwealth Bank. Later, Wilson's plan was

<sup>24</sup> NAA JBB to MacFarlane, 1 June 1939 'Central bank credit and employment', 1968/391/138.

<sup>25</sup> NAA LFG 26 October 1939, 'War finance', 1968/391/139.

<sup>26</sup> NAA LFG n/d but October–November 1939, CP 13/1/C File X111 'War finance: Preface'. Also, NAA LFG to PS 17 October 1939, 571/1/39/3799.

adopted by the Curtin Government as a central device to restrain the impact of excessive monetary expansion.<sup>27</sup>

These ideas were aired with increasing alarm by the F&E at its meeting in December 1940, but already by April 1940 it began to advise the government that reliance on bank credit would soon have to end, and, in consequence, taxation would have to be raised. It was aware that taxation on low incomes would be politically difficult.<sup>28</sup> In response, Spender acknowledged that, with respect to bank credit, 'This possibility is now largely closed. We must in the future rely almost entirely on taxation and public loans'.<sup>29</sup>

By March 1941 the matter had become more urgent. It was in this context that Giblin raised the political difficulties of dispensing with credit expansion. 'With resources fully used', he said, 'there can be no case for further credit expansion in 1941–42 but rather for contraction. Nevertheless it may be politically impossible to finance a growing war expenditure by market loans and taxation, so that immediate recourse to credit expansion may be forced on the government.'<sup>30</sup> Drawing upon the ideas of Coombs, Melville and Wilson, Giblin then put three alternatives to the F&E:

first to borrow from the Commonwealth Bank, but to limit the secondary expansion of credit by controlling the advance policies of the banks through minimum liquidity ratios;

second, to borrow from the banks, but limit their profits;

and third, to induce the banks to transfer their deposits to the Treasury, or to the Commonwealth Bank acting on behalf of the Treasury<sup>31</sup>.

Copland, however, was inclined to seek voluntary cooperation from the banks. But the problem here seemed to be that the banks would define 'cooperation' in different ways, and would be unlikely to accept the Commonwealth Bank's definition.<sup>32</sup>

Since the F&E was unable to agree, it decided to seek political direction, especially on how bank profits might be controlled.

<sup>27</sup> NAA HCC 7 December 1940, CP 5/1/Bundle XVII, File CCLXIII, 'The banking system and war finance'.

<sup>28</sup> NAA PS Submission to the Cabinet, 27 March 1940, 184/8/1/Bundle 1

<sup>29</sup> NAA PS 27 March 1940, 'Submission to Cabinet', 184/8/1/Bundle 1. NAA PS to Macfarlane, April 1940 CP 184/1/1/ Bundle 1. NAA 4 July 1940 PS to LFG, CP 5/1/ Bundle XV11, File CCLX111.

<sup>30</sup> NAA LFG c. March 1941, 'Inflationary loans', CP 5/1/Bundle XV11, File CCLX111.

<sup>31</sup> NAA CP 5/1/Bundle XVII, File CCLXII.

<sup>32</sup> NAA, 'Inflationary loans', CP 5/1/Bundle XV11, File CCLX111.

## Taxes or 'contributions'?

The new Keynesian approach did not mean unconditional deficits and low taxes. With the end of unemployment and the inexorable rise in war expenditure, the convenient policy of low taxation became more doubtful. Not because it meant deficits, but because it meant an excess of demand over supply.

The F&E became increasingly preoccupied with calculating the gap between expected war expenditure in the months ahead and the resources required to meet the increased demands from taxation and loans. The use of the so-called 'gap' methodology was initiated by Giblin, drawing on the terminology and method of Keynes in *How to pay for the war* (Keynes 1939, 1940). He corresponded frequently with Keynes throughout the war on aspects of war finance, including the principles underlying the gap approach. In its simple form, and abstracting from external flows of income and expenditure, the 'gap' methodology was commonly expressed as follows: from expected war expenditure, deduct current taxation receipts and loan revenues. The residual was the measure of the 'gap' which would have to be funded either by new taxation, new loans, or borrowings from the banking system (including the central bank), or by some combination of these three sources.

There were, in effect, four policy choices that faced the government.

One was simply to allow inflation. This would transfer resources from consumption to war-related activities, since wages lagged behind price increases and taxes on profits and progressive rates of income tax would divert income from employers to the government.

A second was rationing and price control. But the F&E hesitated to recommend direct controls, particularly rationing.<sup>33</sup> Several members of the F&E did, however, think rationing was inevitable. Certainly, Copland was sanguine about the efficacy and practicality of controls. Although he still took the view that the best way to drain purchasing power from the community was through taxation, he was far from confident that the rate of taxation necessary to maintain the war effort and ward off inflation would be politically acceptable. Hence he lent his support to a limited scheme of rationing covering a restricted range of goods.<sup>34</sup>

<sup>33</sup> At the outbreak of war Giblin said it 'should be a matter of general policy to go slow with wartime controls which check and frighten business. The control of exchange, investment, imports, exports and prices should all be brought in gently. The fascination of safeguarding the future must be restrained by the issues of the present' (NAA LFG to PS 17 October 1939, 571/1/39/3799).

