4. The interwar Australian economics profession

Introduction

The purpose of this chapter is to discuss the development of the Australian economics profession and how the Depression played a part in its elevation. The opening part of the chapter briefly recounts the onset of depression within Australia. How the interwar economists perceived the origins of the Depression and their initial responses to it are discussed later. Australian economists had already made a start in advising state and federal governments on economic matters and this chapter draws out that early relationship. The main part of the chapter deals with the nature of the Australian economics profession at the time, together with some detail of prevailing economic thought and philosophy. The last part of the chapter contains a reassessment of the Niemeyer mission, showing, in particular, how it galvanised local economic expertise in terms of thinking and policy advocacy.

Grim forebodings

In Australia’s history, no administration, it has been argued, was more challenged by economic circumstances than the Scullin Labor government (Denning 1982:11). Scullin took office just a week before the Wall Street crash of October 1929. Yet for all the scale of the undertaking Labor was elected into, many, including Scullin, in his earlier guise as Opposition Leader, had foreshadowed that the day of reckoning was coming for Australia. During the federal election campaign of 1929, Scullin warned voters that Australia was incurring an excessive level of foreign debt to finance infrastructure projects at a time when export prices were slipping (Robertson 1970:34). Scullin’s warnings had an air of Greek tragedy to them. As Robertson (1974:3), his biographer, remarked, ‘It is often the fate of prophets to be ignored; but it does not always follow that the prophet is destroyed by the calamity he has foreseen.’ A hapless Scullin, while aware of the economic problems besetting the Commonwealth, shunned until too late the counsel of economists.

A quick recapitulation of the conditions prevailing in the late 1920s illustrates the debt–deflation trap that the Australian economy was falling into. The
Bruce government’s development mantra of ‘men, money and markets’—much of it underwritten by British capital—fuelled economic activity. The loan proceeds financed a huge appetite for imports, which left, in turn, the federal government awash with customs-duty revenue. In his study of the economic philosophy guiding the Bruce government, Richmond (1971:257) linked the administration’s optimism for ‘development’ schemes with a grand imperial vision. The scale and extent of Commonwealth and state undertakings from the London capital market, however, greatly concerned London. While aware of London’s concern about Australia’s borrowing, Bruce remained unrepentant; it was a sparse population, not debt, which was Australia’s besetting problem (Cumpston 1989:74; Tsokhas 1993:102). The bellwether of success for Bruce’s program was judged in terms of per capita income, rather than the aggregative performance of the economy—a view shared by economists (Cain 1974:346). For eight years during the 1920s, the Commonwealth had imports running ahead of exports, with debt-servicing costs met from the proceeds of fresh borrowing (Clark 1981a:23). While there were some institutional checks, the prevailing psychological mood was one of unbridled optimism.

Wrestling free from what the polymath Frederic Eggleston called a ‘prosperity complex’, Bruce predicted that Australia would take measures to confront the falling exports and loan income otherwise there would be a slump in wealth, employment and the standard of living (Osmond 1985:149). The Scullin government would inherit the inevitable task of economic readjustment, along with the transfer problem of annually paying some £30 million in interest abroad.

Within days of Scullin’s coming to power, the paradigm of ‘development’ came to an abrupt end. The Chairman of the Commonwealth Bank Board, Sir Robert Gibson, informed Scullin that the borrowing of overseas funds could no longer be sustained and that he would veto any further floating of Treasury bills until commitments were given towards achieving budgetary equilibrium (Shann and Copland 1931a).

The Depression in Australia itself was triggered by marked falls in Australia’s two major exports—wool and wheat—which merely compounded the deep-seated structural economic problems. The loss in export revenue of some £40 million, together with the cessation of borrowing of some £30 million, translated into a loss in national income of some 10 per cent in one year alone (Copland 1930a:644–5). The cessation of borrowing imparted a huge deflationary impulse through the Australian economy (Schedvin 1970:4). Servicing Australia’s huge overseas loan portfolio would now have to be drawn from local resources. On

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1 Leslie Melville, using Giblin’s export multiplier, had come out with a predicted unemployment figure of 500 000 workers (Melville, TRC 182, NLA, p. 19).
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the external account, interest and dividend repayments rose 50 per cent during the late 1920s, meaning that the export revenue to servicing costs rose from one-sixth to just more than one-quarter (Schedvin 1970:73).

South Australia had a foretaste of what was soon to become a general occurrence. The economist Leslie Melville recalled:

> We had some sort of recession in South Australia earlier than the rest of the Australia...By 1927 we were in trouble...and we certainly there saw it coming from the consequences of the loan expenditure...The interest bill was climbing very rapidly and we weren't getting revenues to meet the increase in the interest bill that was pressing on us.\(^2\)

He was alluding to not just a fall in export prices but the cutback in public investment spending (Cornish1993b:3). Initially, the economists were, along with many others, not unnerved by the severe fall in export prices.\(^3\) The October stock market crash on Wall Street, however, made the then predicted ‘minimal’ reduction in living standards look sanguine.\(^4\) Arguably, no corrective action could have checked the colossal and sustained fall in output that marked the Depression’s impact on Australia. Deflation had to come.

The Scullin government’s first budget responded to falling export prices and loan cutbacks with an austere economic package. Scullin asked the Anglo-Australian financier W. S. Robinson, a grise eminence to the Labor Government, to make secret representations to the Bank of England about deferral of an impending loan. Robinson was given short shrift by representatives of the Deputy Governor of the Bank of England, Sir Ernest Harvey: ‘Please don't ask for that perforce I must refuse’ (Robinson 1967:147). Australia, by dint of some years of negative but, for the most part, accurate reporting, particularly by the Financial Times, had become the ‘bad boy of the Commonwealth’ and an example to be made of (Giblin 1951).\(^5\) L. F. Giblin (1951), the elder statesman of the Australian economics community, felt the bank’s action ‘very cold. Its attitude was rigid…

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\(^2\) Melville, TRC 182, 1971, NLA, p. 15.
\(^3\) The newly elected Prime Minister Scullin heroically took a remarkably benign view of unfolding developments. On 21 November 1929, he publicly intoned: ‘We do not view the future with alarm—our troubles will soon be over’ (cited in Cook 1979:371).
\(^4\) According to Valentine, export prices fell by 7.7 per cent in 1928/29 and 22.7 per cent in 1929/30. These adverse movements in Australia’s terms of trade were due to a contraction in the world economy. The terms-of-trade movement between 1929 and 1932 delivered a 9 per cent fall in the real GDP (Gregory and Butlin.1988:405). Valentine’s empirical research showed that the price falls in wool and wheat mirrored falls in real GDP in 1927/28 and 1928/29, with a more severe fall in 1930/31 (Valentine 1987a:64). The proportion of Australian exports to service the foreign debt grew from 16 per cent in 1919/20 to 28 per cent in 1928/29 (Schedvin 1970:73).
\(^5\) D. B. Murdoch, Secretary to the Commonwealth Bank Board, later told Giblin he was astounded at Sir Ernest Harvey’s refusal to grant emergency financial assistance to the Scullin government given that he had been ‘a good friend’ to Australia earlier (D. B. Murdoch to L. F. Giblin, 8 April 1947, RBA, GLG-51-5).
Australia must solve its own trouble for itself.” Before turning to see how his colleagues responded to the crisis, some detail of the local economics profession, including their pre-analytical vision, is required.

The Australian economics profession in 1929

Numbering only a handful of souls, Australian economics in the late 1920s was a fledgling, scattered university discipline with only six chairs extant: Melbourne (established in 1923), Sydney (1913), Hobart (1920), Adelaide (1929), Brisbane (1926) and the isolated post at Perth (1925). Before then, economics was considered a politicised subject, appropriate only for instruction by the Workers’ Educational Association (Heaton 1926:235). There were neither qualified instructors nor any body of Australian economic literature to rely on (Heaton 1926:238). Even with the founding of the Economic Society of Australia and New Zealand in 1925, economics was still a cinderella science. The challenges ahead heralded not only opportunity for the profession but national prominence (Bourke 1988:67; Cain 1973). The interwar generation of economists was a remarkable and versatile group even though most had not been formally trained in economics (Butlin 1966:509). Much of the learning of the older generation of economists was done ‘on the job’ (Cain 1973:2). Perhaps the prime example here was Giblin, who was the Official Statistician for the Tasmanian state government before taking up a position as an academic economist. Given their number and the tasks assigned to them, they were to fulfil Herbert Heaton’s description of them as ‘economic general practitioners’ (cited in Cain 1984:76).

Australia’s development strategy of ‘men, money and markets’ meant demand for economics expertise (Cain 1974). Like their British counterparts, Australian politicians had begun to solicit economists’ advice. It gave the local profession a policy-intensive focus (Sandelin et al. 1997). There was something, moreover, within the nature of the Australian economics profession that lent itself to giving practical advice rather than engaging in scientific research. Giblin later reflected on the values and axioms that characterised the local profession:

In Australia economists are a peculiar tribe. Rarely are they nourished by the pure milk of the word. Mostly they have been advisers to governments for many years—permanently or intermittently, publicly or privately. Governments do not love them but are inclined to believe them honest…They are frequently more practical and realistic than

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6 Two of these chairs—at the University of Queensland and the University of Western Australia, occupied by Henry Adcock and Edward Shann respectively—were joint chairs in economics and history. While the University of Sydney had a chair in economics and commerce in 1913, which was occupied by R. F. Irvine, the Faculty of Economics there was not established until 1920 (Groenwegen, 2009).
businessmen...They are resented of course by sectional business interests. The word of complaint or abuse is ‘academic’; but, in truth, they are the least academic of God’s creatures. (Cited in Hytten 1960:154)

Giblin’s colleague Douglas Copland, born and educated in New Zealand before emigrating to Australia, said that the distinguishing feature of interwar Australian economists was the habit of ‘seeing the economy as a whole, and of realizing the possibility of instituting centrally planned policy to counteract maladjustment within the economy’ (Copland, 1951:16–17). This bias in the Australian economic establishment towards ‘empiricism and pragmatism’, as Schedvin (1970:375) puts it, was so entrenched that Melville—who held the foundation chair at Adelaide—felt it was to the detriment of theoretical innovation (Bourke 1988:63). Echoing Giblin, Melville recollected that ‘[e]ssentially we were all pragmatists dealing with applied economics, applied to practical problems that were developing very rapidly, and there wasn’t much development till a good deal later’. This penchant for practicality over theoretical innovation assumes some importance in the telling of our story. It can, however, be oversold. While the attribute paid dividends in pushing economists into the limelight, it did not really mean that they were tardy in acclimatising to new theory or, as we shall see, even pioneering new theoretical innovations. The policies they advocated during the Depression and thereafter sprang from the very latest theoretical and applied research (Copland 1951:17).

