2. Economic ideas and an assessment of Australian economists in the 1930s

Introduction

This chapter briefly reviews the existing literature on two areas central to the ambit of this book. First, we briefly examine, in the form of a backdrop, the problematic issue of the relationship between economic ideas and policy. While Keynes’s oft-quoted and noble peroration about the power of economic ideas marks the start of this discussion, there is no simple, linear relationship between ideas and policy. Indeed, the whole gamut of policymaking is enveloped by a fog of disparate influences, interests and entanglements, many of which could detract from the ambition of this thesis. If anything, we might say that the ideas and thinking of economists rarely immediately shape economic policy. In the Australian case, there were instances, however, when the ideas of economists did have some bearing on official policy but only after they had established themselves in positions of some influence and when their views were palatable to politicians. The passage of time and the review of past performance also carried some weight.

The second field of study in this chapter is more straightforward. It provides a self-contained historiography of how Australian economists—then and in the post-World War II period—assessed the policy contribution of their predecessors in dealing with the economic problems of the 1930s. The subsequent literature, it will be found, is largely a negative one, with Australian interwar economists largely criticised for rendering incorrect economic advice in 1931 and then failing to engage intellectually with new paradigms of economic thought then unfolding.

Ideas and economic policy

It is agreed that the process by which ideas come to influence economic policy is not completely understood, even from a historical perspective. In a famous quote, Keynes suggested that
The ideas of economists...are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interest is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately, but after a certain interval, for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age, so that the ideas which civil servants and politicians and even agitators apply to current events are not likely to be the newest. But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil. (Keynes 1936:383–4)

While this passage adorned the end of the General Theory, Keynes was astute to know that it was not entirely true, at least in the short run. There is a vast difference, first, between new ideas or views and them being implemented. In a letter to George Bernard Shaw in which Keynes spoke about writing a book that would revolutionise the way the world would think about economic problems, he qualified it by adding ‘when my new theory has been duly assimilated and mixed with politics and feelings and passions, I can’t predict what the final upshot will be [of] its effect on action and affairs’ (cited in Clarke 1988:309). Those trying to prove when a Keynesian revolution in policy took place often overlook the important rider on theory being immersed into the milieu of ‘politics and feelings and passions’. In other words, Keynes knew that particular circumstances and real situations were far more telling than the ideas themselves in shaping official policy (Cornish 1993). The word ‘revolution’ was an inappropriate one, therefore, to describe any change in economic policy by the fact that the policymaking process is usually incremental, responding tentatively to a number of different processes and strains (Cornish 1992). Keynes’s stricture was that economic models must always be relevant to the contemporary world; if the context in which economic activity took place changed then a new rationalisation and explanation were needed to overcome dogma. Keynes (1973:122) reminded his audience that his own economic remedies ‘are on a different plane from my diagnosis...they are not meant to be definitive, but subject to all sorts of special assumptions and are necessarily related to the particular conditions of the time’.

Some have inferred the mistaken view that ideas do, in fact, conquer political and social obstacles, even in the short run—this, as Winch (1969:24) puts it, fans the ‘rationalist fallacy that ideas alone are powerful enough to determine the course of history’. According to Austin Robinson, Keynes observed that it took more
than 50 years for Adam Smith’s ideas to make an impact in the political sphere (cited in Leeson 1996:45). For his own theory, Keynes predicted—correctly as it turned out—a 10-year lag for his vision to be taken up at the political level (Keynes 1973:492–3). It confirmed Sayers’ observation that ‘views from academic sources always reach Whitehall sooner or later’ (cited in Moggridge 1986:365). One of Keynes’s contemporaries, Lionel Robbins (1932:199), agreed that ‘[i]n the short run, it is true ideas are unimportant and ineffective, but in the long run they can rule the world’. He later felt that the interpretation of Keynes’s oft-quoted peroration overlooked, too, the role of political philosophers; it is the conjunction of the two—namely, ideas and intellectuals—that, in the right circumstances, makes for irresistible force.

The misinterpretation of Keynes’s famous quote mirrors another, but less familiar tale closer to our study. It relates to E. R. Walker’s tale of how a copy of Keynes’s General Theory in the Commonwealth Parliamentary Library in Canberra was apparently dog-eared in the last 80-odd pages, where it was hoped the practical application of Keynes’s theory of income determination was to be found (cited in Cairncross 1996:255). Australian politicians’ assimilation of Keynes’s new framework was to prove just as protracted as elsewhere and the last 80 pages of the General Theory, in any case, were hardly a handbook on economic policy.

Economic ideas are not always powerful enough to change the course of events or shape economic policy. The Cambridge economist Arthur Pigou (1927:280) would have found favour with Keynes in saying that ‘[e]conomic analysis can provide data for statesmen; but the attitude of public opinion and the current political and diplomatic situation are dominant factors in determining what on the whole it is best to do; and these lie beyond our range’. William Barber supports Pigou’s position, arguing that there is an element of exaggeration in the claims made for, or by, academic scribblers. In other words, ‘the process through which new ideas are generated and ultimately translated into policies and programs that shape the flow of history may be too complex to be reduced to a simple and unidirectional schema’ (Barber 1993:119). In that light, one might say that all economic policies evolve within a context, characterised by a mosaic of norms, beliefs, goals, interests and pressures different from those enshrouding academia. Economists and ideas, in any case, exert only one influence in the composition of economic policy (Arndt 1996:97). In short, economic policy derives from the confluence of ideas, politics, circumstances and ideology (Winch 1969:20–1).