<sup>34</sup> By the time it met at the end of August 1941, the F&E had moved some distance toward Copland's position, concluding that: 'If new taxation ... cannot be obtained, then ... the only way to avoid an excessive rise in prices is to impose restrictive measures sufficient to ensure that the required amount of savings is made'. In fact, it concluded that, even if its recommended tax increases (including the

The third device was borrowing from the private sector. But there were limits to which individuals and institutions would respond to war loans without the incentive of higher interest rates.

The fourth device – and that preferred by Giblin and the F&E as a whole – was taxation. Keynes had proposed a useful variant of this device: that orthodox taxes be supplemented by what he initially called ‘deferred pay’, and later ‘post-war credits’. Here a certain proportion of revenue levied from taxation – or from a compulsory loan – would be earmarked for repayment to taxpayers after the war. Keynes was concerned that steep rates of taxation might create disincentives to work, whereas a system of deferred pay would not, since the revenue would be returned later to those from whom it had been collected. Moreover, it could be repaid after the war, when it was expected that a slump would occur after an immediate post-war boom; tax refunds in these circumstances would provide a boost to effective demand when they were spent upon goods and services.

As early as its meeting on 16 December 1939, the F&E had discussed for the first time the possibility of introducing a system of compulsory loans (‘post-war credits’) along the lines of the scheme proposed by Keynes. The committee concluded, however, the compulsory loans scheme should be kept in reserve.

<sup>35</sup>

By July 1940, and with war expenditure accelerating rapidly, the F&E was adamant that taxation would have to rise, and that meant taxing lower-income groups, in spite of critics arguing that there remained considerable spare capacity, and so excessive taxation could be avoided. The F&E proposed that the government consider imposing a consumption tax at the point of retail sales of 1d on every shilling spent. It was Wilson who suggested this idea, allowing for the possible exemption of bread and milk.

It was at this point that Giblin raised once more the idea of the compulsory loan scheme, but now in the context of a national program of uniform taxation. The Commonwealth should levy a uniform national income tax, he argued, and the difference between the levy and income taxes already imposed by the Commonwealth and the states should be collected as a compulsory loan. The compulsory loan component would be greater for taxpayers in wealthier, low-taxing states, such as Victoria and New South Wales, than in other states.

National Contribution) were introduced, and the amount of loan revenues it was suggesting was secured, ‘it might still be necessary to impose certain real restrictions’. Even so, the committee felt that ‘the more the rationing method was considered the more desirable appeared the alternative of taxation, and suggested that, in presenting the problem to Cabinet, the difficulties of rationing be strongly emphasised’ (AWM August 1941, SJB/118, 29/30).

<sup>35</sup> NAA 16 December 1939, M 70/117.

Not only would this bring in additional revenue, but it would help to make the sharing of the cost of the war more equitable across the states.<sup>36</sup> By October 1940, Giblin had further refined his proposal for a uniform income tax via a compulsory loan. The Commonwealth would introduce a uniform income tax on personal and company income, and from the amount assessed, income tax payable to the states would be deducted on the basis of existing state income tax. The residual would constitute federal tax. Of the residual, a part would be taken in the form of current or future federal income tax; the surplus would be regarded as a compulsory loan. The amount taken as a compulsory loan would be relatively small in high-taxing states, and relatively large in low-taxing states.<sup>37</sup>

The Treasurer, now Arthur Fadden, was said to have been impressed with Giblin's scheme but considered that it was too late to be introduced in the 1940/41 financial year.<sup>38</sup>

Therefore, the F&E was left with the problem of how to raise taxation upon lower incomes without creating political difficulties. It was clear that the magnitude of the resources needed for the war effort could not be realised simply by taxing upper and middle incomes; it would have to reach down to lower incomes. But the Labor Party and its trade union affiliates were opposed to any such attempt. The decision to introduce child endowment, suggested initially by Dick Downing, who worked for Copland in the Office of the Economic Consultant to the Prime Minister, and supported strongly by Wilson, was intended in part to dampen criticism from low-income groups.

Giblin's contribution to the impasse was to draft a major paper, 'Prospects for 1941-42', in which he suggested how 'the political opposition' to expanding taxation 'could be overcome'. He suggested, as a bargaining strategy, even heavier taxation on high incomes; a 90 per cent excess profits tax; and a levy on wealth of perhaps 3½ per cent. The committee gave its tentative approval to each of these recommendations, going further on excess profits tax (to 100 per cent), and less on the wealth tax (no more than two per cent a year).<sup>39</sup>

Shortly after submitting his paper to the F&E, Giblin wrote to Fadden saying that the 'key to the financial situation is taxation. With taxation equitably distributed over all incomes, there is a fair chance of avoiding any drastic all-round rationing control.' He acknowledged that, while there was likely to

<sup>36</sup> In a note to the Treasurer, Giblin said that the committee favoured the uniform income tax idea on equity grounds, but recognised that it would be difficult politically, and therefore it might not be possible to implement (NAA LFG 30 June 1941, 'Taxation and post-war credits', CP 184/5/23[2]).

