5. The Premiers’ Plan and the economists

Introduction

Australian economists played a key role in developing the policy alternatives to deal with the nation’s economic crisis. Contrary to Schedvin’s view that economists played only a superficial role in the Depression, Copland (1934:29) saw it as a defining moment for the economics profession. The purpose of this chapter is to recount how economists responded to the economic crisis of 1930–31. While Neville Cain has undertaken an exacting study of the origins of the Premiers’ Plan, this account, using new archival material, will attempt to retrace the subtlety and nuance of the path towards economic reconstruction. When reviewing Schedvin’s work, the economic historian N. G. Butlin suggested that ‘the Battle of the Plans’ was not fought just in academic seminar rooms.¹ That is, it was not just a contest of economic ideas; it was an unfolding political drama. Consequently, there must be some discussion of the political backdrop, especially the two opposing economic plans put forward by the two protagonists: E. G. Theodore and Jack Lang.

This chapter reassesses Theodore’s fiduciary issue plan, given its contextual and theoretical importance, and contrasts it with Lang’s plan. Both plans fell from grace in quick order. The same could not be said of the economists’ composite plan drawn up within the ambit of what the financial community would then allow.

The pugnacious figure of Copland was to prove instrumental in marshalling economists behind a plan that rescued the country from the economic mire.² It was a plan that embodied existing economic thought. Reflecting on the period, Copland argued that Australia followed two distinct phases of policy response to the Depression. The first phase was an ‘experimental’ stage in which the authorities, lacking cohesion and direction, tackled the crisis from a short-term view. The ‘battle of the plans’ phase, and thereafter, was when the federal government, albeit reluctantly, heeded the advice of economists. Strands of earlier memoranda of economic advice and thought were distilled into the shape

¹ The Bulletin, 5 December 1970.
² D. B. Copland to McDougall, 19 April 1932, UMA FECC, Box 11.
and elixir of the Premiers’ Plan of June 1931. Moreover, as the second half of this chapter will show, the plan also had a touch of Niemeyer about it to allay the concerns of powerful financial and banking interests.

The political economy of the battle of the plans

The Theodore plan

Before the Scullin government succumbed to economic orthodoxy, Theodore had, with the critical support of the left, a last throw of the dice with his ‘forward policy for Australia’ or Fiduciary Issue Plan. The Scullin government had apparently embarked on such a desperate endeavour because it had become, in Frank Anstey’s (Cook 1979:389) words, ‘a truculent, valiant, revolutionary’ position against the prevailing financial orthodoxy being pushed on them by the banks. The party leadership now embraced theories once regarded as ‘disastrous’ and ‘fantastic’ or ‘not practicable’ by Theodore (cited in Cook 1979:385; Hart 1965:3). Emotive statements such as ‘[t]he banks denied credit to the government; it was therefore necessary to create it’ and ‘credit can be expanded at will’ disconcerted economists and bankers (Shann and Copland 1931a). Shann told an English correspondent that Theodore was leading a ‘debtor’s revolt’ with his policy of heavy inflation.

The private banks echoed the Commonwealth Bank Board’s opposition to Theodore’s fiduciary issue scheme. The National Bank denounced the Treasurer’s ‘quack remedies and stimulants’ (cited in Cannon 1996). Another bank and another banker, the enlightened A. C. Davidson, who had written a pamphlet on central reserve banking, wrote ‘[t]here is a large body in the Labor Caucus at Canberra which holds extraordinary theories in regard to money, credit and banking’ (cited in Cannon 1996:33). The imperial view, held by HM Treasury and the Bank of England, was that monetary stimulation to induce a higher level of activity would merely raise domestic costs and price levels above those of other trading nations and thereby exacerbate Australia’s trade account difficulties.

The vociferous reaction to Theodore’s proto-Keynesian experiment, not least from economists, was to have a subliminal influence on economic policy in the 1930s. Just as economists could prove to be constructive, so equally could they prove destructive in their criticism of the plans and ideas of others. It mirrored in a way Theodore’s rather problematic relationship with the economists,

3 SMH, 28 January 1931.
4 E. Shann to H. Finlayson, 5 May 1931, BNSW, A53, p. 409.
finding at times half-hearted support for his measures, at other times, vehement disapproval. There was also an element of admiration for the Treasurer and, as we shall see, there was to be a sequel to this story in 1939. Economists were not alone in appreciating Theodore's technical abilities. A political opponent, the NSW Opposition Leader, Bertram Stevens, who would come into his own element later, described Theodore as 'possessing the coolest, best, and most experienced financial brain in the southern hemisphere' (cited in Kennedy 1988:278). 5 Bruce reportedly considered Theodore to be Australia's greatest treasurer (Calwell 1972:62). The economists would later find—perhaps to their embarrassment—that some of Theodore's economic vision was ahead of their own (Kennedy 1988).