At the six universities offering instruction in economics the specific problems of the Australian economy framed the agenda. These were issues such as economic development, economic growth, land settlement, tariffs, price movements and monetary, not fiscal, theories of the trade cycle. Heaton (1926:245–7) told an American audience that the predominant research interests of their Australian counterparts were the economics of federation, wage fixation and banking and currency policy. In terms of ranking, Melbourne had overtaken Hobart in prominence since it had become, in 1925, the newly established home of the Economic Society of Australia and New Zealand. Giblin’s arrival in 1928 from Tasmania, moreover, to fill the newly created Ritchie Research Professorship, gave Melbourne a further edge in research profile. Another member of the staff was Gordon Wood, an economic geographer by training.

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7 Melville, TRC 182, NLA, p. 9.
8 Giblin, then Deputy Commonwealth Government Statistician, won the post almost certainly with Copland’s connivance (Millmow 2005). Giblin had acted as a referee for Copland when he applied for the chair in economics at Melbourne. Giblin was elected unanimously despite his lack of academic standing and his ‘unorthodox appearance’ (D. B. Copland to R. Downing, 25 June 1959, UMA FECC, Box 220A). It was a position Giblin approached with some trepidation. It was only with the encouragement of Brigden—someone Giblin felt should have won the post—that he accepted the challenge. He told his wife, Eilean, ‘They have offered me the Ritchie chair and I have not read any of their damn textbooks.’ When his wife conveyed this
Before then, Hobart had been the original home of Australian economics with many interwar economists having taught or studied there (Castles 1996; Coleman and Hagger 2003; Roe 1994). In Hobart’s heyday, James Brigden and Giblin had made pioneering contributions in multiplier analysis and the optimal degree of tariff protection needed to promote economic development and population growth (Copland 1951:16–17; Cain 1973). For a brief period, then, Hobart resembled the ‘Edinburgh of the south’ in terms of theoretical innovation (Coleman and Hagger 2003). Roland Wilson was another product of this faculty (Cornish 2003b:9–11). Despite his academic promise, evidenced in his book *Capital Imports and the Terms of Trade*, Wilson dedicated his considerable expertise to the Federal Treasury (Cain 1983:23; Cornish 2003b:19–20). Other eminent scholars who hailed from Hobart were Arthur Smithies (Harcourt 1987:375–6) and Keith Isles. Later, a Federal Treasurer, R. G. Casey, commented on the remarkable profusion of economic talent that sprang from Tasmania.9 After Giblin took up the Richie Chair, a New Zealand economist remarked that Tasmania had suffered a ‘disability…through the drain to the mainland of the best Tasmanian blood’.10

The Economic Society, founded by Copland, was made possible by the enthusiastic cooperation between economists and businessmen (Downing 1972:466). As both Scott (1988:3) and Hodgart (1975:2–3) note, it was the business community in Sydney and Melbourne that pushed for the greater edification of economics. The business community sponsored the Economic Society as a means to isolate and suppress the radical outpourings from the economic underworld (McFarlane 1966:17; Clark 1974a, 1975; Roe 1984; Mauldon and Weller 1960). It also marked, as Heaton (1926:235) noted, the first systematic study and teaching of economics within Australia. The society brought, therefore, businessmen, economists and public servants under the one roof. In that regard, Copland, Foundation Dean of the Faculty of Commerce at the University of Melbourne, ‘conspicuously identified with the business community’ (Harper 1986:43). One instance that caught the attention of the Victorian Trades Hall was when Copland, in formal morning dress, regaled a gathering of conservative luminaries about the dire state of the economy (Spierings 1989:132–3). Copland was regarded as politically safe and ‘the proper custodian and expander…of absolute and unbending economic laws’ (cited in Spierings 1989:133). Consequently, he was marked out for special attention by Labor politicians, one of whom regarded him as ‘one of the most conservative economists in Australia…and whose opinions are not worth much’.11 Aware of

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10 A. G. B. Fisher to D. B. Copland, 9 November 1928, UMA FECC, Box 3.
an antipathy towards economists within Labor circles, Copland assured Giblin that the Melbourne faculty was, in fact, beholden to no-one.\footnote{D. B. Copland to L. F. Giblin, 6 June 1927, UMA FECC, Box 220.} It was ironic that, after the Premiers’ Plan, Copland was shunned in certain financial quarters as his political views became more interventionist (Calwell 1960:2).

In his inaugural lecture as dean, Copland looked forward to forging greater links between ‘town and gown’ (Spierings 1989:128–9; Hodgart 1975:9). In revamping the syllabus of the commerce degree, Copland, as he had done in Hobart, eschewed narrow specialisation in economics for a broad-based education that would suit graduates entering the business world (Selleck 2003:607). The commerce course proved dramatically popular when first launched in 1925, even if many of the students were part-time (Selleck 2003:608). Business houses supplied Copland’s department not just with guest lecturers but with tangible support by way of equipment (Spierings 1989:129). Copland invited representatives from business and finance houses and the Trades Hall to be on the faculty board. This included Sir Robert Gibson, then President of the Victorian Chamber of Manufactures and a director on the Commonwealth Bank Board, Edward Dyason, company director and stockbroker, and the Commonwealth Statistician, Charles Wickens.

Neville Cain (1980:2) casts Copland as ‘the public relations man of university economics selling its “practical usefulness” to city men…and to politicians’. The Collins House Group of companies, and later the Premier of New South Wales, Bertram Stevens, overlooking the economists at the University of Sydney, hired Copland as an economic adviser. The Canadian economist A. F. W. Plumptre (1934:490) would marvel at Copland’s combination of gifts of being an able economic theorist, propagandist and financial expert. Richard Downing later reported on the ‘excitement’ of being an economics student at Melbourne and having Copland or Giblin give their lectures straight from meetings with businessmen. Students ‘were bred to the world of affairs, public policy and applied economics which they brought to the Melbourne school’ (cited in Brown 2001:30).

Because of this engagement with public affairs, Cain (1980:3) finds—somewhat unfairly—that Copland’s academic output was ‘largely derivative…evidencing little theoretical penetration’. While Copland was not ‘a pioneer in abstract thought, but rather a man of action and an educator’ (Harper 1984:2), he published 11 articles in the *Economic Journal* alone during the interwar period. Keynes told Copland, who was visiting England in 1927 on a survey of economics education, that the training at Canterbury was as good as any other place of the same size.\footnote{‘A professor peregrinates’ (extract from Copland’s diary of his 1927 trip), *The Margin*, vol. 3, no. 1, p. 7. Visiting London, Copland had lunch with Keynes, who he described as a ‘leading British economist’ (19 June 1927).} Keynes also told his visitor that classical theory ‘had
rather worked itself out’ and that he was writing a book that would revise it.\textsuperscript{14} In his training under James Hight, Professor of History and Political Economy at the University of Canterbury, Copland had been exposed to the tradition of economics developing within the United States concerning monetary theory and practice. When Copland subsequently came to Australia in 1917, he was, as Giblin (1951:6) noted, ‘probably the only academic expert on monetary policy in the Commonwealth’.

Copland spent seven years in Tasmania, contributing three articles that appeared in the \textit{Economic Journal} on monetary matters. His first publication was a test of the quantity theory using Australian data, which Keynes rushed into the journal. Copland established a School of Commerce at the University of Tasmania that promised a systematic and thorough study of economics. It heralded a brief but ‘golden age’ in terms of economics scholarship at Hobart (Coleman and Hagger 2003. Australia needed it, for Copland was mindful of his Australian colleagues’ technical competency, particularly when it came to filling a lucrative appointment such as the newly created Ritchie research chair in economics at the University of Melbourne. He remarked to an American economist, Edmund Day, that ‘it is true to say that the economists in Australia have a common limitation in respect of their training and interest in pure theory’.\textsuperscript{15} Reflecting that, Copland had asked Cannan whether he might like to take the Ritchie Chair.\textsuperscript{16} Cannan declined on account of his age. Keynes, who was part of an informal committee to find a British-based economist for the Ritchie Chair, told Copland to appoint an Australian to the position (Millmow 2005).

Copland was, like Giblin, adept in the art of economic policymaking, particularly in devising workable compromises (Harper 1986:43). Copland was, moreover, to draw international fame when he delivered the 1933 Marshall Lectures at the University of Cambridge on how Australia’s mix of economic policies and institutions helped Australia emerge from the Depression. Torleiv Hytten (1971:45), who held the chair at Hobart from 1928, found the pugnacious Copland ‘an extraordinary person…with little sense of humour and one never knew what he was going to do next’.