Garside’s (1993:16) comparative study of the pattern of various countries’ responses to depression boiled it down to ‘an amalgam of circumstance, historical legacy and expediency’. Ideas for solving economic problems are plentiful, but it is only the ideas that attract support from those in political power that ultimately matter. Ideas taken in isolation from individuals, circumstances and
interests are unlikely to provide an adequate explanation of policy changes (Battin 1997). Seldon (1996:289) puts it plainly that ‘[i]deas, to be successfully taken up, need advocates (individuals or interests), they need to square with the facts, to have a dominant idea or interest benign or positive, and to be launched into positive circumstances’. Seldon pointedly reminds us that if internal interests are set against a change in policy, no change is likely to occur even if the ideas, circumstances and intellectual leadership are quite favourable. In short, ideas matter but not in isolation. An opponent of this view, Nigel Ashford (1997:25), believes that ideas reign supreme and shape economic policy far more than supposedly independent factors such as interests and circumstances. Ashford plausibly argues that circumstances and problems are, in themselves, the consequence of old and changing ideas.

The political theorist David Marquand cleverly inverts Keynes’s words:

Madmen in authority may distil the frenzy of academic scribblers, but academic scribblers respond to the pressures of the society around them, and their scribbles resonate only when allied with social forces. If practical men are to be enslaved by defunct economists, living economists inhabit a world managed by practical men. (Marquand 1996:6)

Practical men, perhaps as politicians, are quite capable of fashioning ideas as weapons to promote their interests and support their policies (Skidelsky 1996:44).

As intellectuals, academic economists can exercise influence, but wield little direct power (Etzioni-Halevy 1985:11). In the transmission of ideas it is ultimately political forces that drive economic policy, not vice versa—that is, economists propose but politicians dispose. New economic theory can become effective only when it is politically accepted (McKibbin 1990). Nonetheless, economists can exert some indirect input into policy decisions by shaping the climate of ideas and shading the perspective in which policy decisions are made (Etzioni-Halevy 1985:27). Their input can even prove decisive in fostering policy that is considerably different from what it would have been without their involvement. Failing that, the academic economist’s first duty, when solicited for advice, is to ‘furnish knowledge-based advice on the available options for policy decisions. This, in itself, is an important contribution to policy formation’ (Etzioni-Halevy 1985:25).

In illuminating the political context in which economic debates take place, it is important to examine how the ideas of economists percolate down to policy. This is particularly so in a setting in which the political process is diffuse, with the key players not renowned for their perspicacity in matters of economic thought. There has been a rich vein of research on this topic, especially
how the Depression and economists’ response to it resulted in the birth of macroeconomics and, more importantly for our purposes, the idea of demand management (Battin 1997; Hall 1989). Economic policy has never really been the simple translation of theory into action. Seldon’s straightforward model of how ideas in fact result in significant policy change dissects the process into four dimensions. These determinants are: first, the ideas themselves; second, the individuals who carry them forth; third, the circumstances of the period; and, last, the events that punctuated the period (Seldon 1996:263). His study can be compared with Hall’s schema mentioned above. Economists, if listened to, have to be theoretically and rhetorically persuasive but also politically attuned with their advice. The audience economists catered to had to be convinced of the plausibility and applicability of theory to policy questions (Moggridge 1986). The British economic mandarin Alec Cairncross, in a definitive chapter on economists and policymakers, details the non-economic sources of resistance to the spread of new economic ideas and especially their imprint on policy. Policy might be under the influence of non-economic considerations, even the views of non-economists or an economic dogma that is out of date. Ideas might not translate into policy because they are insufficiently precise or built on inappropriate assumptions. In the prism of the policymaking process, planners and politicians are ‘as a rule…slightly deaf, there is too much noise’ (Cairncross 1986:21).

Economic policy is governed by ‘the general climate’ of economic ideas and by the direct advice given to government by its economic advisers (Tomlinson 1995:78). There could be some symmetry in the process whereby, as we shall see in the Australian case, economists spend much time in public affairs and the process is, therefore, ‘policy intensive’. Equally, policymaking can, at times, become ‘economist intensive’ (Sandelin et al. 1997:1). Pigou (1933:v) reminds us that economists are more likely to clarify issues than formulate solutions; they are ‘engineers, not engine-drivers’. The conditions for a revolution in policy go beyond a mere mental leap in the minds of policymakers (Tomlinson 1984:261). Moreover, as Winch (1969:19) notes, even to pose a connection between economic ideas and policy is both an optimistic ‘conception of technocratic status of economics, and a naive view of the processes of political decision-making’. In Keynes’s case, and for some countries, the link was reversed: the General Theory was written to give theoretical support to the expansionist economic proposals already being put forward in the 1930s (Beaud and Dostaler 1995:45)—that is, the political or intuitive vision preceded the theoretical one.