Initially, Theodore held court with Copland, Giblin and the stockbroker Edward Dyason, but the university men parted company over the fiduciary issue scheme. 6 Dyason remained committed to it. 7 Economically literate, Theodore was allegedly privy to the views of Robert Irvine, the defrocked professor of economics from Sydney University known for his under-consumptionist views (Clark 1974b; Fitzgerald 1994; McFarlane 1966). Irvine had already won notoriety having battled out an honourable draw—intellectually at least—with Copland in the 1930 National Wage Case, arguing, with some support from the business community, that wage cuts would merely suppress purchasing power (Cain 1987b; Clark 1981b). According to David Clark (1975:30), Irvine's evidence on monetary circuits bore a 'remarkable resemblance' to Theodore's proposals that came not long afterwards. Copland, who emphasised the capacity-to-pay argument before the court, won the case but the presiding judge was also swayed by Irvine's submission that reducing wages would, by reducing purchasing power, make matters worse before they got better (Hancock 1984:73; Cain 1987b:11–15). Theodore deplored the court's decision, believing political forces had put the judges up to it. 8 A heartened Shann felt that the court's decision showed that it was partisan free.

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5 Theodore had already shown his intellectual qualities by bringing the Central Reserve Bank Bill before Parliament. The attempt to redesign Australia's financial architecture was to be abortive. Theodore wanted more effective control over the mobilisation of credit and to split the commercial activities of the Commonwealth Bank from its central banking duties. Theodore had already attacked the trading banks' powers to determine the extent to which credit could be expanded or contracted. In arguing his case for the legislation, Theodore cited A. C. Davidson's work on the subject and claimed 'there is a generally held opinion among economists, bankers and financiers generally, that our existing banking and financial system has proved defective' (CPD Hansard, 1 May 1930). Davidson did not return the compliment, fearing that the Commonwealth's board of directors would become politicised and approve Labor's wild credit schemes (Schedvin 1988:343). While certainly to Melville Theodore's proposal was never taken seriously, some of its attributes, such as concentrating the gold reserves of the private banks into national control, came to pass in the mobilisation agreement of August 1930. This enabled the Commonwealth to obtain information on the trading banks' foreign exchange and thus allow the possibility of exchange control (Cornish 1993b:11).

6 Melville, TRC 182, NLA, p. 43.

7 E. C. Dyason to L. F. Giblin, 27 February 1931, UMA FECC, Box 20.

8 SMH, 9 February 1931.
Having undergone an intellectual metamorphosis in 1930, Theodore saw the Depression as due to a breakdown in the credit creation process. Deflation, he held, was ‘the policy of despair’. Monetary stimulation would arrest the economic decline and reignite economic activity. Some parliamentary support for the plan came from the NSW state Labor member, Clarence Martin, who possessed an economics degree from the University of Sydney and was a devotee of Keynes. What became known as the Fiduciary Issue Bill had unclear parentage. It was inspired partly, as Castles (1997) shows, by a memorandum prepared by the Commonwealth Statistician and Actuary, Wickens, for the Acting Prime Minister, Fenton. His memorandum to engage in the process of price stabilisation using a statistical index attracted criticism—not just for his foray into policymaking, but for the very nature of it (Castles 1997).

Castles (1997:29) contends that such was the Scullin government’s contempt for ‘scientific economists’ that Wickens was the only trusted expert to which they could turn. Wickens, however, did not pull his punches: ‘Australia had been living in a “fools’ paradise” of bountiful harvests, high export prices and borrowed money all of which had now vanished. Australia had to choose between Repudiation, Inflation or Readjustment.’

The last option, in his view, meant the selection of an equitable price level index, an accommodating monetary policy and, with it, a flexible exchange rate. In other words, stabilisation of prices was more important than stabilisation of exchange; it was to become an issue that would dominate the thinking of economists in the 1930s. This attracted the bile and bite of Davidson, who likened Wickens’ inflationary scheme to that of alcoholic addiction: ‘Another little drink wouldn’t do us any harm…but he is in shockingly bad company.’ Davidson also ridiculed the very idea of price-level targeting and queried what means were in place to prevent overshooting: ‘Who is to bell the cat?’ he pondered.
Theodore’s plan was encased within three bills put before the House of Representatives in February 1931

- a rate-of-interest bill
- a Fiduciary Notes Bill
- a bill to amend the *Commonwealth Bank Act* with respect to the note issue.

The less well-known first bill provided for the appointment of a board to make recommendations to the Treasurer concerning bank interest rates. The second authorised the issue of £18 million of public works expenditure facilitated, in part, by the third bill by relaxing the note issue regulations of the Commonwealth Bank. Theodore’s plan was a collage of the Melbourne school mixed with the works of Irvine and Wickens’ memorandum.

The trading banks were suitably outraged at Theodore’s bill. Couching his words within a familiar analogy, Sir Ernest Wreford of the National Bank warned that ‘Australia is financially sick and will not get well by drinking the financial champagne of further borrowing or note inflation’ (Blainey and Hutton 1983:209). Despite the outrage in Parliament and elsewhere that greeted the initiative, Theodore stressed that he was not an inflationist even though the restoration of price levels to the average of their 1929 levels meant ‘heavy inflation’. The economists took action. Shann and Melville lent their imprimatur to the pamphlet *The Menace of Inflation*, condemning outright the Treasurer’s policy. Archibald Grenfell-Price, an Adelaide polymath, penned the pamphlet (Kerr 1983:91). The banks financed its mass circulation. Apart from the tacit approval of Wickens and Dyason, the only lasting support for Theodore’s plan came from Irvine, who congratulated Theodore on his new financial policy: ‘You have gripped the truth that every bank advance means an increase in deposits and every cancellation of advances means a decrease of deposits.’