Copland co-edited the \textit{Economic Record} along with one of his former Melbourne students, Claude Janes. The early issues of the journal reflected the applied, business-oriented aspect of the Australian economics profession (Scott 1988:14; Fleming 1996:30; Perlman 1977). The special problems of the Australian economy—the tariff, demography, economic development and cyclical fluctuations—formed the main focus of inquiry (Cain 1974). Typically, Copland

\textsuperscript{14} Ibid.
\textsuperscript{15} D. B. Copland to E. D. Day, 20 April 1928, UMA FECC, Box 5.
\textsuperscript{16} D. B. Copland to E. Cannan, 24 March 1928, UMA FECC, Box 4.
wrote on monetary and banking matters, while James Brigden specialised in tariffs and population. R. C. Mills, the Dean of the Faculty of Economics at Sydney University, and Giblin wrote on public finance and federalism, while Wickens was the authority on statistical matters (Scott 1988:14). The journal’s audience was not just academics but ‘responsible men of political and commercial affairs’ (Perlman 1977:219). S. J. Butlin (1966:516) attributed the Record with having a ‘seminal influence on the thought and policy in high places’ because its literary style made it accessible to ‘men of affairs’. According to Copland, the average reader of the journal was a ‘fairly intelligent person but not with a scientific interest in economics and one who would quickly lose his interest if the Record became too dull’.  

Apart from Giblin and Copland at Melbourne, the other luminaries within the Australian profession at the time were Richard Mills in Sydney, Edward Shann in Perth and Melville at Adelaide University. Mills, who held the chair in economics at Sydney University from 1922, had studied at the London School of Economics and graduated with a DSc in economics. Edwin Cannan was one of his mentors (Groenewegen 2009:9). Interestingly, Shann and Melville soon joined banks in advisory capacities, with the latter making a permanent move to the Commonwealth Bank in 1931. Brigden left the chair at Hobart to become an economist with a shipping concern in Sydney before moving to Queensland to become Director of the Queensland Bureau of Economics and Statistics (Roe 1994). At Sydney University, Mills diligently set about building a ‘factory’ of local economic expertise (Butlin 1953). Despite Melbourne’s prominence, Sydney University would boast that it had Australia’s only ensemble of professionally trained economists (Butlin 1978:102). To achieve this, Mills encouraged his staff to further their studies abroad in either England or the United States (Turney et al. 1991:576). There was, therefore, a Melbourne–Sydney rivalry developing, with the latter tending to regard their southern counterparts as too pragmatic and involved in public affairs (Butlin 1978:104). This was a little ungracious in the respect that Copland had been selected to be the Australian representative of the Rockefeller Foundation, which funded fellowships for promising social scientists to study abroad. Ronald Walker was one Sydney economist assisted in this regard during the 1930s. Despite the difference in orientation, there was some commonality in analytical vision among the economists, to which we turn.

The state of Australian economic opinion

Australian economists looked to Britain not just in terms of capital and trade flows but in terms of economic doctrine. By and large, the Australian
economics fraternity was an outpost of the Cantabridgian tradition, but with an idiosyncratic twist (Cain 1973, 1980; Harper 1986:37). Edwin Cannan of the London School of Economics was also influential with his stress on welfare analysis (Butlin 1966:509). Cannan had personally tutored Brigden, while Mills and Shann had attended his lectures (Roe 1994:73). National income, even the level of real wages, was taken as an index of economic welfare (Cain 1974:74–7). National income became the focal point of policy long before it was officially adopted, as in Britain in 1941 (Whitwell 1994). Apart from the London school, the main influence on Australian economics was Cambridge with its Marshallian–Pigovian tradition. Cambridge became the place, therefore, of higher learning for the crop of young, aspiring Australian economists, although two Rhodes Scholars, Roland Wilson and Arthur Smithies, went to Oxford (Cain 1984:77).

Australian economists were philosophically in favour of competitive markets to harness private interests provided governments were on call to eliminate market distortions and reconcile private and social costs (Harper 1986:37). Limited public works held some appeal to Australian economists since they were predisposed to see the economy as a whole and placed the State before the consumer (Brown 1994:89–92). There was also a role for the State in fostering economic development. That world view had come about due partly to the nation-building paradigm of ‘development’ and, relatedly, the influence of the Hobart school (Cain 1973). The research on estimating the cost of the tariff assistance, together with Giblin’s quantitative export multiplier analysis, bestowed Australian economists with an economy-wide perspective of the costs and benefits of external economic shocks. This would become useful when they adopted the ‘spreading the loss’ doctrine after Australia’s export income plummeted in 1929.

The question that dominated the Australian economics fraternity in the 1920s was determining Australia’s optimum population size and the standard of living that could be afforded (Cain 1973). Stemming from Brigden’s bleak assessment of Australia’s economic future, Hobart was wary that diminishing returns in primary produce would not only skew income distribution to the landowners but drive down welfare levels and restrict the absorption of a growing population (Cain 1974:352; Roe 1994:76). Brigden (1925) had argued, therefore, that tariff assistance was justifiable for Australia’s economic development, welfare and population growth. He found, somewhat controversially, that protection had been as ‘beneficial’ for Australia as free trade had been for Britain (Brigden 1925:45). His finding presaged the more comprehensive Brigden Report on the Australian tariff, which stated that the fall in income that would ensue from unimpeded rural development and population growth was prevented because
tariffs maintained real wages by redistributing income from landowners to labour. The tariff, moreover, kept the terms of trade favourable by placing a tax on rural exports (Coleman and Hagger 2003:15).

Giblin would later corroborate the Hobart view by calculating the amount of rural production Australia would have had to produce to generate an equivalent standard of living. Such an effort would have driven down produce prices and made Australia acutely vulnerable to world trends (Groenewegen and McFarlane 1990:122). That aside, by the end of the 1920s some economists, particularly Shann and Melville, felt that the economy, especially the labour market, was riddled with too much government intervention. There was also a growing recognition among economists that Australia’s high real wage levels were kept up by protection and public works. A technical correction was imminent (Cain 1973:20).

As the Depression descended, money and banking theory assumed the leading research focus. A devotee of the quantity theory, Copland moved with the transatlantic tide of monetary reformers such as Irving Fisher, Ralph Hawtrey and Keynes (Cain 1980, 1987b:3). The reformers held that the way to avoid economic fluctuations was price stability, meaning that monetary policy should make this its overriding goal. Keynes’s *Tract* registered a significant impact with Copland, especially the finding that fluctuations in the price level were more likely to be a function of monetary demand than a money supply increase. This revolutionary finding was that, with a variable velocity of circulation, prices and output could change without the real stock of money changing. In short, fluctuations in economic activity were due to price-level instability aggravating the gap between product prices and costs (Turnell 1999:26). Inspired by Keynes’s *Tract*, Copland (1930b) was the first among his colleagues to argue that internal price stability should rank as a policy objective before exchange rate stability and that the transmission of large movements in credit, via the external account, be avoided in the name of economic stability. Henceforth, the policy focus in Copland’s eyes focused on credit growth as distinct from money supply; it was, however, to be a point hopelessly lost on the Commonwealth Bank Board, which remained fixated on the latter.

In the 1920s, Copland devised a schema that underpinned how to both visualise and manage the Australian economy. The preservation of economic activity in an open economy required insulation against fluctuations being channelled through the trade account. This meant establishing a managed monetary system aimed at stabilising prices and regulating the credit cycle to eliminate short-period fluctuations (Copland 1930b). Since Australia was a small, open, debtor country with its national income determined largely by commodity prices, the economy could achieve price stabilisation by aligning its exchange rate with sterling. Britain—Australia’s creditor and largest trading partner—effectively
set her monetary policy. This was an optimal arrangement in times of normalcy and also when Australia had an underdeveloped central banking apparatus. Moreover, it kept mischievous hands at bay, for the gold standard was ‘knave proof’ with banking and monetary policy controlled by mandarins rather than by politicians. The orthodox strictures about quarantining credit and currency matters from political interference found an appreciative audience in Australia (Middleton, 1982). These institutional and banking arrangements were enveloped in an air of anti-intellectualism, which sought to separate the ‘sound’ views of the real-world financier from the ‘academic’ opinion of monetary reformers (Winch 1966:92).

Australia’s harmonious link with the Bank of England came unstuck, however, with the calamitous fall in her export prices in 1929. The voluntary moratorium on federal and state government borrowing from London compounded Australia’s difficulties. Under the traditional rules of the game, Australia could recover external balance only by a severe deflation brought about by a direct reduction in bank credit consistent with the dwindling London funds. Deflation and austerity meant the intensification of unemployment. It also meant pressure on wages that would lead to social unrest, especially where rentiers, benefiting from the deflation, increased their hold over consumption. The financial architecture of the economy would also be placed under great pressure. Copland felt this form of relative cost adjustment too draconian. The more palatable alternative was to break with sterling and implement wage cuts. This would allow Australia to find a more appropriate relationship between her export prices and domestic cost structure. Exchange rate autonomy, Copland held, would give Australia’s export trades and unsheltered industries a more favourable price–cost relationship and thereby prevent economic activity from plunging. The markedly lower real wage would improve Australia’s cost structure. Copland’s analytical framework was strengthened with Giblin’s export multiplier—the greatest theoretical innovation of the interwar Australian economists—which showed how a fall in export revenue delivered a direct and amplified effect on output (Cain 1980:10). The concept was especially useful for an open economy dependent on its primary produce for its prosperity (Wilson 1951:194–5). Giblin had stumbled on it while undertaking some applied work on the effect of building a railway as part of a rural development project. Giblin’s prototype multiplier, introduced into the public domain in late 1930, had a value of 3, with imports tumbling along with the fall in national income.

Cutting the link with sterling was viewed with horror in financial circles. As we shall see, even Copland’s colleagues were initially aghast at his suggestion when he first put it to them in May 1930 (Cain 1987b:5–6). The timing of Copland’s apostasy is very interesting. Just two months earlier, Keynes, in evidence before
the Macmillan Committee in Britain, outlined seven expedients the Bank of England could turn to to maintain economic activity given pressures on her external account (Booth and Peck 1985:170–4).