<sup>37</sup> NAA LFG 7 October 1940, 'War finance at 5.10.40', CP 5/1/Bundle XV11, File CCLX111.

<sup>38</sup> NAA AWF to Cabinet, 'Can prices be controlled?', CP 184/8/13.1

<sup>39</sup> AWM LFG 18 and 19 February 1941, 'Prospects for 1941/42', SJB 117.

be some immediate hostility from low-income groups to any proposal for increased taxation, he did not believe that it would prove to be very deep. 'It could give way', he said, 'to a good statement of the case for taxation, addressed to them by their leaders. But it must be their leaders who do the job.' He added that 'it is largely regarded as good Labor policy to resist'. Giblin proposed that Labor's representatives on the Advisory War Council be counselled.<sup>40</sup>

There was a drift back in interest to a compulsory loan. In June 1941, Giblin prepared a detailed paper on a system of post-war credits. What Giblin now proposed was a 'National Contribution', from which Commonwealth and state income taxes would be deducted, leaving a special war contribution in the form of a compulsory loan, for which a post-war credit would be given.<sup>41</sup>

It was clear that by July 1941 a crisis in war finance had been reached. Fadden wrote to Menzies on 1 July 1941 saying that 'we face the biggest budget problem in the history of the Commonwealth'.<sup>42</sup>

In the Budget of September 1941 the government proposed a borrowing requirement of £122m, compared with £60m the previous year. It was acknowledged that borrowing of this magnitude would be difficult to achieve. In the budget Fadden announced the government's intention to introduce a compulsory loan scheme along similar lines to that proposed by Giblin (and similar to the one that Keynes had proposed in the United Kingdom). A 'National Contribution' was to be assessed on every income earned in Australia (exempting incomes below £100); after the deduction of state and Commonwealth income taxes, the remainder was to be collected as a compulsory loan (or as post-war credits), which would attract an interest rate of two per cent a year, to be repaid after the war.<sup>43</sup>

In the Budget of September 1941 the influence of Giblin and the F&E committee had reached its high watermark.

Labor opposed the budget, largely because of the National Contribution, on the grounds that low-income groups were to be taxed and because the lighter-taxing states would be the greatest beneficiaries of the post-war credits. The Opposition successfully moved a motion of no confidence in the budget and it was defeated in House of Representatives on 3 October 1941 when two independent members of the parliament crossed the floor and voted with Labor to defeat the budget.

<sup>40</sup> NAA LFG to AWF n/d but March 1941, CP 13/1, C File LXV.

<sup>41</sup> NAA LFG 28 May 1941, 'Restriction of public expenditure. The immediate problem', CP 184/5/23(2).

<sup>42</sup> NAA AWF to RGM, July 1941, 571/1/41/2868.

<sup>43</sup> It was announced also that 20 per cent of company depreciation funds would be collected as a compulsory loan.

The government resigned, and a Labor Government took office the same day. Curtin was sworn into office as Prime Minister with Chifley as Treasurer.

The inability to implement a politically acceptable policy of war finance was the principal reason for the failure of the Menzies and Fadden Governments. The dependence of the government on two independent members of the House of Representatives encouraged a degree of timidity in the formulation and application of economic policy, and hesitation over the advice of the F&E. In particular, the resort to taxation was clearly inadequate, given the extent to which resources had to be transferred from civilian to war activities in conditions of full employment. Menzies and Fadden were also unable to convince the states of the need to transfer some of their taxing powers (particularly in the field of income tax) to the Commonwealth; and they took a somewhat pusillanimous attitude toward the credit expansion of the private trading banks. Labor attacked the Menzies and Fadden Governments unmercifully on the grounds that their financial and economic policies – including the compulsory loan – were inequitable.

## Controls

With the arrival of the Labor Government a marked shift in economic policy began, as market-oriented instruments of policy were replaced by direct controls. The new Treasurer, J. B. Chifley, quickly introduced a revised budget (on 29 October 1941) to replace the one that had been presented by Fadden: the National Contribution was jettisoned; heavier taxation was imposed on higher-income groups; and taxation was reduced on lower incomes.