The highpoint of the Theodore plan was when he gave a virtuoso performance in Parliament in March 1931 defending it by citing the works of Keynes, Hobson and Cassel, all of whom were in favour of reflation rather than expenditure and wage cuts (Kennedy 1988:298). Theodore knew his scheme was bound to provoke furious reaction so he cast it in the verbiage of a reduction of pooling or ‘spreading the loss’ mentality that economists were keen to convey. Theodore showed an easy familiarity with a crude version of an expenditure multiplier in his advocacy of easier bank credit. He used Giblin’s multiplier, showing some

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14 *SMH*, 23 February 1931.
15 R. F. Irvine to E. G. Theodore, 22 January 1931, Theodore Papers, NLA.
16 *CPD Hansard*, 17 March 1931.
17 It was Theodore who theatrically held aloft a copy of Keynes’s *Treatise on Money* in the House of Representatives and declared that, ‘as a textbook [it] will stand for fifty years as a guide to the intellectuals of the nation on the subject’. Theodore was the first person in Australia to have a copy, expressly sent to him by the mining magnate W. S. Robinson (Melville, TRC 182, NLA, p. 42). Clark (1975:31), however, records
output elasticity to defend his proposal of injecting credit into the economy (Cain 1987a:21). In the same speech, Theodore noted that achieving budgetary balance was a function of economic recovery itself (Cain 1987a:21). While technically correct, this allowed him to downplay the need to make immediate economies—something that horrified the economists. Theodore proposed that the Australian pound free itself from ‘the conservative fetish of parity’ and find ‘a level commensurate with the disparity in the Australian price levels as compared with those overseas’.18 The Australian pound had, as we shall see, already been devalued in January 1931, but this scheme spelt further weakness. When Theodore claimed that the Fiduciary Notes Bill had the imprimatur of the Melbourne economists and even Brigden, the Opposition Leader, J. G. Latham, retorted that this was no longer, if ever it had been, the case. In Parliament Theodore responded, ‘I did not say that the scheme was supported by them. I quoted their works to show that the same ideas were supported by them.’ With Theodore, expediency came before conviction.

Markwell recounts another episode of an intellectual sleight of hand in which Theodore selectively quoted Keynes’s remarks disavowing wage cuts as a cure for the Depression yet deleted his preceding remarks that the credit restriction policies carried out by the Bank of England had been relatively mild.19 As Melville recalls, Theodore was, first and foremost, a politician theatrically engaging in attacking the banks for purportedly restricting credit when the opposite was more true.20 Theodore’s Fiduciary Issue Bill could easily be interpreted as an inspired act to secure the support of the left of the Australian Labor Party (ALP) to advance his leadership aspirations.21 In that light, Theodore’s plan would politically neutralise the Lang camp and sweep him to the party leadership.

The vociferous reaction to Theodore’s proposals reflected the widespread fears that linked currency expansion with inflation. His plan consequently ran into fierce institutional and political opposition from the Commonwealth Bank and the Senate. Theodore’s plan of financial rehabilitation also did not convince the

\[ \text{that the Lang political machine quoted liberally from the } \text{Treatise. The } \text{Treatise’s primary policy emphasis was to use cheap money to bring savings and investment into equilibrium at full employment. It was also true that Keynes had described public works as a ‘weapon by which a country can partially rescue itself when its international disequilibrium is involving it in severe unemployment’ (Keynes 1930:376). But what if in Australia’s case the extravagant use of public spending had, to some extent, landed her in that international disequilibrium?} \]

18 SMH, 9 February 1931.
19 The Sydney Morning Herald detected another misrepresentation of Keynes’s views used by Theodore to justify his fiduciary issue plan in its editorial of 11 February 1931. The former NSW Treasurer B. S. B. Stevens noted during the Parkes by-election, in which Theodore unveiled his initiative, that he claimed economists had favoured inflation but he had not disclosed they were equally adamant for cutting government spending and costs (SMH, 16 January 1931).
20 Melville, TRC 182, 1971, NLA
21 ‘Mr Theodore evolving a sound plan’, SMH, 31 January 1931.
state premiers. Theodore made the mistake of assuming others could understand the mechanism of controlled credit and a purported rise in economic activity (Cain 1987b:18–19).

Copland and Giblin, who months earlier had entertained the notion of price stabilisation, distanced themselves from Theodore’s ideas, stating that his strategy diverted attention away from Australia’s fundamental problem of a distorted, unfavourable export price–domestic cost relationship. After consulting Melville, Copland also attacked Theodore’s plan on the basis that it would destroy confidence and lead to capital flight. The Treasurer’s plan also did not make clear the need for substantial expenditure cuts or embody any wage or income cuts. Theodore’s sole reliance on using monetary policy to make the economic adjustments necessary to restore employment and national income attracted Copland’s ire (Cain 1987a:25–6). No manipulation of the currency, it was held, could restore the real income of the country (Copland and Shann 1931a). Also undergoing a change of heart was Theodore’s friend Giblin. He attacked the ‘foolishness’ of printing notes or releasing credits in one of his John Smith commentaries that appeared in the Melbourne Herald. Giblin insisted that the only solution to an ‘outside problem which is causing an inside problem’ was an interim cut in real wages. He did, like Copland, see merit in having an issue of credits to maintain the price level. Giblin was adamant, however, that monetary stability was necessary for recovery and that it be exercised by an independent but informed authority.