Keynes gave a practical demonstration of his new dynamic model of changing equilibria in his evidence before the Macmillan Committee on industry and trade. Keynes’s evidence was shaped by the analytical framework from his latest work, the *Treatise on Money*, which would be published in October of that year. Using the interest rate to stimulate activity or, in terms of the framework of the *Treatise*, to align savings and investment was impeded by Britain’s need to maintain a high bank rate necessary to keep her on the gold standard. Keynes told the committee that Britain should not apply wage cuts or even consider the heresy of devaluation. One expedient that took the interest of Australian economists was to have an internationally coordinated expansion led by the central banks of the creditor nations. This would deliver an increase in trade and commodity prices for primary-producing export countries such as Australia. Turnell (1999) has written of how this expedient informed and motivated the Australian economists’ advocacy for monetary reform at the 1932 Ottawa Imperial Trade Conference.

Among the other more feasible options canvassed by Keynes was his own ‘favourite remedy’ of public works (Booth and Peck 1985:174). That is, public investment financed from excess savings could be a boon to private enterprise though it would mean rising prices. This option was unthinkable for Australia but she could, within reason, resort to devaluation and wage cuts, or a composite of both, as the best means of making a relative adjustment instead of going through the ritual of deflation (Cain 1987a:3). This expenditure-switching policy—what Copland called his middle course—was later presented to Australian policymaking authorities (Cain 1987a:2). Devaluation and a wage cut would assist the import-competing and export industries besides transmitting a real income loss across all tiers of the community. It was similar to another of Keynes’s expedients—namely, a national treaty arrangement in which all economic classes surrendered some income. Once converted to Copland’s monetary analysis, economists faced the task of enlightening high opinion away from the Anglo-Saxon fetish that a unit of money—namely, the Australian pound—could be a variable unit and not something immutably fixed (Dyason 1931:236–7). It was to prove a long struggle.
Australian economists and their early contribution to economic policy

Giblin, whom Roland Wilson later called ‘the fabulous old man of Australian economics’, felt the early 1930s transformed economics from a cinderella science to one of public influence (Wilson 1951:1; Goodwin 1974). Economic circumstances propelled this. The leading political and economic issues in the 1920s all required scientific analysis and input (Cain 1973:2). The various committees of economists that tendered advice to the authorities in the early 1930s were perceived to be remarkably consensual, even innovative, on the direction and content of macroeconomic stabilisation policy (Goodwin 1974). The pioneering spirit of economists carried through to official policy, where, in contrast with British efforts, there was neither a reliance on ‘muddling through’ nor great division in framing Australia’s policy response to the Depression. It marked, then, a ‘brief interlude of a genuine Australian economics’ with native economic expertise dealing with essentially national economic problems (Groenewegen and McFarlane 1990:115).

The relations between economists and the political elite that unfolded in the 1930s in Australia can be better understood when one considers the antecedents. Starting with Giblin’s position as statistical adviser to the Tasmanian government and Mills and Brigden’s participation in the 1924 Queensland Basic Wage Commission, Australian high politics had established the precedent in the 1920s of calling on ‘experts’ to advise on aspects of public policy ranging from child endowment to national insurance (Fleming 1996:29; Cain 1980:80; Clark 1950:2). Calling on a repository of economic wisdom was also in the newly found spirit of ‘scientific administration’ or ‘salvation through science’ (Howson and Winch 1977:159). The success economists achieved in tendering advice to Australian authorities was the embodiment of the Marshallian–Pigovian ethic of serving humanity (Fleming 1996:31).

Since the 1920s, Copland had been promoting the idea of placing economists into policy formulation. In 1927, he published the results of investigations made while visiting the United States and Europe, courtesy of the Rockefeller Foundation, to examine developments in the teaching of the social sciences, especially economics (Bourke 1988:58). Copland saw how ‘university-trained men’ were making inroads in the business world and the public service. Herbert Hoover, then US Secretary of State, informed Copland that the US administration was ‘honeycombed with economists’.\(^{18}\) It moved Copland to declare that ‘the economist is king in every country’ (cited in Spierings 1989:131). It was not yet the case, however, in Australia. To amend that, Copland felt that the

Commonwealth Public Service should have openings for graduates. Consistent with this ambition was the recommendation from Mills that there be chairs of economics established in every Australian university.\textsuperscript{19}

Consistent with the acceptance of economics as an academic discipline there was a raft of initiatives aimed at coordinating economic affairs (Cain 1974:356). The Migration and Development Commission established in 1926, for instance, was designed to place the British-Australian ‘34 million pound agreement’ on migration and development on a more scientific footing (Cain 1974:356; Richmond 1971:246–7; Roe 1995:118). Melville felt the commission would tailor development ‘in a way which aims at being methodical, consistent and economic and based on sense rather than sensibility’ (cited in Cain 1974:356). The businessman Herbert Gepp, equally keen on the potential of economic expertise, headed the commission (Kemp 1964:36).

The issue of business stability concerned policymakers as much as the optimal level of protection. The Development and Migration Commission issued a study written largely by Gepp’s offsider, F. J. Murphy, entitled \textit{Unemployment and Business Stability in Australia} (1928). The study was notable for empirically rejecting the popular view that Australia’s mounting unemployment was attributable to high wages, excessive British migration and imports. Rather, as Copland’s research showed, the problem was pinned on business cycle fluctuations, though the fits and starts of public sector spending, financed by overseas borrowing, did not help matters.\textsuperscript{20} As Australia’s leading theorist in cyclical fluctuations, Copland wrote an influential adjoining study and apparently had a hand in drafting the commission’s recommendations.\textsuperscript{21} His findings presaged his later stand in the 1930s on the need for a contra-cyclical policy (Cain 1980). In clear prose, Copland relayed the latest conventional view that experts study the economic picture and give warning of booms and slumps so that policymakers could moderate or, at least, cushion their impact by tapering public works expenditure.\textsuperscript{22}

The commission also proposed that the Commonwealth Bank manage the exchange rate, taking action to safeguard the balance of payments, for instance, by reducing imports when export revenue was likely to decline. Adjusting levels of government expenditure spent on development projects could counter cyclical instability. It was a commonplace view in the economics literature that an increase in spending would raise incomes and possibly produce further increases in spending. Long-range planning of public works would allow policymaking bodies time to regulate the level of expenditure thereby securing


\textsuperscript{21} \textit{The Age}, 21 June 1928.

\textsuperscript{22} ‘Planning ahead to meet the bad times’, \textit{The Herald}, 7 February 1927.
some regularity of employment besides raising funds abroad to protect the exchange rate. Prime Minister Bruce agreed with Gepp that the ideas contained in the report were ‘somewhat ahead of the times in which we live’.23

Copland’s framework was echoed in a memorandum on trade cycles prepared by two Sydney economists, E. R. Walker and Mills.24 They believed that cyclical fluctuations were made worse by the comparative rigidity of wage costs. This, together with the imperfect mobility of labour, was, they held, the real factor behind unemployment. Both subscribed to the creed that wage regulation should, in time of depression, give way to the capacity-to-pay criterion.25 Mills and Walker, besides manipulating loan expenditure, argued for a greater ‘plasticity of wage rates’ to control unemployment. They were, however, hesitant about recommending monetary policy since the economic fluctuations could be externally borne—a factor that Australian policy authorities could do little to address (Cornish 1990:60–1). Walker (1930:39) shared Copland’s view that public works be used ‘as a counterpoise to the business cycle’, but he lamented whether the authorities had the ability to synchronise expenditure with the cycle.

It was, of course, the Brigden Committee’s review of the Australian tariff that first made the name of Australian economics (Fleming 1996:29–30). In the foreword to *The Australian Tariff: An economic enquiry*, Bruce hailed it as ‘a free gift to the Australian people’. This was a reference not just to the report’s clarity and lucidity, but to how economists had laboured without compensation (Davidson 1977:146–7). Charles Wickens, Chairman of the Tariff Committee, reminded his colleagues that they should speak with one voice on the subject. Disunity, he felt, would jeopardise the proposed establishment of a Bureau of Economic Research (Harper 1989:9).

According to Hytten, the committee got off to an impolitic start when Copland wrote ‘a learned paper’ extolling the merits of free trade. Bruce dispatched his secretary to tell the economists that they must do better.27 Brigden and Giblin, thereupon, took up the cudgels of drafting. What emerged was a ‘compromise’ document between the orthodox Melbourne economists

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24 Walker was one of Mills’s students at Sydney. In his recommendation to the Board of Research Studies at Cambridge University in 1930, Mills hailed Walker as the ‘most distinguished and brilliant student’ he had seen in 10 years of economics instruction at Sydney (R. C. Mills to The Secretary, Board of Research Studies, Cambridge University, 16 October 1930, E. R. Walker Papers, Canberra). Mills and Copland had awarded Walker first-class honours for his thesis on unemployment in Australia. Walker filled the vacancy at the University of Sydney when F. C. Benham left for England (Groenewegen 2009:28).
25 ‘Memorandum by which greater security of economics be guaranteed to all classes of work’, n.d., UMA FECC, Box 9.
27 Hytten autobiography, UT, p. 52.
Wickens) and the more open-minded Brigden and Giblin at Hobart (Coleman and Hagger 2003:16). Their finding, in brief, was to reject the orthodox contention that Australia could have maintained its present population at a higher standard of living under free trade (Dow 1938:114–15). They found instances, however, where the cost of protection exceeded the benefits. They concluded that the level of tariff assistance was now at its optimal level whereas population and the level of real wages had surpassed that criterion (Cain 1973).