The diffusion of ideas, in short, is a complex process. Solow (1993:81–2) suggests that the demands of the political process are such that there is a bias for theories or ideas that are simple and uncomplicated and therefore capable of a high guarantee of success. Cairncross (1996:255) points out that policy is
‘intrinsically political’ whereas economists have a fixation on the scientific and the apolitical. This raises the issue not just of the political acceptability of new ideas but of their facility of being comprehended by politicians. Apart from political and other groups’ resistance to new thinking, there had to be a public clamour for change. Keynes alluded to this problem when he confessed that with reference to the new ideas contained within the General Theory ‘even if economists and technicians knew the secret remedy, they could not apply it until they had persuaded the politicians; and the politicians, who have ears but no eyes, will not attend to the persuasion until it reverberates back to them as an echo from the great public’ (cited in Cornish 1993a:44).

Ideas could, therefore, be the ‘ultimate reality’, as Australian economic historian Edward Shann once put it, but a fundamental reorientation of them within society is ‘a protracted affair’ (Copland 1945:4). Copland believed it took a decade for people to recast their ideas about economic policy. Policymakers were, therefore, frequently to be seen fighting the last war. This response lag, as it were, squares with politicians taking up ‘the Keynesian crusade’ with relish in the 1940s so as to put behind them the experience of mass unemployment (Tange 1996). Ten years earlier, informed opinion was fixated on resisting the spectre of inflationism and the boom–bust cycle. The weight of the past, therefore, together with economic dogma, made bankers, Treasury officials and politicians ‘prisoners of doctrine’—a doctrine that had little relevance to the problems of the 1930s (Butlin 1961:389). As we shall see, these artefacts could not be shed overnight. In Australia, during the 1930s, a coalition of political and financial interests opposed calls for economic expansion premised on proto-Keynesian and then Keynesian lines. As Australian economists discovered in 1931, public opinion mattered as much as the machinations of the political elite. As Keynes had predicted, ‘these new ideas, this new wisdom must have a solid foundation in the motives which govern the evolution of political society’ (cited in Clarke 1988:309). Keynes added that ideas only resonate when they fit the conditions of the time.¹ More pointedly, Keynes’s ideas would be potent only when reinforced by group interests or when they touched some deep-seated emotion in the community. As late as 1939, Keynes acknowledged that in Britain, at least, the resistance to his new theoretical framework meant that the import of the General Theory would have to wait: ‘A change in mental atmosphere was a necessary condition for the bold experiment in achieving full employment by the methods I advocate’ (cited in Harrod 1951:446). Only the prosecution of total war would allow the grand experiment to begin.

¹ Skidelsky, Keynes’s biographer, puts it sublimely: ‘The rise or fall of ideas in economics is as much connected with attendant circumstances, including ideological and political circumstances, as with their logical properties or their power of passing any test of prediction’ (Skidelsky 1996:xviii). One dissident to this generous view was Leon Keyserling, a Washington official, who felt that the New Deal initiatives ‘would have been enacted in just the form it was, if there had never been a Lord Keynes’ (Colander and Landreth 1996:224).
In Australia, what was missing was not just the enabling vision from politicians to close the gap between them and economists but public opinion in favour of reflation; as we shall see, the ‘boom and borrow’ policies of the 1920s cut deeply into the Australian psyche. Escape from this mind-set could be alleviated only by intellectual input, by ideas and the propagation of those ideas. In Australia’s case, obstructionist financial interests, mediocre political leadership and the pressing force of circumstances kept the new ideas of economists at bay. The marked increase in economic intervention or ‘planning’ that did take place in Australia during this time lacked therefore, for the most part, a considered political philosophy or coherent strategy. Within academe, however, ‘[i]nstructed opinion was already far in advance of public policy’ (Keynes 1977:427). That previous sentence might serve as the leitmotiv for this book focusing on the theorising of interwar Australian economists and their subsequent policy advice.

**Australian economists and the Depression: a historiography**

The key issue in contention within the literature on Australian interwar economics has been the appropriateness of anti-depression policy. Much of that issue crystallises around the two leading protagonists—Douglas Copland (1934) and, two generations later, Boris Schedvin (1970)—and their respective and considered views of the role economists played in the 1930s.\(^2\) It was only in the post-World War II era that intellectual recrimination and revisionism about the worth of interwar economic policy, especially the Premiers’ Plan, really began (Clark 1958:222). Even some of the players peripherally involved in the 1930s, such as H. C. ‘Nugget’ Coombs and Colin Clark, were critical, in part, of the advice emanating from their older colleagues. Coombs (1981:107–8) remarked that the 1930s showed ‘evidence of economic mismanagement’ and that the confrontation between the Commonwealth Bank and the Scullin government intensified and prolonged the impact of the Depression. Colin Clark (1958:222–3) was blunter, accusing Australian economists of lamely following public opinion in opting for balanced budgets, regardless of the state of the economy. Spearritt (1981) picks up on this theme, saying that economists used the cloak of scientific respectability to recommend conservative economic policies.