Rejection of the Theodore plan would clear the field for a compromise Melbourne plan encompassing balanced budgets, some credit expansion, lower interest rates, money wage cuts and a depreciated exchange (Shann and Copland 1931b:27–8).

The timing was never right for Theodore’s scheme; its licentiate expansionism went against the collective guilt-ridden reaction to the profligate borrowing and spending of the 1920s. At a deeper level, schemes of fiduciary currency were held to bring about the collapse of moral standards and the breach of contracts (Nicholls 1992:215).

22 Even Niemeyer had Kershaw or Gregory draw up a description of the credit creation process for his own elucidation to help explain what the Federal Treasurer was about (BE, G1/291, Appendix).
23 Theodore’s principle to restore price levels to their 1929 level as the means to recovery belatedly met with the approval of financial high authority in London with The Tuesday Club consisting of, inter alia, Niemeyer, Keynes, Stakosch, Stamp, Sir Charles Addis and Sir Richard Hopkins (Kennedy 1988:300).
25 24 November 1930, Giblin Papers, NLA.
26 Giblin Papers, NLA.
27 ‘Mr Theodore plan: fundamental weaknesses’, SMH, 23 February 1931; ‘Creating credit; its limitations and dangers’, SMH, 30 January 1931.
28 Ralph Hawtrey (1928:64) deemed inflationism ‘a derogatory term thrown at a school of thought by their opponents, as the term Christian was by the people of Antioch at a new sect...The inflationist dog has been given a bad name’.
Walker that the Theodore plan was intrinsically ‘reasonable and sensible’ but strikingly at odds with the prevailing psychological mood (cited in Cain 1987a:26). The policy would, like its proponent, have a deleterious effect on business confidence. It threatened the pecuniary interests of the powerful banking and rentier communities.

The Lang plan

Given the colossal political impact Jack Lang wielded in 1930–31, it is remarkable how little economists—apart from Shann, who held the demagogue in utter contempt—spoke out against his debt-repudiation plan. Another view might be found in Brigden’s critique of Theodore’s plan ‘to extend credits to Government as an alternative to equality of sacrifice…[which] would most certainly lead to default abroad with substantial inflation at home. Mr Lang’s policy is much preferable, for it would be certain and would not inflate.’ Nonetheless it would be drawing a long bow to argue that repudiation, even a moratorium on paying interest on the London debt, had the approval of Australian economists. Perhaps Lang’s overt populism and his scathing dismissal of intellectual input, no less economists, did not warrant a considered rebuttal. Giblin was right to believe Lang’s plan was circulated to maliciously disperse support for Theodore’s blueprint (Young 1963:40). As the previous chapter showed, Lang’s rise to the NSW Premiership had already put at risk Commonwealth policy—namely, upholding Australia’s good name in the London capital market.

More positively, Lang’s crusade brought home to economists the imperative of constructing a recovery plan that would quell community tensions. This could be achieved, as Lang argued, by having all parties contribute to Australia’s salvation. Cutting interest rates would help kindle recovery. On an intellectual plane, Lang’s under-consumptionist argument, together with his scurrilous attacks on English finance, stemmed from the economic underworld (see Clark 1977). Lang’s pamphlets did, however, cite Keynes’s *Treatise*, especially on public works and the need for low interest rates (Clark 1981b:180). One of Lang’s assistants, A. C. Paddison, who wrote the pamphlet *The Lang Plan*, an *ex post* rationalisation of the makeshift program, sent a copy to Keynes. He received a courteous reply agreeing in part on the need for an altered exchange rate; however, the matter of repudiating Australia’s overseas debt or even the idea of a moratorium on paying it struck Keynes as a ‘rather crazy’ policy. True to his propensity for changing his mind when the circumstances changed, Keynes later told Giblin that default on Australia’s sovereign debt might, in some cases, be a defensible option.

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29 ‘Memorandum on monetary policy’, late 1930, Brigden Papers, NLA.
30 J. M. Keynes to A. C. Paddison, 20 April 1932, KPKC, CO/6/3.
31 J. M. Keynes to L. F. Giblin, 31 August 1932, KPKC, CO/2/213-5.
In the same vein, Cook argued that the ALP at the time was not really interested in radical ideas and theory but, like any political party, was really interested only in retaining office. This might offer some explanation, too, for why Labor ultimately succumbed to the Premiers’ Plan, with Theodore admitting that it would restore confidence (Cook 1970). Melville was of the opinion that the government had no other option (Cornish 1993b). What ultimately put to death the Theodore plan, therefore, was not the intermittent attacks of economists but political circumstances such as the 1931 Parkes federal by-election, which was basically fought over the ‘controlled inflation’ issue. The Niemeyer plan too, one recalls, had been put to the electoral test (Lloyd 1984:Ch. 5). The Parkes by-election result also torpedoed Theodore’s Central Bank Bill, since the Scullin government would hardly force a double dissolution over the issue. In a confidential letter to Niemeyer, Claude Reading intimated that Theodore had committed himself to so many positions within the previous 12 months that it was ‘only a matter of time’ before the Scullin government fell. His letter concluded: ‘The drift in Government finances still continues, but as far as the Board is concerned we are determined not to make it easy for the drift to continue.’