The authors were anxious to see how their overseas counterparts would judge the findings (Harper 1989:22). Jacob Viner praised Bruce for having commissioned ‘a disinterested and non-political inquiry by competent and unbiased economists into the merits of a policy to which his party and his country are so strongly committed’ (cited in Davidson 1977:147). Keynes also applauded the report as ‘a brilliant effort of the highest interest’ with a ‘method of approach most original’. Frank Taussig from Harvard University hailed Copland and his colleagues for their work on the report: ‘I wish I could say that work as good came from the immensely larger number of American economists.’ The report triggered a long-lasting controversy in existing trade theory (Coleman and Hagger 2003:16–18). For our purposes, however, it marked the start of Australian economists engaging in Australian ‘economic problems with gusto’.

This early policy work of Australian economists mirrored, if not anticipated, comparable developments in Britain, where extra-parliamentary economic expertise was pursued with some vigour, especially after the onslaught of the Depression (Howson and Winch 1977). Bruce’s ‘eyes and ears’ in London, Major Casey, the Australian liaison officer with the Foreign Office, wrote of the rising power of economics: ‘Economics was beginning to show signs of asserting itself’ and was ‘being recognised as the sharp and effective tool of those in power’ (Hudson and North 1980:502). By 1929, Bruce had a Federal Economics Bureau on the statute books (Scott 1988:16; Roe 1995:119; Castles 1997:26–8).

Copland was the first to raise the idea of such an Economics Bureau (Spierings 1989:132). Giving evidence before the Royal Commission on the Federal Constitution in 1927, Copland said a special authority was required for the development of economic research along the lines of the Commonwealth’s Council for Scientific and Industrial Research (CSIR). The Melbourne stockbroker E. C. Dyason was also in favour of a permanent body of economics specialists ‘railed off from politics’ whose key task would be to issue periodic reports on the economy (‘Memorandum on the increase of production in Australia upon a sound economic and social basis’, n.d., UMA FECC, Box 8).

28 J. M. Keynes to L. F. Giblin, 28 August 29, UMA FECC, Box 213.
29 F. Taussig to D. B. Copland, 13 December 1929, UMA FECC, Box 48.
30 Melville, TRC 182, NLA, p. 9.
31 D. B. Copland to L. F. Giblin, 6 June 1927, UMA FECC, Box 220.
32 The Mercury, 23 March 1928. The Melbourne stockbroker E. C. Dyason was also in favour of a permanent body of economics specialists ‘railed off from politics’ whose key task would be to issue periodic reports on the economy (‘Memorandum on the increase of production in Australia upon a sound economic and social basis’, n.d., UMA FECC, Box 8).
Chairman of the CSIR, dissuaded Bruce, however, from attaching an economics research division to his organisation. The British Economic Mission (1927) also advised against it because of the fear that the CSIR would, under the proposal, become politically contaminated (Schedvin 1987:60). The economists were keen on the bureau being self-supporting since it would guarantee the necessary freedom that they would not have if attached to a government department (Rivett 1972:110). Interestingly, the director of the bureau was, as originally outlined, to have freedom from political interference (Scott 1988). Copland hoped that this dimension would allow the director to freely initiate inquiries into wage regulation, unemployment, overseas borrowings, tariffs, development policy and intergovernmental relations before they became politicised. Lastly, Copland saw the bureau as working in cooperation with other policymaking agencies thereby delivering coordination and assessment of the wider effects of public policy.\(^\text{33}\) Given his lobbying for the bureau, Copland was shocked when Brigden showed him Bruce’s offer to become its first director.\(^\text{34}\) Affronted, Copland asked Bruce why he should not be considered for the post. He had earlier written to Simpson to unashamedly offer his services to the bureau, especially if he did not win the Ritchie Chair.\(^\text{35}\) Annoyed at the breach of confidentiality, Bruce withdrew the offer to Brigden.\(^\text{36}\)

The idea of a bureau of economic research was cut short with the defeat of the Bruce government in October 1929. The Labor Party had already voted against the bill. One Labor politician stated that the bureau would have been staffed with economists ‘brought up in schools of economic thought and ideas quite foreign to conditions prevalent in Australia’. ‘The economist,’ Arthur Blakely continued, ‘is academic, conservative and anti-working class and lives in a world of his own.’\(^\text{37}\) Labor MHR John Curtin saw the bureau’s likely agenda as waging an intellectual assault on the wage fixation system with the power of wage determination handed over to quarrelling economists The Labor Party leader, James Scullin, also criticised the ostensibly ‘academic’ orientation of the people who would staff the office: ‘The textbooks teem with the opinions of the so-called leading economists of the world on the subject of free trade and protection…[The people] are not concerned with the opinions of learned persons who talk about a wonderful flow of trade through uninterrupted channels’ (cited in Castles 1997:28).

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\(^\text{34}\) According to Giblin, it was the New Zealand economist J. B. Condliffe who was earmarked for the position of director of the bureau. Hytten corroborated this. After Condliffe began to haggle over the conditions of appointment and before negotiations were complete, the Bruce–Page government was thrown out (R. Wilson to L. F. Giblin, 2 November 1950, RBA, GLG-50-1; Hytten autobiography, UT, p. 57).
\(^\text{35}\) D. B. Copland to J. H. Simpson, 29 June 1929, FECC UMA, Box 4.
\(^\text{36}\) Hytten autobiography, 197, pg. 53.
\(^\text{37}\) ‘Another weapon against workers’, *The Worker*, 24 May 1929.
With this view of economic expertise, it came as no surprise when Scullin also abolished the Development and Migration Commission. Labor believed that the high volume of imports and heavy immigration were responsible for the escalation in unemployment between 1927 and 1929 (Roe 1994:119). The Scullin government moved therefore to postpone assisted migration and significantly raise tariff protection. Sir Richard Hopkins, a British Treasury official, found this good cause to recommend that London terminate lending to Australian governments (Roe 1995:143). Despite Labor’s hidebound attitude to economics expertise there would shortly come a time when it would have no choice but to accept it.

**How interwar economists saw the origins of the Depression in Australia**

The time is coming when…every battery of science will be required for the defence of our standard of living.

— J. B. Brigden, 1928

This part of the chapter highlights the long-run internal and external factors at play that interwar economists felt made Australia acutely vulnerable to any downturn in the world economy. It is commonly agreed by economists that much of the seeds of the Australian economic malaise that unfolded in 1929–31 were sown in the mid-1920s. In his ‘reinterpretation’ of the causes of the Depression, Schedvin argued that the interaction between external and internal factors was the clue to understanding the severity of the crash in Australia. Having just undertaken an inquiry into the Australian tariff, the economists were well aware of how the capital-driven rapid expansion in resource development and population could collapse if Australia’s export prices crumbled. As we shall discover, economists attributed much of the damage from the fall in the terms of trade to state and federal governments’ fixation with overcapitalised ‘development’ (Shann 1930a; Richmond 1971:248–9; Osmond 1985:148). Frederic Eggleston’s studies of Australia’s finances in 1928 had already convinced him that ‘developmental’ policy was ‘out of date and inapplicable to our economic circumstances’ (cited in Osmond 1985:148). He warned J. G. Latham, the then Federal Attorney-General:

You are in for a difficult time. The finances of the States are so bad and the failure of Government intervention in economics is so conspicuous that I don’t think any Government can do what ought to be done without
Eggleston longed for a prime minister who would have the ‘courage’ to do little on the development front (Cain 1974:357). Economists would have shared this sentiment. Aware of the incipient economic problems and their perception, at home and abroad, Bruce was reluctant for electoral reasons to act on them (Lloyd 1984).\footnote{In post-prime ministerial life, as Assistant Treasurer, then High Commissioner for Australia in London, Bruce made amends for his earlier laxity in monitoring Australian borrowing. So adroitly did he attend to managing Australia’s borrowing portfolio or ‘loan-mongering’ that, together with his command of economic matters, he was touted as successor or alternative leader to Lyons. His decision to withdraw from the Australian political scene as Assistant Treasurer to Lyons in 1933 to take up appointment as Australia’s High Commissioner in London was seen by the Sydney Morning Herald (6 October 1933) as a great loss to the nation. The inference was that the Lyons cabinet was short of talent and expertise—a view Bruce and Casey shared with each other (see Hankinson to Secretary of State for Dominions, 8 February 1932, Public Records Office, London [hereafter PRO], T160/807/11935/5; Bruce–Casey correspondence, 1933–37, AA, 1421).}

Earlier, Shann had prophesised in his pamphlet The Boom of 1890—\emph{and Now} (1927) that the seeds of the Depression were sown in the 1920s with the first manifestation of crisis sprouting in 1927 when wheat and wool prices fell calamitously on international markets. In the same year, in a lecture aptly titled ‘The road to ruin’, Giblin expressed concern about Australia’s voracious appetite for imports.

Unemployment, which had been chronically high throughout the 1920s, crept upwards as the external blow percolated through the economy. Most Australian economists sheeted the blame for high structural unemployment to high real wages and, by direct linkage, tariff protection (Cain 1974:351; Hancock 1984:72–3). As the Brigden Committee had noted, tariffs had altered production towards labour-intensive ends. By placing a tax on primary production and supporting the workers’ livelihoods at the expense of the rural sector, protection allowed Australia’s population and economic base to diversify more than they would have under free trade (Brigden et al. 1929). The Brigden Committee warned, moreover, that overseas borrowing could not continue unimpeded ‘unless some totally new resources such as a great mineral field, are discovered’ (cited in Dow 1938:119). Australia’s high real wages, a Tariff Board report noted, were supported not just by protection but by foreign borrowing that underpinned a high level of economic activity (Shann and Copland 1931a:40–52). The Tariff Committee all but admitted that Australian real wage levels were unsustainable and would surely slip in the near future (Cain 1973).

By 1927, two-thirds of Australia’s capital borrowings had been undertaken for the purpose of economic development and took the form of public works (Mills 1928:112). The warnings of economists about the dispersal of public-sector borrowings into unproductive ventures were not heeded. In one year alone,
Australian governments floated £45 million worth of long-term debt on the London capital market. From January 1929, no long-term loans were issued to placate London’s concerns about the escalation in Australian debt. The laxity of the Bruce government found its origin in Walker’s view that conservative governments could get away with what a Labor government could not (Cain 1983:10, 16).