With the entry of Japan into the war it was clear that a significant increase in taxation and voluntary borrowing from the public would be required. Shortly after the beginning of the war Giblin had predicted an annual war expenditure of about £100m in current prices, with 'the possibility but not probability of it rising to £200m per annum (still at present prices) at a later period of the war.' But after Pearl Harbour this was utterly outmoded. Defence spending was, in fact, to reach £500m, and absorb not one-fourth of GDP, but about 40 per cent of it. Some increases in taxation were introduced, and loan programs of a considerably greater scale than hitherto entertained were foreshadowed. But these policies failed to match the real resources that were needed to meet the demands of the armed services and war industries, such as munitions.<sup>44</sup>

By the early months of 1942, prices were beginning to accelerate at a rapid rate. As a consequence, on 10 February 1942 Curtin announced a dramatic change of economic policy. A National Economic Plan was to be introduced based on a

<sup>44</sup> NAA LFG 26 October 1939, 'War finance', 1968/391/139.

powerful set of direct controls, which were to be promulgated under the National Security (Economic Organisation) Regulations.

The principal elements of the plan were the pegging of wages and profits; private spending was to be curtailed by direct controls on production, consumption and trade; price rises were to be reduced by tighter price controls; profit margins were to be squeezed; and spending by state governments was to be limited by the introduction of a uniform system of income taxation. The rationing of basic consumer goods was introduced from the middle of 1942. The administration of capital issues control similarly underwent a transformation aimed at tightening non-essential private investment. Credit creation was also used, on the basis of Labor's claims that reserves of labour still existed, but stringent National Security (Wartime Banking Control) Regulations were introduced. These tightened government control of the private banks and required increases in bank assets from a designated date (August 1941) to be lodged with the Commonwealth Bank 'as special deposits', both as a means of controlling credit expansion and limiting bank profits.

This system of direct controls marked a decisive shift in the nature of Australian economic policy. The war economy henceforth was shaped in large measure by direct controls and other policies associated with the National Economic Plan. The F&E and the Treasury were now to take back seats as new government agencies, such as War Organisation of Industry, the Production Executive and the Manpower Directorate took the leading roles as providers of policy advice.

Even so, the F&E continued to advise the government on war finance after October 1941. Giblin remained in 'daily touch' with Chifley, the Treasurer (Day 2001, p. 148), including on the subject of uniform taxation. 'Luckily I have a thoroughly good understanding with Curtin, and also Chifley', Giblin told Keynes on Labor's accession. 'But they have some very difficult colleagues, and their independent "majority" is quite crazy on finance'.<sup>45</sup> Giblin noted with alarm the burgeoning of central bank credit following the introduction of the National Economic Plan. The F&E – particularly Giblin – warned the government that suppressed inflation was building up for the post-war era, as extensive direct controls placed a lid on inflationary pressures. But the government's requirements shifted to the efficient 'administration' of the war economy and planning for post-war reconstruction, and new administrative agencies began to recruit their own economists. The need for the F&E's expertise was reduced. Its influence diminished, and it scarcely met after 1942.<sup>46</sup>

<sup>45</sup> PRO LFG T236/548 5/10/41.

<sup>46</sup> NAA LFG n/d but mid-1942, 'Excess spending power: present and future', 571/1/42/2568 Pt 1. NAA LGM 31 August 1942, 'The budget and inflation', CP 6/2B, File XXV.

## 'The ordeal of 42'

With the advent of the Labor Government, 'The time had come, some thought, for ousting [Essington] Lewis' (Blainey 1971). Instead, it was Brigden who was ousted.

The key figure in this manoeuvre was Norman Makin, now forgotten, but then a senior member of the Labor government.<sup>47</sup> When the ALP formed government in 1941, Curtin had offered him the department of Social Services and Repatriation, a backwater position in wartime. Upon Makin's protest, Curtin instead made him Minister for the Navy, and Minister for Munitions, positions he held throughout the war.

The new minister quickly felt a painful lack of rapport with the permanent head, J. B. Brigden. Makin was a Methodist preacher. He was emphatic and glib. Brigden was the economist and lawyer. He was 'subtle', 'reticent' and 'pertinacious'.

Makin has told his side of the story several times. The first occasion came in 1961 in his collection of cameo memoirs, *Federal Labor leaders*:

It was quite evident that the start in the expanded war effort was all too long delayed ... The blame could not be attached to executives or workmen ... Two things were principally responsible for this state of affairs, firstly, the hesitation with which policy decisions were made and, secondly, the unsatisfactory set up in the administration of the Munitions Department by having an Economist as the Head of staff ... The Economist was a man of high integrity, and likeable, but totally unable to administer a Department like that of Munitions. (Makin 1961, p. 114).

On this occasion Brigden is spared identification. He is 'The Economist'. And he is 'totally unable to administer a department'.

By the time of a 1974 interview of Makin, the Economist has become Professor Brigden:

When I came to Munitions, I found that Professor Brigden, an economist, was the head of a department for the manufacturing of munitions and he knew nothing whatever about any of the procedures ... A genial, kindly, a gracious man but totally unfitted for the position of head of a Munitions Department. Even in peacetime, I would never have thought of appointing him to that position. So the first thing I've got to do is to

<sup>47</sup> Norman Makin (1889–1982), MP for the South Australian seat of Hindmarsh since 1919, the Speaker in the Scullin Labor Government, candidate for ALP leadership, member of the Advisory War Council.

make a change in the head of the Department of Munitions, if we are to get production, we've got to do that because I'm satisfied that the present head is bottlenecking all of the things that are requiring to get decisions upon, and unfortunately delays are taking place that we cannot afford to have at this time, and therefore we've got to make a change ... and I must ask for a change in the head of my department. (Makin 1974).