In the heyday of postwar Keynesianism, Copland (1951:21–3), looking back over the early 1930s, issued an apologia, noting that ‘the mistake was made of not recognizing clearly enough that government activities needed to expand tremendously to offset the fall in private spending’ and that there had not been

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2 A fuller version of this section is in Millmow (2003a).
enough deviation ‘from the deflationist line’. Copland (1951:21–2) also ceded errors in the conduct of economic policy—first, in the authorities opposing monetary expansion, and second, and perhaps more forgivably, in seeing the Depression purely in monetary terms. In a tribute to a fellow economist, Copland (1950:107) lamented that had Edward Dyason’s expansionist prescriptions been followed in 1931 ‘the impact of the depression on the public mind might have been much less severe’. Copland (1934:145) apparently reached this conclusion in his Marshall Lectures given at Cambridge University, commenting that the lack of a stronger stimulus, in the form of public works, was a grievous error. He remained adamant, however, that the emphasis on an adjustment in relative costs ‘was a mistake in degree rather than principle’ (Copland 1951:23). Along with his colleagues, Copland (1951:21) insisted that the circumstances at the time dictated fiscal balance to help restore business confidence. There was also Australia’s external debt commitment to uphold. Much later, an Australian Federal Treasurer, R. G. Casey, could claim that his country was ‘at the forefront of the world’s most trustworthy borrowers’. In his last retrospective on the Premiers’ Plan, Lyndhurst Giblin (1951:81) proffered that ‘heavy unemployment was the inevitable price of national solvency’. He went on to defend the Premiers’ Plan, stating ‘that it was not far from the very best that was possible with a public inexperienced as it was at the time in violent economic vicissitudes and their remedies’ (Giblin 1951:81).

Before and even after World War II, it was accepted that Australian economists were not only instrumental but quite correct, if not heroic, in putting forward the Premiers’ Plan because it enabled Australia to not default on her foreign debts (Goodwin 1974:231–2; Hall 1938; Dow 1938 Garnett 1949 Mandle 1978). Copland (1934) declared in his 1933 Marshall Lectures that the deliberate policies put in place by the Commonwealth Government and, inferentially, by the economists, were also responsible for Australia’s economic recovery (Hawtrey 1934). Copland emphasised that university economists had, from May 1930 onwards, played a bold and prominent part in framing remedial policies. This was some achievement in a country said to ‘despise scientific economists’ (Hancock 1930:86). Copland’s theme in his Marshall Lectures was that in facing a difficult price–cost problem, Australia’s institutions—namely, the Arbitration Court, the Loan Council, the Commonwealth Bank and the Tariff Board—allowed the economy to respond flexibly to the crisis. A unique ‘middle road’ was hewn out, encompassing cost cutting with a modest expansionary monetary element (Copland 1934). In a later commentary, Copland (1936:11) was adamant that too much had been made of the orthodox or ‘sound’ features of the Premiers’ Plan and not enough of its more expansionary aspects.

4 A view candidly shared by Sir Leslie Melville, one of the economists directly involved in the making of the Premiers’ Plan, in personal communication with the author.
Corden (1968:58) attributes the influence of academic economists, besides there being few economists within the Australian public service, to the need for expert guidance in the crisis besetting the country. More importantly, economists had begun to be employed in some key advisory posts or, at least, were having their opinions sought via the media or committee work (Cain:1984). A few years earlier, economists had advised the Bruce government on the economic rationale for the Australian tariff—a practice Jacob Viner felt worthy of imitation by other nations. Economists also had input into the Development and Migration Commission and other committees of inquiry (Cain 1980:14–18; Harcourt 1986). The growing sense of professionalisation was marked, too, by the later placement of economists within the Commonwealth Public Service, particularly in wartime, which would strengthen the ‘technocratic application of economic ideas’ (Winch 1969; Petridis 1981).

Australian economists were uncommonly influential in the 1930s since the policymaking process was accessible, shaped in part by four extra-parliamentary agencies—some of which occasionally called on the services of economists (Dow 1938). There was also the Commonwealth Grants Commission, established in 1933, which inquired into matters of economic equity between the states and the Commonwealth in a federal political system. Australia’s centralised wage-setting process, too, afforded a clear advantage in that the Arbitration Court could facilitate an enviable degree of money wage flexibility in times of both economic duress and prosperity (Reddaway 1938:335). The interaction, moreover, between the Australian Loan Council and the Commonwealth Bank was a ‘guarantee’ that a moderate policy outcome would be forthcoming (Copland 1937a:422). Meanwhile, Prime Minister Joseph Lyons, who dominated the period under review, enjoyed a certain rapport with economists and solicited counsel from those considered not too unorthodox (Hart 1967:12; Cain 1983). Ultimately, however, Lyons was forced by a trenchantly conservative cabinet to reject the advice of economists.

Economists were influential not just because the general public had lost faith in its politicians but because they were a small cohesive group with a fair degree of authority. Second, and just as importantly, the public statements made by economists struck a chord with the Australian electorate. Non-partisan ‘experts’ would deliver Australia from the crisis better than any meddling politicians (Nicholls 1992). That they did cemented the standing and prestige of interwar Australian economics (Goodwin 1966:638). The whole interwar period has been suggested as something of ‘a golden age for Australian economics’ in the sense that national problems were met by national economic expertise (Groenewegen and McFarlane 1990).