Bruce had always expressed confidence that his capital-intensive rural development schemes, operating in tandem with British migrants and underwritten with British capital, would prove remunerative (Cumpston 1989:65; Richmond 1971:248). Bruce had hoped to use the British Economic Mission to alleviate growing concern in the City about Australia’s rate of borrowing (Roe 1995:126). The mission, however—in a reprise on London opinion—criticised Australia’s new protectionism. The concern about Australian cost levels drew the attention of one member of the mission, who noted: ‘The nub of the problem had been identified as the great and growing costs of production, for which growing tariffs and correspondingly growing costs of living and of labour are primarily responsible, and which are further enhanced by all un-remunerative expenditures of borrowed money’ (Malcolm 1929:19–20). The mission encouraged the Bruce government to square the circle by attempting to lower production costs while continuing to promote development (Cumpston 1989:86). Their advice encouraged Bruce to embark on industrial relations reform—an action that spelt the electoral demise of his government.

University economists were heartened by the mission because it assailed the intrusive nature of government intervention within the economy, particularly the ‘vicious’ link between tariffs and wage arbitration—a concern the Tariff Board had alluded to time and time again (Cain 1974:355). Economists made themselves unpopular by railing against the power of the oppressive state and the dangers of overexpansion. Indeed Shann’s oeuvre had been dedicated solely to tracing the growth and development of, in his eyes, the sacrosanct wage-fixing system that arose in the first quarter of the twentieth century. His work had yet again publicised the effects of protectionism and brought out the key distinction between sheltered and unsheltered industries—a distinction that was to play a critical part in the policy response to the Depression (Hytten 1960:156).

Shann’s major work, An Economic History of Australia (1930a)—offered up as a blueprint for economic reconstruction—concentrated on the author’s lifelong perception of Australian economic enterprise being shackled by a raft of

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39 The Bruce–Page administration left overdrafts in London of £3.3 million and loan commitments of £71 million maturing within one year of leaving office. There was also a deficiency of £49 million in the London funds (SMH, 24 January 1931).
regulations put in place by the ‘apostles of restrictions’. By this Shann meant the endless and intrusive government regulation of commodity and labour markets—in particular, the connection between high protection and high wages, which penalised the export sector. Protection all round, Shann maintained, ultimately retarded the rate of economic growth and the rate at which working-class standards could be raised (Snooks 1993:27). In his polemic, Shann staged the argument in terms of a heroic individual struggle against the dark forces of restriction, which wanted to extend wage fixing, tariff protection and protection all round.

Brigden’s pamphlet *Escape to Prosperity* (1930) also raged against urban and rural overdevelopment but with an evangelical call for action and community cooperation. Meanwhile, Wood was finishing off his magnum opus, *Borrowing and Business in Australia* (1930), in London under the supervision of Gregory. Casey, allowed to read the draft, feared that its ‘depressing’ tone would have a bad impact on London opinion (Hudson and North 1980:544). So gloomy was Wood’s analysis that Casey got Wood to stress that it was an academic work rather than a forecast of the Commonwealth’s future.

In its report, the British Economic Mission commented that Australia ‘had been mortgaging the future too deeply and would do well to restrict her expenditure
of borrowed money for development’. The mission praised deflation as ‘the cause of wisdom’ and urged that a ‘cadre’ of highly qualified men staff the economic agencies (Roe 1995:128). The general impression formed in London from the report was, as Casey relayed to Bruce, that ‘they do not think we have been very clever with our nation planning in the past’ (Hudson and North 1980:462).

Copland gave the best contemporaneous account of how Australia’s economic difficulties had steadily mounted in the late 1920s. He identified four ‘danger-spots’ or ‘weaknesses’ in the economy—namely, the rising ratio of interest payments to export revenue; the increasing levels of tariff assistance; the growing disparity between Australian and foreign price levels; and, not least, state and Commonwealth deficit budgets (Shann and Copland 1931a:95). There was undue profligacy with public expenditure consuming 29 per cent of national income in 1928, which would rise to 45 per cent by 1931 unless otherwise checked (Raws 1931:38). All this, Copland reasoned, would have necessitated some adjustment for the economy notwithstanding the deterioration in the world economy (Shann and Copland 1931a:95). Copland rejected the argument that there had been gross economic mismanagement. A dependent economy, he said, was ‘only partially master of its own house’; in that sense Australia had been embarrassed by the calamitous fall in export prices (Copland 1930a:638–40). He did admit, though, that the distorted pattern of development would have required some adjustment, certainly on the wages front, irrespective of adverse external developments (Clark 1981a:21; Cain 1973:20).

Australian economists were not totally against the idea of large-scale development. Melville defended the public works undertaken, underlining the capital-intensive nature of these works as the economy moved from a rural to an industrialised base. Melville held out hope that once export prices recovered, together with more sensible policies pertaining to tariff and wage matters, Australia could resume where it had left off (Cain 1974:354–5; Melville 1929). On loan allocations, economists called for greater disclosure of where the funds were intended to go and the returns of the borrowings. The real priority for Australia was not ‘less borrowing but wiser spending’ (Mills 1928:116–17). Only Shann, Brigden, Eggleston and, before them, Frederic Benham, were pessimistic about Australia’s long-term economic prospects given the amounts of foreign capital recruited into low-return ventures (Cain 1974:355).

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44 Melville, TRC 182, NLA, p. 13.
Niemeyer and the Australian economists

It seems local economists were probably taken as much by surprise as Labor Party officials when informed that the Bank of England was dispatching Sir Otto Niemeyer to Australia to undertake an evaluation of the economy’s finances. It could be said that the local nucleus of economists was grateful for Niemeyer’s visit since it added a much-needed degree of gravitas to the unfolding problems. Indeed Giblin, on behalf of his university colleagues, sent Niemeyer a note of welcome. If the 1930s were to be the making of Australian economics in terms of policy influence, it was in no small part due to the public and political reaction against Niemeyer. The concluding part of the chapter shows how this was set in train.

A banker brought home perhaps the true legacy of the Niemeyer visit: ‘It is the first occasion in half a century that economic talks may be brought home forcibly to the people of Australia and those who rule over them.’ He was inadvertently right, for the controversy surrounding the visit, together with the draconian advice that sprang from Niemeyer’s lips, gave local economists an opportunity to exercise what would ultimately prove a more acceptable solution to Australia’s woes—for Niemeyer, as Gibson anticipated, brought the house of English orthodox economics down on Australia’s head. It would materialise in Niemeyer attacking the ‘ark of the covenant’—namely, Australia’s living standards, which he considered unsustainable. When the Speaker of Federal Parliament asked Niemeyer if his mission was proceeding satisfactorily, Niemeyer is said to have replied: ‘That depends on whether you do as you are told’ (cited in Macintyre 1986:258).

The high point of Niemeyer’s fact-finding tour was his infamous address to the Melbourne conference of Commonwealth and state leaders, where he told his audience that the ‘cold facts must be faced’. He told his audience that came with stern admonitions about how tariffs, in league with arbitration and excessive government borrowing, supported unsustainable living standards (Goodwin 1974). Real wages had to be quickly reduced; the therapy was couched in phrases such as restoring ‘equilibrium’ and ‘equal sacrifice’. His diagnosis of Australia’s predicament was blunt:

In short, Australia is off budget equilibrium, off exchange equilibrium, and faced by considerable unfunded and maturing debts both internally

45 A fuller version of this section appears in Millmow (2004).
46 L. F. Giblin to Sir O. Niemeyer, n.d., Giblin Papers, NLA.
48 One of the conditions of Niemeyer’s visit was that Sir Robert Gibson was to have the first interview with the Bank of England man and be allowed constant access to him (Ricketson diary extract, 25 June 1930).
and externally, in addition to which she has on her hands a very large program of loan works for which no financial provision has been made. (Cited in Shann and Copland 1931a:21)

Niemeyer visited Australia because Scullin was tempted by the possibility that the Bank of England might accommodate Australia with a loan to cover liabilities to English banks, especially if the federal government followed Niemeyer's advice. Niemeyer's mission was to diagnose the nature of the Commonwealth's economic problems and put forward advice as to its resolution. It afforded London an opportunity to launch another critique of Australia's pattern of economic development (Roe 1995:148).

The British Treasury had been monitoring Australian assisted immigration and development programs through the 1920s and one of its officers, Skevington, visiting the year before Niemeyer, voiced critical remarks about the Australians' self-belief in the great potential of their country. He found 'their ignorance of economics...pathetic' (cited in Roe 1995:136). As an old Treasury man, Niemeyer might have read Skevington's dispatches. For his own part, he would also be articulating only what had already been written on for the Bank of England's edification (Attard 1992:81).

Niemeyer's Melbourne address was composed after he had audited all governmental budgets with assistance from his economic adviser, Professor T. E. Gregory, of the London School of Economics, and an assistant from the Bank of England, Raymond Kershaw. They had also examined each government's portfolio of internal and external debts. Niemeyer made much of Kershaw's data showing the movement in money wages, per capita productivity and unemployment, even finding a spot in his diary (Love 1982). For Niemeyer, it was an open and shut case.