Two months later, in April 1931, Gibson effectively put an end to Scullin’s vacillation and Theodore’s vain hopes of a *deus ex cathedra* by refusing to extend the Commonwealth overdrafts any further. As a last gasp before the inevitable, Theodore had Robinson make further representations to the Bank of England about whether Australia could obtain reasonable credits in London during the next three years if she could balance her budgets with reasonable speed. The request suffered the same fate as Scullin’s two meetings with Harvey the year before. Another plan had to be found—one that included economic expertise.

**The Premiers’ Plan**

The plan, the whole plan and nothing but the plan. The Premiers’ Plan assumes the mantle of folklore in Australian history. As a piece of economic architecture, the plan provided the platform for Australia’s economic recovery even though it was, in fact, quite deflationary (Walker 1933a). It did, as one American observer noted, contain some departures from orthodoxy, which, even if they were accidental, as Walker argued, were economically and ethically justifiable (Garnett 1949:100; Cain 1983:4–5). The

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32 Shann sardonically observed Theodore’s economic oratory on the hustings: ‘He seems to have swallowed Mr Keynes’s *Treatise on Money* but to have found it indigestible’ (*The Statist*, 26 February 1931, Shann Papers, NLA).
33 C. Reading to Sir O. Niemeyer, 4 February 1931, BE, OV13/1 453/2.
34 W. S. Robinson to Sir E. Harvey, 28 April 1931, BE, G1/286.
35 E. Shann to D. B. Copland, 5 June 1931.
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plan was directed, first and foremost, at establishing budgetary equilibrium. It was to operate for three years and was agreed to by all the premiers and the Commonwealth government, giving it binding force. The measures, moreover, were seen as a comprehensive, indivisible whole, simultaneous in operation. They were also complementary to the Arbitration Court’s 10 per cent wage cut of January 1931, together with the devaluation of the Australian pound—measures for which economists had proved remarkably instrumental. The plan was predicated on primary product export prices falling no further than they had in 1931.

In their meetings called to discuss the crisis, economists showed an acute sense of ‘practical politics’ in coming to some agreement about what precisely to do.\(^\text{36}\) As Torliev Hytten, who held the economics chair at Hobart, recalled: ‘While the orthodox economic theories were no doubt at the back of our minds…we were really pragmatists.’\(^\text{37}\) Copland, who, as one historian later put it, ‘sedulously propagated’ the role of the economists in the episode, was afterwards more candid about the compelling force of circumstance (Hancock 1972:76). He admitted to an associate: ‘Only the logic of events allows pure theory to get any triumph, and what we have been able to do here and elsewhere in this crisis must be attributed not to our own logic but to the inevitability of implementing the policy we propounded.’\(^\text{38}\) To another associate, he confessed that ‘[t]he early severity of the crisis forced drastic methods upon us and we were perhaps fortunate in not being in a position to make a deliberate choice. No doubt we would have failed to have taken the drastic action that we did.’\(^\text{39}\) In short, it was the dire circumstances confronting the Australian economy that brought economists to the fore.

These were not inconsiderable.

- A collapse in national income, in nominal terms, from about £645 million in 1928/29 to £430 million in 1931/32—a fall of some 34 per cent.
- Unemployment increased from 9.3 per cent in 1929 to 25.8 per cent by 1931.\(^\text{40}\)
- A major diminution in state and federal government finances due to falling customs and railway freight revenue.
- A worsening balance of payments, with the London funds critically low.

\[^{36}\] L. F. Giblin to E. R. Walker, 19 April 1934, Giblin Papers, NLA.
\[^{37}\] Hytten autobiography, UT, p. 66.
\[^{38}\] D. B. Copland to R. B. Lemmon, 20 March 1935, UMA FECC, Box 34.
\[^{39}\] D. B. Copland to W. Downie-Stewart, 20 January 1933, UMA FECC, Box 19.
\[^{40}\] These figures were provided by trade union secretaries. Roland Wilson suggested that the trade union secretaries’ estimates ‘were not worth the paper they were printed on’ (Wilson, TRC 1612, NLA). Giblin and Copland, however, set much store by them in 1930.
A deterioration in confidence such that it was feared Australia could no longer raise loans in its own capital market to bridge government deficits and loan servicing costs.

A debt deflation problem threatening, with exporters unable to meet their interest payments and their assets, pledged against debts, depreciating rapidly (Copland 1937a:398–9).