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5 D. B. Copland to B. Ruml, 15 December 1936, University of Melbourne Archives, Faculty of Economics and Commerce (hereafter UMA FECC), Box 50.
The overwhelming impression, then, was of how a small core of economists had saved their country from defaulting on its loans (Shann and Copland 1933). At the time, Australian economists were hailed for the role they played in the crisis and thereafter. At the Ottawa Imperial Trade Talks in 1932, for instance, the Australian economist Edward Shann reported: ‘On all sides we are greeted by the remark that Australia has made the best stab of all at keeping her economy liquid and active.’ D. H. Robertson (1940:122), the Cambridge economist, had Sweden and Australia distinctly in mind when he wrote, ‘There are said to be, in the far north and far south, lands where economists all give the same advice, where the Government listens to it, where the public understands why the Government has listened.’ An Australian economist at Oxford, Robert Hall (1938:120), believed the Premiers’ Plan set a marvellous example of what cohesive economic advice could achieve. Ralph Hawtrey (1934:1) stated that Australia had anticipated the United States in having an economics brains trust at its disposal. One American historian called the Premiers’ Plan ‘the most remarkable exercise in planned economy that had been carried through by any democracy up to that time’ (Garnett 1949:96). Keynes told one of his abler students, W. Brian Reddaway, to spend some time in far-off Australia because its governments heeded the advice of its economists (Tribe 1997:77).

An American observer, Rupert MacLaurin (1936), writing on Australia’s economic recovery policies, agreed with Copland’s premise that, together with some ration of luck, a small, open commodity-based economy could take measures to escape the clutches of the slump. More intriguing, however, was MacLaurin’s view, later developed further by Boris Schedvin, that Australian economists had, at times, played only a spasmodic part in formulating recovery policy:

The economists were used only in a haphazard fashion. That is to say, they were called on only on special tasks and with a particular problem to report on. When economists tried to broaden the bases of their inquiries in order to make their work more effective, governments not infrequently were resentful. Economists never had an opportunity to make a report on an entire economic programme. (MacLaurin 1936:257).

7 MacLaurin, in his lengthy study tour of Australia, was chaperoned and greatly assisted by Copland, who wrote letters of introduction for him to the key figures involved in 1931. MacLaurin (1936:255) noted that economists ‘agreed in the beginning of the depression, that to be effective they must refrain from public controversy and concentrate on pushing the measures on which they concurred’. This was a slightly different experience to that of Britain, where the Economic Advisory Council (EAC) was beset by disagreement among the serving economists (Howson and Winch 1977:72). In his history of the British Treasury, Lord Bridges (1964:90) felt that the EAC was ‘rather remote from the active centre of things’.
In other words, economists were never allowed full latitude in the policy advice they could convey to the Commonwealth. Despite this finding, the public perception endured that economists played a significant part in composing an economic plan that helped rehabilitate the Australian economy. One reviewer of MacLaurin’s work—a newspaperman—suggested that ‘Australia’s recovery was not quite the neat and ordered thing that Mr MacLaurin and other economic authors have pictured it to be. The rules were not written round a study table and pinned on a University notice board. They had a more exciting, more dangerous birth and infancy’ (Adam 1937:278).

Schedvin’s book Australia and the Great Depression, stemming from a doctoral thesis, was not just a detailed narrative of the origins and impact of that event but, more importantly for our purposes, a study of the role of economists in the making of economic policy at the time. While it was ostensibly a work in economic history, the focus on economic policy necessitates some inquiry into the public activities and ideas of economists. Schedvin, however, undertook only a cursory examination of this aspect. This can be related to his key finding that, for the most part, economic policy was essentially shadowing the market. Schedvin took the view, therefore, that anti-depression economic policy was not the product of ‘expert’ opinion but rather responses that were either accidental or mirrored what would have been, in any case, market outcomes. This view was first suggested by University of Sydney economist E. R. Walker (Cain 1983). The Schedvin view has, however, been questioned by Gregory and Butlin (1988) in a symposium held to re-examine the experience of the Australian economy during the 1930s. They found that economic policy did matter to some extent though its benefit was belated.

In contrast, the central thesis of Schedvin’s (1970:372) book was that ‘deliberate policy measures were comparatively unimportant in influencing the nature of the contraction or the speed of recovery’. Consequently, economists had not played a decisive role in rescuing Australia from the slump. The germ for this idea came from his doctoral supervisor, S. J. Butlin. In his history of the Australia and New Zealand Bank, Butlin suggested that the measures that emerged from the famous ‘battle of the plans’ episode in Australian history were in fact the ‘traditional responses of the free market’. He went on to state that the ‘planning’ of 1930–32 ‘was directed not to novel policies but to traditional ones dictated by inherited ways of thought; it represented rather the inevitable political process by which conflicting interests were finally brought to compromise, not a resolution of significant differences in policy’ (Butlin 1961:390). In short, the Premiers’ Plan

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8 As editor of the Economic Record, Copland interestingly elected not to have one of his colleagues review MacLaurin’s book, opting instead for an outside independent voice that might do, as Copland put it, ‘a little debunking’ of reputations won in the drama. For his part, Copland felt that MacLaurin’s work was ‘a little tinged’ by the author’s reluctance to bless the ‘heresies’ Australian economists had resorted to (D. B. Copland to H. Adam, 6 October 1937, UMA FECC, Box 141).
The Power of Economic Ideas

was really a cosmetic exercise disguising primal political forces at play. Butlin had earlier summed up the economists’ handiwork contained within the plan as merely the extension of the welfare economics drawn from Edwin Cannan’s text *Wealth* but watered down to everyday discourse (Butlin 1948:40).