Niemeyer's advice at the Melbourne conference was listened to politely and seemingly consented to. As Tsokhas (1995:20–1) identified, however, the peculiarity of Australia's political and institutional arrangements, especially the federal structure of governance, deprived Niemeyer of having a 'single point' whereupon he could concentrate pressure on the need to reform. Moreover, the states resented having to make greater proportionate expenditure cuts than the Commonwealth (Tsokhas 1995:22–4). It could be said that the Scullin government, while agreeing that budgets had to be pruned, exercised a policy of 'passive resistance' to Niemeyer's advice, in the expectation that something

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50 He was not alone in this view. Alfred Davidson, the newly appointed General Manager of the 'Wales', bemoaned in a letter to Shann the same problem among his staff. He elected to establish a bank circular that, freely distributed, would attempt to lift the community's level of economic literacy (A. C. Davidson to E. Shann, 14 May 1930, BNSW, GM 302, p. 590). Another bank circular, prepared by the economic department with the same mission, was circulated only to branch managers.
would turn up. It was open to more palatable medicine. Niemeyer found the Australian resistance to buckle under disconcerting, believing they were far too optimistic about their country’s future prospects. What irritated Niemeyer most was the boundless optimism of his hosts that there must exist an easier way out of their predicament. In a long missive to Montagu Norman, Governor of the Bank of England, Niemeyer vented his frustration:

They are occupied half the time saying that the present difficulties are not their fault but somebody else’s—either Bruce’s or the London Markets or the general perverseness of the world and the other half in trying to find ingenious ways by which somebody else should help them out.  

When Niemeyer read in local papers that the British government was still considering a proposal guaranteeing loans for further migration and land settlement, he cabled Harvey:

Can you tell me whether there is any truth in this, as rumours have bad effect on these optimists? Australia is a poor country probably over-populated with a higher percentage unemployed than UK. Settlement hitherto has been very costly and unsuccessful; future development at present seems to me insane.

Despite Niemeyer warning Scullin that London would not give him a warm reception, Scullin asked whether the bank would provide the money to enable the Commonwealth to pay off some £5 million worth of maturing Treasury Bonds (Tsokhas 1995:25). Harvey, who had visited Australia in 1927 to advise on establishing a central bank, declined because the Australian government had, so far, not moved to implement Niemeyer’s advice in any way, shape or form. Earlier, the Bank of England, at Niemeyer’s suggestion, was prepared to help finance the maturing of Treasury Bonds in late 1930, but only if the Scullin government implemented the August resolutions that had, in fact, met with the approval of five state premiers. The Treasury mandarin Sir Richard Hopkins annotated a copy of the report of the interview between Scullin and Harvey with the comment: ‘It is a bad business.’ Scullin also did not impress Beatrice

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51 Sir O. Niemeyer to Sir M. Norman, 1 September 1930, BE, G1/291.  
52 Sir O. Niemeyer to Sir E. Harvey, Cablegram, 14 August 1930, PRO, T161/396/11935/02.  
53 Scullin’s extraordinary requests might be understood by Theodore having received a letter from a press agent, the Financial Times’ J. M. Myers, who informed him that the Bank of England might give Australia direct financial assistance as a result of the large gold shipment that had proved extremely useful to the bank in its dealings (J. M. Myers to E. G. Theodore, 6 August 1930, Theodore Papers, NLA). Casey had earlier complained to Bruce that Myers’ paper was chiefly responsible for fomenting negative sentiment about Australia’s finances.  
54 Copy of interview with Scullin and Sir Ernest Harvey, PRO, T161/396/11935/02.
Webb when he told her that Australia would be better off without trade unions. Webb was puzzled about why Scullin remained leader except perhaps as a cover for the ‘attractive and gifted Theodore’ (Webb 1936:254–5).

Meanwhile, the visiting Niemeyer was unimpressed by the ‘personnel all round—political, administrative and banking—is, with rare exceptions, lamentable, a circumstance which is accentuated by the marooning of the Commonwealth Government and administration on a sheep run 200 miles from anywhere’ (Tsokhas 1995:24). To E. T. Crutchley, the resident British government adviser on migration matters, Niemeyer confessed ‘he had had a lot to do with bankrupt countries but have never seen one more utterly impotent to help itself’.

Even Gibson, the only man the Bank of England trusted, ‘staggered’ Niemeyer by prophesising—correctly as it turned out—that Britain would go off the gold standard within six months. Apart from that indiscretion, Niemeyer told Lady Gibson that her husband was ‘the most outstanding figure of all those I met’ and in another instance, ‘Australia could never repay Sir Robert Gibson in thousands what he had saved the country in millions’. Niemeyer was so impressed by Melville that he probably recommended him to Gibson as the Commonwealth Bank’s first economic adviser.

There were, as will be shown in the next chapter, less austere homespun plans drawn up against Niemeyer’s prescriptions, the most outstanding of which was the Melbourne school’s. There was no record in Niemeyer’s diary or papers of having met or corresponded with its chief architect, Copland. Giblin, in his recollections to Walker, reported, however, frequent clashes with Niemeyer especially over the issue of protection (cited in Cain 1987b:6). For his part, Niemeyer found Giblin ‘pretty disappointing’ (Love 1983:273). Gregory did, however, see Copland and Giblin a day before Niemeyer’s keynote address to the Melbourne conference. Gregory cryptically reported back that the conversation gravitated around two points: the exchange rate and real wage.

55 Sir O. Niemeyer to Sir M. Norman, 1 September 1930, BE, G1/291.
56 E. T. Crutchley Diary, 14 August 1930, NLA.
58 Sir O. Niemeyer to Lady Gibson, 1 January 1934, Gibson Papers, Latrobe Library, Box 3.
59 Manuscript by M. Gibson on her father, Sir Robert Gibson, Gibson Papers, Latrobe Library, p. 50.
60 E. Shann to W. Young, 17 February 1932, BNSW, A 53/409.
61 Professor Gregory (1933:109–11) gave the oration and he took the opportunity to attack, in a digression, the Melbourne school advocates of ‘a little amount of local inflation’ then extant, whose ‘ultimate consequences would be fatal’ to not just the banking structure but the economy overall.
62 E. R. Riddle to Sir O. Niemeyer, 17 November 1930, BE, OVI/286.
63 It would not have mattered what the views of these gentlemen were. Niemeyer had already made up his mind what he was going to say and, indeed, had already given an important speech to Commonwealth
cuts. Gregory posed the question to the two academics of what was Australia’s optimal path out of its depression—namely, deflation or devaluation? He found Copland more careful in his qualifying analysis than Giblin, but also more likely to be ‘inflationist’—by that, meaning a rise in the price level via devaluation. In the record of that interview there is no mention of Copland’s expedient, articulated in his 1930 *Economic Journal* article, of a money wage cut that would deliver a real wage cut of 10 per cent. Giblin and Copland spoke, rather, about a 10 per cent devaluation to suppress imports and how, more importantly, it would give a boost to primary and secondary industries. This decision was to be coupled with compensating reductions in the tariff. Gregory insisted that primary producers would not escape rising costs due to the import bill increasing. The Melbourne economists confided that they saw unemployment ballooning to 25 per cent. Significantly, Copland mooted the idea of ‘a general scaling down’ of interest rates, but Gregory thought it was not ‘a considered point of view of what was possible on his part’.

Apart from this interview and his Fisher Lecture, Gregory kept well in the background during his visit. His one contribution to the media, as events unfolded, was to prove an interesting and prophetic one. He categorically refuted the Labor argument that a reduction in interest rates must precede a wage reduction:

> If we look at it strictly as an economic proposition, both rising rates of interest and the growth of unemployment are evidence of maladministration in Australian economic affairs, and, from a strictly economic point of view, you cannot assert that it is unjust that interest rates remain high while wages fall if the high rate of interest is unnecessary to attract capital and a lower rate is necessary to attract a demand for labour.

Niemeyer wrote to the Chancellor of the Exchequer, Sir Philip Snowdon, informing him that Gregory was returning home having had a ‘close-up’ view of protection, over-expenditure and over-borrowing.

As hopes of implementing the Melbourne agreement faded, an embittered Niemeyer wrote to his old colleagues at the Treasury: ‘This is an odd country,
full of odd people and odder theories, but I think it has had a salutary effect...on your friend Gregory who left last week uttering the most orthodox and almost antediluvian sentiments on monetary and other matters.\textsuperscript{67}

Meanwhile, Melville had, at Niemeyer’s urging, gone on the attack against the stabilisation views of the ‘Melbourne school’. Niemeyer encouraged him to keep up the fight against ‘Copland and Co.’ and their ‘dangerous nonsense’, part of which was about letting the exchange rate depreciate.\textsuperscript{68} Niemeyer, along with the trading banks, saw little logic in Australia having to pay more to service its debt or imports. It was held that the primary producers, too, would extract little benefit because of the higher costs inflicted by the devaluation.\textsuperscript{69}

In a concluding dig at the Melbourne school, Niemeyer remarked how ‘curious a commentary it is on human psychology that the same people talk in one breath of the boundless potentialities of Australia and in the next of the necessity of writing down those potentialities by 20 per cent’.\textsuperscript{70} A heartened Melville replied that the Melbourne school was technically reduced to monetising the deficits directly since the trading banks would not expedite it by purchasing government securities and, if that were to happen, there would be a flight from currency. He sought Niemeyer’s opinion about Giblin’s contention, reported in the press, that ‘our best efforts at balancing the budget were hopeless at the present time’.\textsuperscript{71} Niemeyer felt Giblin’s pessimism about balancing the budget was symbolic of a ‘quitter’ mentality he had found in too many of his hosts. Niemeyer’s reply to Melville, a few days before he set sail for England, rounded on Giblin and Copland’s ‘hopelessly academic’ measures as meaning only one thing—inflation:

\textsuperscript{67} Sir O. Niemeyer to P. Hopkins, 1 September 1930, BE, G1/291. While made in jest, Gregory’s prompting and pronouncements through the 1930s were certainly, from Australian economists’ viewpoint, consistent with Niemeyer’s description of him. Copland believed Gregory ‘gave economists a bad name’ with his emphasis on exchange rate stability (D. B. Copland to R. B. Lemmon, 15 June 1934, UMA FECC, Box 24). Copland added that Gregory ‘had learnt nothing since 1925’.

\textsuperscript{68} Sir O. Niemeyer to L. G. Melville, 1 November 1930, BE, OV9/289.