Australia was, as Giblin put it, ‘in a difficult hole’; her problems were compounded by a trading profile marked by a limited export basket of goods yet acutely dependent on imports of capital and intermediate goods. Australia had to generate very quickly a trade surplus sufficient just to meet the yearly £30 million sterling interest debt. Imports had exceeded exports for almost a decade, while interest payments were drawn from fresh borrowing. On top of this came the problem of maturing debt—external and internal—over the next decade. While Australian authorities had certainly been made aware of the gravity of the problem since Niemeyer’s visit, they had dithered in devising a plan of action. The fact that Australia had ‘not got its house in order’ dealing with these innate problems beforehand made her difficulties all the more burdensome especially when creditor nations such as Britain also became engulfed by depression (Shann and Copland 1931a:x).

The key architect and publicist for the plan, Copland, transposed it into a conceptual framework. It consisted of

- a depreciation of the currency sufficient to restore real income in export industries to 90 per cent of its former level
- a reduction in real wages of 10 per cent
- a general reduction in real government salaries and wages expenditure of 10 per cent
- a super tax of 10 per cent on income from property
- an expansionist monetary policy based on the purchase of government securities by the Commonwealth Bank with a view to maintaining the general level of prices
- a proportionate reduction in rentier income derived from securities (Copland 1934:66–7).

These policy recommendations closely followed the recommendations of the economists and Under-Treasurer’s committee—informally named the Copland Committee after its chairman. Three other economists—Melville, Shann and

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41 Memorandum no. 20, 1932, UMA FECC, Box 32.
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Giblin—sat on the subcommittee, together with five state treasurers and Commonwealth Treasury officials. Its brief was to compose a report entitled *The Possibilities of Reaching Equilibrium in Australia.*

What set the Premiers’ Plan into formal motion was when a subcommittee of the Loan Council, instigated by the South Australian Labor Premier, Lionel Hill, was charged with investigating the steps needed to balance government budgets by the end of 1934 (Copland 1931:538–90). This action broke the Theodore-imposed deadlock on the Loan Council’s ability to act. Gibson had already warned the federal government that the bank’s advances of Treasury bills were limited to £25 million. That decision to wrestle control of the public purse away from an overspending government brought forth a riposte from Theodore that would resonate through the decade:

> The attitude of the Board…can only be regarded by the Commonwealth Government as an attempt on the part of the bank to arrogate to itself a supremacy over the Government in the determination of the financial policy of the Commonwealth, a supremacy…never contemplated by the framers of the Australian Constitution. (Shann and Copland 1931b:48)

Compounding difficulties was Lang’s precipitate action of defaulting on an overseas interest payment. The federal government hurriedly paid instead, but Australia’s credit rating was tarnished (Walker 1933a:142). It was time ‘to call in’ the economists.42 It was at that juncture that economists ‘rendered their country important service…their advice was taken at a critical moment in the crisis’ (Copland 1937a:400). Walker’s (1933a:143) contemporaneous account visualised the economists emerging with ‘a compromise’ to break the deadlock between the federal government, the Commonwealth Bank and the Lang NSW government.

Apart from the influence of Melville, the Premiers’ Plan had further South Australian connections with the Adelaide businessman Sir Wallace Bruce, Archibald Grenfell-Price and an accountant, Hardinge Brown, formulating a plan in May 1931 known as the Discount Scheme (Kerr 1983:97). The scheme revolved around the idea of a national sacrifice that included all income recipients. Hardinge Brown wanted all financial institutions and bondholders to take a unilateral cut in their interest income. When Hardinge Brown and Grenfell-Price first showed their plan to Melville, he damned them as ‘repudiationists who out-rivalled Lang’.43 Melville, however, quickly reversed his tune, telling Grenfell-Price that the economists on the Copland Committee placed the discount scheme at the forefront of their recommendations.44 While

42 H. C. Coombs to E. Shann, 4 June 1931, Shann Papers, NLA.
44 Ibid., pp. 24–5.
the banks opposed the very idea, Grenfell-Price claimed that his little coterie, backed by the popular might of the mass-based Citizens’ League, provided the progenitor for the Premiers’ Plan. As he put it: ‘The important part for the Adelaide side was that the discount scheme was adopted by the experts in spite of Melville’s earlier opposition, and that it did lead to interest rate reductions and a scheme of general self sacrifice.’ Grenfell-Price was quite unaware of Copland’s earlier work showing how ‘heavy deflation’ would, using Keynes’s *Treatise* schema of savings and investment imbalances, aggravate social tensions within the community (Cain 1980:14).

Copland saw the plan achieve three significant things. First, it took the process of financial rehabilitation out of the political arena. Second, it laid to rest the Theodore policy of inflation. And third, in contrast, the plan solidly committed Australia along the road to deflation ‘to an adjustment of her internal prices and costs in conformity with the fall in overseas prices’ (Copland 1931). His Sydney counterpart, Mills (1933:221), in a review of the plan, said that it addressed the two key problems of restoring the balance between costs and prices in all industries, not just exports, and arresting the drift in public finances. Importantly, it had to draw on the critical support of the trading banks to be a success. They were to live up to their end of the bargain and promise interest rate cuts. The whole package, nonetheless, made for deflationary economics.

The economists however, as Copland later intimated to Irving Fisher, were about a secret agenda: ‘Our economists and monetary advisers knew pretty well what they wanted, but I am quite sure that neither the Treasury authorities nor the Commonwealth Bank Board quite appreciate the nature and importance of the experiment they were conducting.’