Brigden is now 'bottlenecking'.

In his posthumously produced *Memoirs* of 1982 Makin repeats the story, but adds a psychological dimension.

Almost immediately upon examining the set-up of the Munitions Department, I became convinced that a change in the Head of Department was essential. Professor J. B. Brigden was a man of excellent personal qualifications as an Economist, a delightful and pleasing man in his staff relationships, but totally out of place in a technical department. He was, I feel sure, conscious of this. The second in charge, Mr J. K. Jensen ... was one of the brilliant minds of the Department. Professor Brigden knew this, and was no doubt anxious to counter with extreme caution in all decisions. This had the effect of creating delays and, at times, indecision ... I was therefore determined that a change was essential if a free flow of decision making was to be possible. (Makin 1982, p. 80).

The tale has thickened; a vein of jealousy has been added to Brigden's incapacity. Brigden wished to thwart the 'brilliant mind' of his deputy J.K. Jensen.

Makin's suggestion of a general incapacity may be dismissed. Essington Lewis, praised by Makin, wrote of Brigden's role in the Department:

His ripe experience as an administrator was of the greatest value in placing the new and complex organisation upon a satisfactory basis ... I shall always be grateful to him for relieving me of all responsibility for political matters arising out of the Department's activities, and for shielding me from the minor tribulations inseparable from the Public Service Act. (Quoted in Wilson 1951).

Jensen, too, had explicitly defended Brigden on this score (Ross 1995).

The accusation of 'bottlenecking' can also be dismissed. Any lack of momentum can be traced to political leadership. In 1973 Melville recalled Menzies' wartime prime-ministership:

We had a great deal of difficulty in getting decisions from Menzies. He would study his brief over a very long time. Whether he studied it, I'm never sure, but at any rate it remained on his desk for a very long time, and he would discuss the matter in cabinet, and we just didn't get decisions. Things went very slowly. (Melville 1973).

In fact, it was Brigden who did some unplugging of bottlenecks created by political vacillation. A case in point was a decision over investment in railways to facilitate the transport of military hardware. The overwhelming case in favour of this investment was met with incomprehension and indecision. Melville again:

Finally, Brigden, who was a pretty choleric sort of man, I believe burst in on the meeting of the Defence Council<sup>48</sup> and we did finally get approval.

But if Brigden was neither bottlenecking nor maladministering, why was he eliminated? Political circumstances created a context favourable to it. The Labor Party had campaigned throughout 1941 against the lack of energy in the government's prosecution of the war. Makin was now minister for munitions when munitions were in short supply in the face of a Japanese invasion. He had to be seen to be doing something. 'Off with his head!' But whose head? Not Jensen's. He had Chifley's backing. Lewis was one obvious target. But Brigden made a better scapegoat. Brigden was something of a marked man.

There was also evidently a personal tension. Makin's posy of compliments – 'high integrity, likeable, genial, kindly gracious, delightful, pleasing' – appears to be the bouquet laid sanctimoniously by the assailant on the victim's graveside. He is more truthful when he noted waspishly later in an interview that, having removed Brigden, the two were to cross paths once more, in Washington: 'I put up again with him when I became Ambassador, you see'.

But how to purge the Department of him? 'Permanent Heads' were meant to be permanent. A suitable means of elimination would be some call of patriotic duty to another front. At this point Brigden's old boss Richard Casey, now Minister to the United States, came unwittingly and serendipitously into service.

Since April 1941 Casey had been imploring the appointment to the Legation in Washington of a 'first-class economist', 'as early as possible' – 'a high-grade professional economist with prestige in his profession, to follow along, to argue and dispute'. Menzies took the counsel of Giblin, Copland and Wilson on this matter, who variously proposed Gerald Firth, John La Nauze and Keith Isles, Roland Wilson's old classmate and sparring partner. Casey took these names to Keynes, but their lack of seniority left Casey dissatisfied. Giblin then proposed Coombs, 'who has been a tower of strength at the Treasury since September 1939', but Chifley refused to let him go. Wilson, observed Giblin, 'has been badly over-worked, at a pace that cannot be safely continued', and therefore expressed the hope that his release for Washington was possible. 'I feel it terribly

<sup>48</sup> The membership of the Defence Council generally consists of the Minister for Defence, the Secretary of the Department of Defence, the Chief of the Defence Force and the three service chiefs.

important to have the best possible representation in America, if anything is to be saved from the impending wreck' (NAA LFG to Casey, 10 October 1941).