Apart from not bringing about recovery, the Premiers’ Plan, Schedvin contended, was also needlessly deflationary. Policy was too cautious and more—though he rarely says what—could have been done to alleviate the slump (Arndt 1971:123). To argue the counterfactual aspect, as Schedvin does, is, however, fraught with difficulty. In the psychological and economic setting Australia was placed in, there could be little recourse to massive reflation of the economy. As a loyal member of the Empire, Australian authorities felt it paramount that the nation honour its debts to London and steer clear of default. Devaluation of the currency, too, could not be overplayed. Schedvin (1992:50) believes that not allowing the exchange rate to find its natural and much lower rate was probably the cardinal policy error of the 1930s—a view shared by economists at the time.

Schedvin bemoaned that even if economists had heterodox notions in their head, they were, in any case, quite powerless since strong external and internal pressures prevailed over the economic parameters. Recurrent deficit budgets, whether accidental or deliberate, were equated with the spectre of default. Australia’s foreign exchange reserves—or London balances—together with the repayment of overseas debt, precluded policy expansionism. Hart’s (1967) definitive account of the Lyons government concurred, noting how subterranean influences, mostly financial ones, underpinned the administration. The Board of the Commonwealth Bank, in ideological league with the other trading banks, together with a pliant Loan Council, presided over monetary policy (Butlin and Boyce 1988; Gilbert 1973). Exchange rate policy was one area, though, where economists’ advice, to some extent, bore some influence, but they always encompassed it as part of the Premiers’ Plan (Markwell 1985:22–3). In contrast, Schedvin (1970:156) saw the 1931 devaluation of the Australian pound as an isolated market-driven event, ‘not part of any plan or policy’. According to Tom Valentine (1987a:67), the devaluation was more a ‘passive reaction to balance of payments pressures than a deliberate policy measure aimed at improving matters’.

In sum, Schedvin’s argument that anti-depression policy was, in fact, largely market generated rather than considered policy meant that the Premiers’ Plan hardly deserved the effusive praise Copland had showered on it, particularly its ‘institutional and theoretical novelty’ (Schedvin 1970:252). To Schedvin’s eye:

> The Premiers’ Plan was merely the embodiment of a series of expedients designed to maintain external solvency. The plan was not conceived as a means to promote recovery, nor did it in any tangible way. The view
that the Premiers’ Plan was the foundation of Australia’s recovery, that it represented a judicious and deliberate mixture of deflation and inflation is a figment of Sir Douglas Copland’s imagination. (Schedvin 1970:7)

Since the Premiers’ Plan policies were essentially reactive and market driven, Schedvin (1970:9) argued that economists were ciphers in the policymaking process—their primary function being to knit the fabric of the 1931 Premiers’ Plan into a ‘shroud of technical competence and expertise’. That is, the economists’ policymaking activities in 1931 and thereafter were designed ‘to embellish the [federal] government–bank compromise with a veneer of impartiality’ (Hancock 1972:77). Schedvin’s reassessment of the federal authorities’ policy during the Depression is, however, on face value, tendentious, for it is difficult to distinguish at times between the effects of policy and those of market forces, with each interacting on the other (Forsyth 1972:376).

Since the publication of Schedvin’s book there has been renewed debate about the genesis and economic soundness of the Premiers’ Plan in dealing with Australia’s debt and budgetary imbalance problem. Moreover, in a point lost in the subsequent literature, Schedvin admitted that ‘serious work on the interwar period is still in its infancy and this study bears the mark of that uncertain exploration’ (cited in Clark 1981b:192). The Premiers’ Plan, politically at least, might have been partly accidental but whether the policies that flowed from it were ineffective, as Schedvin alleges, is highly debatable.

Despite the severity of the Premiers’ Plan, the business and financial communities drew enormous psychological relief from the plan in the belief that it would deliver Australia from liquidation. Leaving it to market forces to engineer the same adjustments would not have triggered the same response, but, more likely, would have drawn militant resistance. There was, in fact, great community compliance with the plan as demonstrated by the successful and irreversible internal debt-conversion process—something NSW Premier Jack Lang thought would never succeed (Dow 1938:96). Higher tariff protection gave the Commonwealth government some latitude in the deployment of public works without putting pressure on the exchange rate (Arndt 1971). Sinclair admits that this response, partly at the behest of Australian economists, was in some defiance of ‘the rules of the game’ permitted by the gold standard. The Bank of England’s advice that Australia deflate its internal level of income

9 Schedvin (1970:373) is of the opinion that Australian authorities lacked the know-how to mount a reflationary policy. A full-bodied economic reflation for Australia or any other country for that matter in the 1930s would have required ‘extensive state supervision of the economy’, which itself implied drastic political action (McKibbin 1990:227). Germany under Hitler proved one exception. There was, in any case, an absence of ‘a mature reflationary economics’. The alternatives open to Australia were not deflation or reflation but, in fact, drift or deflation (McKibbin 1990:217, 224–5).
to maintain the Australian pound’s parity with sterling was rejected outright by Australian economists who elected for devaluation coupled with tariffs and monetary stimulus (Sinclair 1974:57).