Copland (1932a:113) added that banking and financial authorities, too, did not recognise the ‘significance’ of the policy they were administering under the plan. The ‘experiment’ was to use Treasury bill finance to cover existing deficits and sustain spending and the price level thereby preventing the burden of indebtedness from increasing. In correspondence to another academic, Copland confirmed that

Australia did act upon expert advice and it was to some extent because of this she got so reasonable a scheme. Neither the businessmen nor the Labor people completely agreed with the economists...I think, however, it may be said that the policy that was ultimately adopted substantially agreed with the original schemes discussed and put forward by economists.
Melville admitted that there was a ‘Machiavellian’ touch behind the economists’ rhetoric: ‘We thought that the proper way to get results was to talk about deflation and inflate like hell.’ Hytten attributed the plan to economists with ‘a solid theoretical background but this was an exercise in applied economics, and the factual situation played the decisive part’. Boris Schedvin has argued that the Premiers’ Plan not only avoided a complete economic breakdown, it was dedicated to restoring Australia’s external equilibrium—a view Melville (1971) endorsed. In a pointed dig at Copland’s prolific rhetoric about the plan’s merits, Melville reflected years later that:

Maybe some of us got a little hysterical about how good it was but it aimed to be only an attempt to get the budgets of the States and the Commonwealth under control and flowing from this we could see an avoidance of default and we would see a more manageable external debt problem, which was no solution to the depression problem, but these were important issues that had to be tackled.

Even Shann, who worked with Copland on the plan and thereafter, was, in private, rather contemptuous of what he considered Copland’s ‘demagogic egotism’.

Copland always took an extremely positive view of what the package really achieved and the role of economists in carrying it through. No other country had done as much as Australia in its economic readjustment (Copland 1931:549). ‘Australia,’ he claimed ‘came out of the depression earlier than most other countries because of the approach that was made under the Premiers’ Plan.’ Economists, Copland (1951:9) proclaimed later, ‘went over the trenches in the grand manner, to occupy positions that had hitherto been beyond their reach’. Inevitably, there was overstatement in Copland’s claims about what the plan had done for Australia and for the economics profession. The plan, it was true, exhibited some element of forceful cooperation between the economic classes, which was Copland’s academic oeuvre, but, more importantly for our interests, it brought the two contending camps of economic advice—the deflationists and the stabilisationists—under the one roof. In that regard, there was, early on, as Davidson recalled, some antipathy between Copland and Melville with Shann having the task ‘poor chap…of trying to bring them together’. There was also no representation from the Sydney coterie of economists with Mills overseas on sabbatical. Apart from uniting the economists, the Premiers’ Plan met with

48 Melville, TRC 182, NLA, p. 34.
49 Hytten autobiography, UT, p. 67.
50 Melville, TRC 182, NLA, pp. 48–9.
51 W. Somerville, ‘A blacksmith looks at a university or the first thirty years of the University of Western Australia’, Mitchell Library.
52 Copland, TRC 574, NLA, p. 10.
53 A. C. Davidson to T. Hytten, 27 May 1935, BNSW, A 53/446.
the critical approval of the banks. Five years later, Copland had barely changed his tune. He told an Economic Society gathering in August 1936 that the plan had been ‘misunderstood’. He went on: ‘Both sides of the controversy had laid emphasis on the orthodox elements of the Plan, although its unorthodox features were the really distinguishing features. The orthodox portions of the plan were only “smokescreens” for the things that were really done under the Plan.’

The Adelaide businessman and political savant W. J. Young conveyed the good news to Niemeyer: ‘Copland has discarded any weakness he may formerly have shown and he and Melville are working loyally together.’ Young meant by that Copland’s earlier advocacy of price stabilisation. Sympathetic to the new breed of academic economist-cum-adviser, Eggleston hailed the plan as ‘a magnificent conception’ (Osmond 1985:155). As well as the overriding goal of fiscal consolidation, the plan outlined how the burden of economic adjustment would fall equitably. This doctrine of ‘equality of sacrifice’, which underlay the package, came at the insistence of politicians, but it was Copland and Giblin who had first mooted the idea of all playing their part to restore Australia to an ‘equable position’. It struck a pious chord since the overindulgent spending in the 1920s should be followed by collective penance (Nicholls 1992:216).

At the Commonwealth–state conference held in June 1931 to discuss the plan, Copland and Giblin explained the technical provisions especially concerning the loan conversion operation. One premier bemoaned: ‘The economists are like our wives; a perpetual plague while they are with us, but we can’t do without them’ (cited in Hytten 1960:154). When Scullin asked the premiers whether they would consent to a reduction in government expenditure, Lang (1970:102) responded: ‘I do not accept it at all; I do not think that the facts are accurate. I do not think that the economists know much about it…We hear a lot of economists telling us what we ought to do. It is like their confounded impudence.’

Lang was also not impressed by the overall package; he insisted that Copland was a ‘torchbearer for the Niemeyer plan’ (Lang 1962:344). Lang (1970:99) held that neither economists nor Treasury officials should pontificate over policy; that was a duty alone of elected representatives.