But the elimination of Bridgen presented itself as a convenient means to finally meet Casey's repeated 'very persistent' request for an economist 'of standing with wide knowledge of Australia and experience of the business of government'.

The blow was crushing to Brigden, and seemingly unexpected. One of the very few surviving personal letters of Brigden conveys his state of mind on the eve of his embarkation for the United States.

Sunday 11.1.42

Dear Leslie <sup>49</sup>

Today is a pause before my ship's delayed departure tomorrow. How sudden things happen. I really thought that Wilson or someone else would go to Washington, but the PM and govt would have no one else. It was a blow of course ...

Now and then I'll speak a small prayer for you and yours, until the ordeal of 42 passes. (NAA JBB).

'He arrived [in Washington]', Wilson later recalled, a sick and exhausted man' (Wilson 1951).

## **The full employment approach**

Brigden's destination – Washington – reflected the widening of the war.

During the remaining years of the Second World War the four devoted themselves to trying to shape as best they could the architecture of post-war international economic arrangements. In particular, they sought an international agreement to promote full-employment in the post-war period.

The immediate occasion of this struggle lay in the seemingly arcane matter of Article VII of the 'Mutual Aid Agreement'. This agreement amounted to a commitment by the United States to assist other allied powers economically. The United States was determined that this aid be conditional on the beneficiary country removing discrimination against its imports in the post-war period. The substance of Article VII was the 'consideration', whereby Britain pledged itself to support the elimination of impediments to world trade in return for American military aid through the process of Lend-Lease. The Empire Preferences agreed at Ottawa in 1932 appeared to be the most irksome to the Americans. Keynes had spent many months in the United States during the second half of 1941 negotiating with his American counterparts on the conditions that Britain and other allied countries would have to meet in return for Lend-Lease.

<sup>49</sup> Leslie Melville? Possibly.

Late in 1941 the Inter-departmental Committee on Economic Relations (the ICER) was established to formulate an Australian response to the American conditions. The F&E economists, under Giblin's direction, concluded that Australia should support the American proposals, since the alternative to international economic cooperation – comprehensive restrictions on the international flow of goods, services and capital – would constitute a greater threat to Australia's post-war prosperity than the non-discriminatory, multilateral approach that was foreshadowed in Article VII. This was the position adopted by the ICER in its recommendations to the government early in 1942.

By the middle of 1942, detailed work had commenced to identify what the signing of Article VII might mean for Australia. Again, the F&E took the initiative. And once more it was Giblin who commenced discussion. He prepared recommendations that were distributed to ministers in August.

The essence of Giblin's report was a description of the difficulties associated with reconciling internal and external balance, when domestic policy was directed at maintaining high levels of aggregate demand. At the same time Australia was expected to fulfil its commitments in relation to Article VII. These commitments called for the dismantling of the Empire trade preferences and a general relaxation in trade, capital and exchange controls. Were Australia to adopt unilaterally a policy of full employment, imports would rise as domestic demand expanded, and exports would decline as local costs rose and resources flowed out of export industries into those catering to domestic demand. Consequently, Australia's international economic policy should be to promote the full employment objective amongst the major world powers, above all, the United States. If countries such as the United States failed to pursue expansionary domestic policies, then Australia would have a good case for the adoption of restrictive international policies, such as import and exchange controls and exchange rate adjustment, as a means to preserve full employment at home.

Giblin's report proposed that nations should enter into international agreements committing them to full employment. The agreements were to contain specific targets in relation to employment and unemployment, and penalties (import controls, exchange controls, devaluation, and the like) were to be imposed if the commitments were not met. Integral to these recommendations was the argument, devised by Firth and taken up by Giblin, Coombs and Melville, that the welfare gain arising from free trade was likely to be minor compared with the benefits that would arise from full employment. More especially, and in contrast to the view adopted by American officials, the report highlighted the claim that it would be difficult to achieve free trade unless domestic full

employment was maintained (the American view, in contrast, was the exact reverse, that free trade would lead to full employment).<sup>50</sup>

Giblin, strongly supported by Melville and Coombs, was responsible for formulating the 'positive approach', or the 'full employment approach'. In a lecture he gave in mid-1943, Giblin set out the basis of the 'positive approach' as follows:

If we could get effective international agreement to keep up employment, we need not fear any external repercussions from ourselves pursuing a policy of maintaining employment at the highest level. If we cannot get agreement on this point and we maintain employment on a much higher level than other countries, then we shall probably be faced with a serious adverse balance of trade. If we were resolute to maintain employment and refuse deflation, we should have to cut down imports, either by direct restriction of imports, or indirectly by depreciations of the currency. Either way would be bad for us, and would tend to lower our standards of living. Besides, either way would invite retaliation from other countries and lead to a cumulative reduction in world trade, such as we got in the 1930s. (Giblin 1943, p. 20).