\textsuperscript{69} Niemeyer ridiculed too the argument that there had been a bank-led deflation of credit—a view Labor parliamentarians Curtin and Anstey had been pushing. For relaxation on the voyage home, Niemeyer read and scathingly critiqued John Curtin’s pamphlet \textit{Australia’s Economic Crisis and the £55,000 Interest Bill}. In a letter to W. J. Young, Niemeyer took issue with Curtin’s argument that bondholders had gained at the expense of workers, and rather insisted protected workers had gained at the expense of unprotected labour, civil servants and pensioners (Sir O. Niemeyer to W. Young, 16 November 1930, BE, OV9/289). Giblin and apparently Dyason applauded Curtin’s views on the desirability of price stability (Giblin Papers, RBA, 366/10/157). Curtin cited Keynes’s article ‘Commercial reconstruction in Europe’ as lending intellectual support to finding a way out of servicing Australia’s huge national debt. Curtin expectantly quoted Keynes: ‘if the fixed charges of the National Debt bear too high a proportion to the national income, it may offer a problem insoluble by orthodox methods’ (Curtin 1930:9).

\textsuperscript{70} Sir O. Niemeyer to L. G. Melville, 1 November 1930, BE, OV9/289.

\textsuperscript{71} L. G. Melville to Sir O. Niemeyer, 8 November 1930, BE, OV9/289.
The fundamental fallacy, of course, is the common Australian assumption that it is the business of the banks in general and the Commonwealth Bank in particular to provide capital in the strict sense of the word. The provision of capital is, of course, no part of the functions of any bank.\textsuperscript{72}

Niemeyer pointedly remarked that there had already been some ‘considerable inflation’ in the financing of deficits; he speculated also where Australia would draw on the resources to balance forthcoming budgets or finance public works. Niemeyer articulated similar forebodings when informed that the Scullin government had, against all odds, managed to raise its December conversion loan of £28 million.\textsuperscript{73} Pointedly, Niemeyer—unlike the reaction in London and Australia—pinned the success of the conversion to the public appeals made by Gibson, not Joe Lyons, the Acting Federal Treasurer (see Lloyd 1984:53). It was Lyons’ star, however, that shone brightest from the action. Lyons’ success, as Hart (1967) shows, was basically assured given the phalanx of conservative and financial interests milling behind him after he had withstood Labor Party plans to defer the conversion.

Niemeyer knew that the provisions of the Melbourne conference were in technical limbo until the outcome of the NSW state elections was known. A victory for the conservative leader, T. R. Bavin, would mean that the process of fiscal consolidation could proceed in the most powerful state in the Commonwealth and that a loan sponsored by the Bank of England might be a prospect. Unfortunately, Bavin used the Niemeyer report as the basis of his campaign, giving the unfortunate impression that he was advocating the economy and retrenchment at the dictate of London.\textsuperscript{74} Jack Lang, to Niemeyer’s horror, mounted his entire electoral campaign against supporting the August resolutions—arguing instead for some form of repudiation. Victory for Lang would therefore be a severe blow to the Niemeyer plan and, as Norman told Hopkins, ‘[t]he game would be up’.\textsuperscript{75}

Even on the day of departure, Niemeyer still strove to expunge the inveterate optimism of his hosts, remarking to journalists that ‘there was not enough pessimism around’ (Goodwin 1974:230–1). He remarked that Australians had ‘hard times ahead of them but they don’t know how to be pessimistic’.\textsuperscript{76} While he reportedly left Australia ‘to stew in her own juice’, one positive outcome was that local sympathisers apprised him and Kershaw of Australia’s dwindling finances and the unfolding political crisis. Indeed, communication links were formalised between Australian and British central banks. Niemeyer saw this

\textsuperscript{72} Sir O. Niemeyer to L. G. Melville, 13 November 1930, BE, OV9/289.
\textsuperscript{73} Sir O. Niemeyer to T. Bavin, 23 December 1930, BE, OV9/289.
\textsuperscript{74} ‘Sir Otto Niemeyer in Australia’, \textit{Nation and Athenaeum}, 17 January 1931.
\textsuperscript{75} Sir M. Norman to Sir P. Hopkins, 23 October 1930, BE, G1/291.
\textsuperscript{76} \textit{Adelaide Advertiser}, 18 August 1931.
as an alleviating factor and cause for some optimism, as long as the perception was not sown that the Bank of England was manipulating Commonwealth Bank Board policy (Tsokhas 1995:28–9). Much later, A. C. Davidson of the Bank of New South Wales, among others, would suspect that the Commonwealth Bank’s views on monetary policy were well under the sway of ‘a certain influential section of London opinion’. Gibson, and even Melville, would strenuously deny that there was dictation, saying that there was only conferral.

While many, including Montagu Norman, could foresee a looming crisis, some saw it as doing a power of good. Crutchley, for instance, reported that ‘[t]he Commonwealth Bank felt, as did other competitive authorities, that a “crash” so long as it is internal in immediate effect, was not only unavoidable but should be expected as the only way of forcing the Governments and the public to face facts and accept the hardships of reconstruction’. Theodore, too, reinstated as Federal Treasurer in January 1931 after being cleared of an impropriety, was of the same inclination, wanting a crisis to force the Commonwealth Bank Board to bend to his will.

In hindsight, the Niemeyer mission was to provide Australian economists an excellent opportunity to present a fairer and idiosyncratic solution to Australia’s economic problems in the 1930s—a point never made in the extensive literature on the Niemeyer mission. This was no mean achievement since the Labor Party usually shunned the advice of local economists as academic and impractical (Melville 1971:34; Castles 1997). Nothing Niemeyer had diagnosed about Australia’s economic difficulties was new. It was Niemeyer’s method of application of remedial policies, together with his air of superiority, that proved mindlessly insensitive to political realities and earned him lasting opprobrium. As the British senior trade representative in Australia noted, ‘Niemeyer was not the success he might have been; he lost his head a bit, was tactless and did some very stupid things’ (cited in Attard 1992:82). Rather predictably, Niemeyer had forsaken Keynes’s advice that with Australia’s export prices already depressed it was ‘not a time to choose for pressing her too hard’ (Keynes 1982b:381–2). Even Niemeyer’s strongest supporter, Gibson, chided Niemeyer for his pessimism, arguing that he did not give the Australian people enough credit to pull through. Of course, it could have been that Niemeyer was deliberately painting a gloomy picture to force the necessary measures to be taken—a point Copland felt was quite necessary in the circumstances. This did not sway Wood, however, who fumed years later that ‘[t]he resentment of the Niemeyer mission goes deeper than perhaps you have been led to expect. The personnel was unfortunate, the job was badly handled and the general effect was almost disastrous, despite the

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77 A. C. Davidson to W. S. Robinson, 12 August 1938, BNSW, GM 302/574.
78 E. T. Crutchley to the Undersecretary of State, Dominions Office, 2 April 1931, PRO, T160/807/11935/1.
79 Newspaper obituary on Sir Robert Gibson, Gibson Papers, Latrobe Library.
necessity for telling the Scullin Government the true facts of the case.'

Some years later, Copland took delight at the sharp criticism of Niemeyer’s style and therapy among Cambridge economists.

As a mark of things to come, the Melbourne stockbroker Edward Dyason, who had also been in intermittent communication with Keynes over Australia’s economic distress, told the Acting Treasurer, Joe Lyons, his concerns about Niemeyer’s advice: ‘I believe that the present policy is inimical to the national interest and dangerous to the social fabric.’ Giblin added his weight, telling Lyons that if deflationary policies were carried out, as intended, Australia would have a ‘bad smash with the chance of revolution and chaos’ (Clark 1977).

The Scullin government had been elected on the promise that they would shelter the living standards of the working man from the economic blizzard. The degree of subtlety required to negotiate through the crisis could come only from economists with an unerring common touch. They had to be able to tell parables to explain abstruse economics in order to generate the consensus for the measures needed. Along with Copland, Giblin would later claim that the Australian economists’ solution to their country’s predicament was quite removed from the Niemeyer blueprint, which he believed was both harsh and ill founded (Giblin 1951:84). It was only in April 1931 that the Labor leadership, albeit reluctantly, turned for help to the advice of local economists.

Niemeyer, however, would prove a little vindicated when he told Montagu Norman: ‘We have given them a concrete plan to pull on and sooner or later even those who now hold back will follow it.’ Norman could only agree, cabling ‘we have shown [the] Premiers a reasonable way of avoiding bankruptcy’. In a sense, they were right, and a placatory missive from Claude Reading, a member of the Commonwealth Bank Board, assured Niemeyer that the subsequent Premiers’ Plan was ‘in effect merely going back to everything you said when you were here and adopting the remedies which you concluded would be necessary’ (cited in Tsokhas 1995:30). The Australian economists’ plan was neither as deflationary nor as iniquitous as Niemeyer’s. And even if their plan was a ‘makeshift’ one, it was to make their fame.

Despite its humble beginnings, the Australian economics profession had come some distance in a very short time. The profession had established a good theoretical founding, taking the peculiarities of the Australian economy into

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80 G. Wood to W. S. Robinson, 21 April 1932, UMC FECC, Box 14.
81 Occasional notes on his visit to Cambridge, 26 May 1933, in BNSW, GM 302/412.
82 E. C. Dyason to J. Lyons, n.d., Lyons Papers, NLA, Box 1, Folder 2.
83 Sir O. Niemeyer to Sir M. Norman, 8 November 1930, BE, G1/291.
84 Sir M. Norman to Sir O. Niemeyer, 6 November 1930, BE, G1/291.
85 Mauldon’s review of D. B. Copland’s *The Australian Economy*, in UMA FECC, Box 20.
account. It had, moreover, already established the practice of offering scientific input into community issues. This progress culminated in Australian economists offering a more palatable alternative to Niemeyer’s prescriptions.