Of even greater interest to this book is Schedvin’s attack on interwar Australian economists for failing miserably

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\text{to work towards the building of a positive policy in the later depression years, when this task was the preoccupation of overseas economists. When they should have been questioning traditional modes of thought, they clung to the myth of the efficacy of the Premiers’ Plan and implicitly condoned thereafter the inept policies of the Lyons Government. There was nothing remotely comparable in Australia to the vigour of the New Deal or the Cambridge intellectual revolution. (Schedvin 1970:225)}
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Schedvin (1970:374) also did not discern any evidence of an intellectual hunger for experimentation within academe: ‘There is nothing in Australia which even approximates the widespread intellectual reconsideration of traditional doctrines which occurred overseas.’ These are strong charges and they find some corroboration in Tim Harcourt’s (1986:87) survey of Australian economists’ theoretical views on unemployment at that time.

This minimalist view of the role economic ideas and indeed economists played in 1931 and beyond will be strongly contended. For the moment, Schedvin’s thesis can be questioned by listing some of its more telling omissions. First and foremost, Schedvin’s study extends only until 1935, meaning that the economists’ evidence—verbal and written—on the conduct of economic policy put before the Royal Commission on Monetary and Banking Systems was not covered. By the same token, Schedvin’s study does not discuss how the General Theory was received and adapted by Australian economists. There are, moreover, more telling sins of omission that apply before 1935. These are covered in forthcoming chapters, but we can briefly mention some of them. Schedvin completely overlooks, for instance, Copland and Giblin’s advice of following Keynes’s stricture of seeking price-level stabilisation in the face of deflationary pressure by resorting to cheap money and devaluation (Cain 1987a; Clark 1974b:50). Schedvin also does not acknowledge Keynes’s qualified approval of the Premiers’ Plan contained in his Report of the Australian Experts (Keynes 1982b). It was devaluation and Treasury bill finance that Copland and Shann (1933:87) felt were the really ‘heretical’ parts of the Premiers’ Plan. Alfred Davidson, the powerful head of the Bank of New South Wales, who was instrumental in forcing the devaluation, first opposed it until economists persuaded him of its merits (Holder 1970). Even when the Premiers’ Plan was put into operation, the authorities were not wholly conscious that some of its measures would impart some mildly expansionary effect on the economy; the
In a retrospective interview, Leslie Melville strongly contested the Schedvin thesis of the impotency of interwar economists’ ideas. He defended his colleagues and the advice they gave to the Commonwealth government. Their advice not only prevented breakdown of the monetary system, it played an important part in the recovery process (Cornish 1993b:17, 1999:132–3). Melville recalled that ‘[t]he fact is that measures taken on wages, on the exchange rate, on budgets were the result of deliberate policy and were decisive in preventing the flight of capital and external default’. In a review of Schedvin’s book, Melville expressed wonderment about how an ensemble of measures including tariffs, devaluation, wage cuts and easy money—all of which were ultimately sanctioned by authorities—could not but have had a conscious and beneficial economic effect. This view was supported by Alford (1994) in her reappraisal of interwar economic policy, especially in giving an impetus to Australia’s manufacturing sector. Melville did concede that more could have been done in 1932 to aid economic recovery but only by further devaluation—something that was articulated by economists in a commissioned report to the government. Despite being at the time the last surviving member of the four key economists behind the Premiers’ Plan, Melville’s categorical rebuttal of Schedvin has not changed the prevailing view that Australian economists did perform poorly in the Depression and thereafter. Only Arndt (1971), Boehm (1973), Butlin and Boyce (1988) and Foster (1986) offer a sympathetic account of the advice the economists tendered. In contrast, the contributions by Catley and McFarlane (1983), Clark (1974b, 1981a, 1981b), Hancock (1972), Sinclair (1974) and Spearritt (1981) were unforgiving in their assessment of the role Australian economists played during this period.

11 Melville, TRC 182, NLA, p. 145.
In a commentary on the events of 1931, Sinclair (1974:58) argued that ‘Australian governments had some freedom of action and failed to choose the fiscal action appropriate to the highest attainable level of employment’. He concluded that the timing of the Premiers’ Plan proved abysmal in that the moment of external crisis had passed when the elected policy of making sharp reductions to governmental expenditure began to take effect. Put simply, public policy exacerbated the slump. Consequently, the economists involved in formulating the plan should be apportioned some blame for unleashing this deflationary impulse on the economy. This view was shared by David Clark (1981b:190–1) and Keith Hancock (1972), both of whom argued that the economists’ advice in 1931 and again in 1932 was inept in the circumstances. Hancock (1972:78) judged that the interwar economists, in terms of their assumptions and advice, and without having recourse to Keynesian preconceptions, ‘performed badly’.

The concerns of external balance and business confidence that economists then regarded as crucial were overlooked by David Clark (1974b:50), who, in one account, revisits the episode through the eyes of R. F. Irvine. In their study of the history of Australian economic thought, Groenewegen and McFarlane (1990:128) offered only lukewarm support for the Premiers’ Plan. They noted how the enshrined ‘principle of equal sacrifice’ or wage cuts across the board inadvertently delivered recovery only by improving international competitiveness and allowing greater import replacement. Catley and McFarlane (1983:58–9) denounced the Premiers’ Plan as solely deflationary, concocted by ‘the most reactionary’ of Australian economists. They admonish the interwar economists for being preoccupied with external balance to the detriment of internal balance. In addition, the economists presented their advice as being objective and impartial when it was quite political (Foster 1986:128). Spearritt (1981:5) presents Copland and Giblin as tendering advice intentionally injurious to the working class. Holder considers this view as beyond the pale especially with the idiosyncratic Giblin whose ‘views were then tending more liberal, even radical’ (cited in Foster 1986:128).