The 'positive approach' was clearly aimed at the United States, the most powerful economy in the world. If Australia could induce the Americans to maintain full employment in their domestic economy, there might be a good chance of avoiding an economic crisis of the kind experienced in the early 1930s. In his *Report on economic conditions in the United Kingdom, United States and Canada* to the government following his visit to these countries in 1944–45, Copland emphasised this point, declaring that the:

... most significant influence determining general world economic prosperity will be the economic policy pursued by the United States. If that policy is one of high employment and increasing international investment, the total demand by the United States ... will provide a basis for an expanding world economy and a general increase in the volume of international trade. (Copland 1945, p. 6).

Australian delegates to all of the major international conferences from 1943 onwards sought to have commitments to full employment inserted in international agreements.<sup>51</sup>

<sup>50</sup> NAA LFG 19 January 1943, 'Report on Australia's position in relation to article VII', CP 13/1/ii, File LXXX111.

<sup>51</sup> The Food and Agriculture Conference at Hot Springs, Virginia, in May–June 1943, the International Labour Organisation Conference at Philadelphia in April 1944, the International Economic and Monetary Conference at Bretton Woods, New Hampshire in July 1944, the United Nations Conference

Roland Wilson had attended, as the sole Australian representative, the first international conference called to discuss post-war economic planning.<sup>52</sup> This was a conference of officials from the British Commonwealth and India held in London in October and November 1942. Wilson was expressly instructed by Curtin and Chifley not to raise the 'positive approach', on the grounds that it had not yet been approved by ministers. But it is possible that he raised the full employment approach unofficially with Keynes, who had taken him to Cambridge during the conference for a ceremony at the Marshall Library to mark the centenary of Alfred Marshall's birth. Giblin had briefed Keynes on Wilson: he was 'the man who has the most complete confidence of Chifley and Curtin' (KCLA LFG 3 October 1942).<sup>53</sup> He added: 'Wilson, I should say, on first contact is inwardly nervous, and apt to be frivolous or flippant, defensively'. Keynes was to write later to Giblin in glowing terms about Wilson's performance at the conference, saying that he 'took a prominent, indeed a leading part through all the discussions and played a major role in them with the greatest success. We had a great gathering of Whitehall officials, who came to feel the greatest respect for both his wisdom and for his pertinacity' (quoted in Cornish 2002, p. 24).

Wilson was fortunate to survive the return journey. 'Dr Wilson spent some time sitting on a reef off the coast of Fiji, clutching his dispatch case and his documents'. One engine of his plane 'had caught fire and the aircraft had landed rather hazardously in shallow water on the reef, where the offending engine immediately dropped off' (Hasluck 1954, p. 144).

He eventually arrived in Sydney feeling sceptical about the possibility of the United States endorsing an international treaty that would tie its hands in relation to domestic economic policy. He considered, correctly as it turned out, that it was most unlikely that the United States would ever agree to surrender its sovereignty in this way. Even if the United States Government were persuaded to do so, he doubted that any agreement of this nature would be ratified by the United States Senate. Wilson reported to the F&E that, while the Atlantic Charter and Article VII entailed general commitments to expansionary economic policies after the war, he very much doubted that the United States would sign an agreement that bound itself to particular domestic policies. Giblin, Melville and Coombs were more optimistic.<sup>54</sup>

at San Francisco in April–June 1945, and the various international trade conferences, leading up to the Havana Conference held between November 1947 and April 1948.

<sup>52</sup> Giblin: 'I have been pressing that Wilson be sent as he is in every way our best representative and I am very pleased it has come off' (KCLA LFG 3 October 1942 KCL/A).

<sup>53</sup> KC LA/56.

<sup>54</sup> NAA RW, 'Post-war economic talks, London, October–November 1942', A989/43/735/56/1.

The first international arena in which the 'positive approach' was aired was the Food and Agricultural Conference at Hot Springs in June 1943 (Hasluck 1980, p. 9). This conference was a somewhat Wavian affair. Its provenance was mysterious, and seemingly lay in the fact that President Roosevelt 'was anxious to have a conference although he found it hard to know what to have a conference about' (Brigden 1948). The topic of food was chosen as suitably uncontroversial. 600 delegates duly arrived at Hot Springs, 'a luxurious spa on the border of West Virginia', and were surrounded by 200 military police. The Ethiopian delegate came bearing three boxes of gold. Iraq was represented by a 'judge' from Utah.

The Australian delegates were Brigden and Coombs. ('No delegate excelled Coombs in exposition of the practical', Brigden reported). The peg on which to hang their advocacy of the full-employment approach centred on discussions over the future International Monetary Fund (IMF). Brigden pushed the Australian position that a pledge to maintain full employment be incorporated into the Fund's articles.

The proposal is for a kind of watch dog, to protect us all. The Fund is the dog. But we are not sure that the dog ... may not bite the children. You [the US] know that the dog won't bite us, but does the dog know ... we ask that the full employment criterion be stated.