Certainly it was true that the authorities’ reluctance to question deflationary policy or contemplate a further devaluation in 1932 proved tragic. Australia, consequently, endured an unemployment rate of 20 per cent for four years. Australian economists had, however, long pushed for another devaluation to ease the external constraint. They would have readily agreed, therefore, with their modern-day critics that another devaluation would have allowed more policy-induced domestic expansion to have been attempted (Butlin and Boyce 1988:205; Gregory and Butlin 1988:14–16; Arndt 1971). Gregory and Butlin (1988) found that Australia was not alone in being reluctant to devalue. Only in Australia, however, were economists successful in not only persuading that

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12 A view incidentally shared by a current first-year Australian economics textbook (McTaggart et al. 1992).
step to be first taken but persuasive, too, in preventing the reversal of that measure by the central bank (Eichengreen 1988:57). It is true the advice of the economists was mostly rejected in 1932–33 as the conservative forces behind the Lyons government exerted influence. The steadfast reluctance to experiment, to authorise even modest public sector stimulus, even when pressure on Australia’s foreign exchange had eased, appalled the economists. While Australia did suffer significantly high unemployment rates through the early 1930s, an incipient economic recovery quelled the official need for any major revisions to policy. The critical absence of a Keynesian conceptual framework in the late 1930s gave the Lyons government a difficult time reconciling the competing resources between war and civilian needs (Ross 1995).

The Schedvin–Copland debate about how effective economists and economic policy really were in combating the depression is a critical point. If one adopts the Schedvin view that economists were, despite their public profile, really only minor players in formulating Australian economic policy during the early 1930s, it lends support to the view that the ideas of economists made little impact except when their advice was congruent with prevailing political currents. Political advocacy for a new economic approach was obviously unlikely to gain support if public opinion, supreme politics and high finance railed against it. This book will, however, show that Australian economists were influential in this period and far more than Schedvin gave them credit for. The economists then showed, moreover, a fine appreciation of Australia’s place in the international economy and the possibility of staging a multilateral effort at coordinated expansion led by the industrialised countries (Turnell 1999). When that avenue failed, they continued their quest within the bounds of national economic policy. This meant lobbying and arguing for greater ambition with economic policy. Economists were also intent on fostering a greater manufacturing capacity for Australia. Apart from Foster’s (1986), Melville’s (1971; Cornish 1993b) and Arndt’s (1971) rebuttals, this rather belittling view of Australian economists during the 1930s has been allowed to fester. Rejecting the Schedvin judgment and rehabilitating the reputation of Australian economists during the 1930s are two of the desired ambitions of this book.

To Keynes’s mind, popular opinion came a long way first. As he told a correspondent: ‘The mistake... is in thinking that the difficulty lies in conceiving a plan; in truth there is not much difficulty in that. The difficulty is to think of a plan which can be dressed up in such a form that there is the slightest likelihood of its being adopted. It is not so much a question of discovering the truth, as of adapting to one’s ideas the common opinion which it would take years to modify’ (J. M. Keynes to A. S. Darroch, 6 June 1934, KPKC, L/32/128).
A restatement of this book

In Australian economic history, the 1930s is often presented as the interregnum between depression and war, a lacuna of nine years in which supply-side economic policies were in place—a period of readjustment and resolution, but not of experiment. The ‘grin and bear it’ believers in natural forces and in ‘the healing virtues of time’, as Keynes termed it, took root in the Australian psyche (cited in Leeson 1996:50). The period was, however, punctuated by events and circumstances that, it will be argued, propelled the case for greater management of the economy. It was, in fact, a period of immense mental activity and excitement—and frustration—within the small, but not inconsequential, economics profession. Much of the change in their thinking was conveyed in the policy suggestions they put forward in various national and international forums. Economists had begun to slacken in their support for the Premiers’ Plan and urged more ambition in economic policy. This process was aided by the penchant Australian economists had for a practical view of matters—the end result, Copland (1951:16) suggests, of being called in to advise on matters of economic management. A theoretical framework, nonetheless, still underpinned their advice. Critically, that outlook would shift during the 1930s.

While ideas about demand management had begun circulating among Australian economists after the publication of the General Theory, Keynes’s new theoretical framework attracted little attention from policymakers until 1939. For Australia, the juncture, when Keynes’s new theory translated into policy, came only with the preparation for and prosecution of war. This, as we shall see, was earlier than either Britain or the United States though it has never been explicitly recognised. Keynes, for instance, rejoiced at the initiative of US President Franklin Roosevelt’s New Deal and regarded Washington, DC, as ‘the economic laboratory of the world’ (cited in Skidelsky 1996:97). In the literature, ‘the Keynesian revolution’, in policy terms, became a transatlantic phenomenon. Yet the Australian economy, with its institutional framework, its milieu of state-led development and tradition of egalitarianism, together with the influence of its economists, was more amenable to the ready adaptation of Keynesian ideas. The Australian historian W. K. Hancock (1930), who had noted his countrymen’s disdain for economists, also observed the tendency of social and political developments in Britain to follow a course already mapped out in his own country—that is, the periphery could sometimes lead the metropole, and to the Empire’s benefit. All these preconditions suggested an early official adoption of Keynesian ideas within Australia with economists leading the crusade.