But the climax of the 'full employment approach' came not with the creation of the IMF at Bretton Woods but with the establishment of the United Nations at San Francisco. In long-running infighting at San Francisco in 1945 the delegates finally agreed to insert a 'pledge' to 'joint action' to achieve 'full-employment' into the UN's Charter. In repeated sub-committee sorties Wilson and Brigden maintained the drive for the inclusion of the full-employment pledge in the face of the rearguard action by the United States delegation.

That both Wilson and Brigden were at San Francisco arose from the fact that the Australian delegation was a 'freak show of a calf with two heads' (Hasluck 1980, p. 191). It had two principals: the Deputy Prime Minister, Frank Forde, and the External Affairs Minister, H. V. Evatt. Evatt took a collection of negotiators/advisors from his Department, including Brigden. Forde declared to Curtin that he needed 'a first class brain' at San Francisco, and Wilson was supplied (Hasluck 1980, p. 153). The double-headed delegation stayed at the Sir Francis Drake Hotel: Forde's half on the 10th floor and Evatt's on the 17th. (Hasluck 1980, p. 153). They were there for the next 10 weeks, working 80 hours a week.

Before the conference, Chifley as Treasurer had briefed Wilson to be 'in no doubt' of the importance of 'full employment' in the Charter. In San Francisco, Brigden 'backed Wilson strongly' on this (Crisp 1965, p. 8). Brigden argued that

'the time and circumstances were ripe to push the full-employment approach forward'. Roosevelt's Fourth Inaugural Address had promoted full employment, and he (Brigden) 'felt that three years of Australian propaganda in conference after conference had not been without effect' (Crisp 1965, p. 8).

Wilson proposed the Australian delegation present the drafting committee these words:

PLEDGE:

Each member of the United Nations pledges itself to take, singly and in concert with other members, such measures as may be necessary and practicable to secure for its own people and the people of other lands –

(a) economic advancement and improved living standards

(b) useful employment or work for all who seek it, at fair wages or returns under conditions which will satisfy the conscience of mankind

(c) social security

(d) the maintenance of an expanding world economy free from disturbing fluctuations. (Crisp 1965, pp. 8–9).

Evatt took Wilson's carefully worded draft and reduced it to a more speech-like phraseology:

All members of the United Nations pledge themselves to take action both national and international for the purpose of securing for all people, including their own, improved labour standards, economic advancement, social security and employment for all who seek it. (Crisp 1965, p. 10).

Peculiar, unstable, and partly crazed, Evatt was sometimes liked, sometimes hated. But 'Wilson himself was better equipped to handle a difficult minister than any minister was equipped to handle him. Wilson was quietly the master' (Hasluck 1980, p. 193). He was indeed 'the one public servant that could not be stared down by Evatt' (Hudson 1993, p. 128). Wilson redrafted Evatt's phrasing as: 'All members pledge themselves to take separate and joint action and to cooperate with the organisation, and with each other, to achieve these purposes' (Crisp 1965, p. 14).

But these evolutions deliberately let pass the sticking point - the word 'pledge'. This word seemed to irk the US delegation. Perhaps its aversion was rooted in the fact that 'pledge' - unlike 'to undertake' (that is, 'to take upon oneself') - can be synonymous with 'vow' and 'oath'.

**Figure 9.2. Wilson at the time of the United Nations San Francisco conference**



Whatever the case, the dispute was not treated casually. John Foster Dulles warned Wilson that to insist on a pledge would wreck the charter (Crisp 1965, p. 16). Dulles appeared with Nelson Rockefeller, the Assistant Secretary of State for Latin America, and gave 'two speeches with overtones and even explicit statements highly offensive to Australia and not all strictly true. His manner and much of the substance of his speech were overbearing and even offensive in his overweening assertions of American superiority in wisdom and virtue ... Wilson maintained perfect control of himself and in a cold, factual comment, once again insisted that the American proposal meant changes of substance'. This same witness recalled that one of his 'most vivid conference memories is of the swollen, pulsing veins on Roland Wilson's neck and temple as he strove to maintain composure during Dulles' intemperate outburst'(Crisp 1965, p. 16).

Dulles had the relevant committee reverse its earlier approval of Wilson's draft. Wilson refused to recognise the legitimacy of this procedure. Ultimately, it was Wilson's doggedness that triumphed over Dulles' bluster. The relevant article finally appeared in the Charter barely different from the one Wilson had drafted on May 22, and with the word 'pledge' intact.

#### Article 55

[...] the Organisation shall promote: (a) higher standards of living, full employment, and conditions of economic and social progress [...]

#### Article 56

All members pledge themselves to take separate and joint action in cooperation with the Organisation, to achieve these purposes set forth in Article 55. (Crisp 1965, p. 18).

The 'pertinacity' of Wilson that Keynes had noted in London in 1942 had been discovered by Dulles in 1945.<sup>55</sup>

<sup>55</sup> Evatt claimed Article 56 as his triumph. Curiously enough, so did the American delegate, Deane Gildersleeve (Crisp 1965, p. 18).