54 ‘A professor and his plan’, The Westralian Worker, 21 August 1936.
55 W. Young to Sir O. Niemeyer, 23 March 1931, BE, OV9/289.
56 ‘The economic outlook for Australia’, The Age, 1 May 1929.
57 For an impartial eyewitness account of the proceedings, see E. T. Crutchley, His Majesty’s Government representative in Australia, PRO, T160/807/11935/2, and his diary held on microfilm in the National Library of Australia.
The path to the Premiers’ Plan

Cain (1987a, 1987b) has covered in exacting detail how the four economists who composed the Premiers’ Plan arrived at their great compromise. As is commonly acknowledged, the Premiers’ Plan was, despite Copland and Giblin’s later protestations, probably closer to the Niemeyer prescription than the Melbourne school of stabilisation. To be fair, however, the two conservative economists, Melville and Shann, yielded ground on the need for some ‘inflationary’ financing of deficits and scaling down of interest rates just as Giblin and Copland relinquished the idea of price stabilisation. How economists responded to the onset of Australia’s economic difficulties demonstrates not only their public spiritedness but their collegiality and mental versatility. The remaining part of this chapter will retell the story using new archival material, but will also emphasise the traverse in economic thought economists underwent as they deliberated over an integrated plan that entailed not just public finance but relative cost adjustment.

The May manifesto and the assault on Australian wages

As economists appreciated the full magnitude of the two external blows delivered to the Australian economy, so too did they tailor their advice to prevailing conditions. At first, the scale of the problem was dismissed lightly; as late as October 1929, for instance, Copland predicted that the recession then affecting Australia might be ‘temporary’ (cited in Lowenstein 1978:433). As 1930 unfolded, however, a ‘violent change’ shuddered through the Australian economic landscape (Bland and Mills 1931).

At the end of a social sciences conference in May 1930, the economists, at Melville’s behest, moved to issue a statement or manifesto quantifying the loss in national income (Crawford 1960:194–5). Melville recalled Copland leading the cause (Cornish 1993b:5). The manifesto was important because the signatories upheld—as Keynes did in The Tract—that internal price stability should take priority over maintaining the exchange rate. The economists bristled, however, at Copland’s suggestion to devalue the currency. This informed and considered perspective by economists made little impact simply because of the speed and gravity of unfolding events—not least the arrival of Niemeyer. It was also due to the fact that many Labor politicians, including Theodore, were wary of economists, fanned no doubt by their opposition to further protection, rigid real wages and monetary reform (Harper 1986:45; Hart 1965:4; MacLaurin 1936:256).
Using the analytical framework provided by Giblin’s multiplier, the economists argued that the loss in real income to the export sector be distributed across the community. This became a key theme in all their memoranda; indeed it was made the first condition of recovery. To that end, the economists, especially Giblin, Brigden and Copland, renewed their attack on the wage fixation system, especially the tradition of indexation that locked Australia into rigid real wages and high unemployment (Hancock 1984:70–2). In arguing unanimously for real wage reductions consistent with the loss in the terms of trade, the economists were keen to qualify that they were not advocating wage reductions per se as the cure for business depression. It was, however, a point lost on labour minds with the economists perceived to be at the call of bankers (Spearritt 1981). Mills (1929), however, had already publicly exposed this nostrum, in terms of the consequent diminution of purchasing power, at a lecture given at an industrial relations conference. Brigden, too, held that cutting wages should be the last resort as it entailed reducing purchasing power.58

An external crisis—a fundamental disequilibrium between domestic costs and international prices—changed all this. The export industries had suffered a fall in their prices and workers there took wage cuts. Consequently, wages in the unsheltered industries were now lower than in sheltered ones. A general reduction in the wage level was therefore appropriate on equity grounds besides giving the export industries some relief (Copland 1931:535). It would also make a greater show at import replacement. This was the nub of the argument that Copland would put before the Arbitration Court (Copland 1946:164). Copland’s analytical framework was further strengthened by mastering Keynes’s new engine of analysis contained in the *Treatise*. With the savings–investment dichotomy, the goal of enlightened monetary authorities was to use the interest rate to bring savings and investment into equality. Disharmony between the two would cause price movements, which would, in turn, engender output changes.

In his evidence before the 1930 National Wage Case, Irvine, appearing on behalf of the trade unions, accused the economists of committing a fallacy of composition. His argument, however, was set within the wrong context (Shann and Copland 1931a:88; Clark 1974b:52). In his five days of evidence during October 1930, Copland, appearing as an expert witness and with his recently published book, *Credit and Currency Controls*, close at hand, took issue with those who believed that cutting wages made for all-out deflation. Copland rejected the diminution in purchasing power argument on the grounds that it had already occurred with the decline in export prices: ‘The present depression was due not only to the lack of spending but to the fact that people did not have the money to spend.’59 Copland, though, was not prepared to have this adjustment

58 ‘Notes on the economic position of Australia 1929’, Brigden Papers, NLA.
59 SMH, 21 December 1930.
borne through wage cuts alone. Arguing from a clear analytical framework that Keynes would approve of, Copland said that with devaluation, export prices could rise relative to internal prices, giving the primary sector further relief. He was also in favour of some issue of credits to anchor the domestic price level (Dow 1938:92). In short, Copland upheld balanced budgets, devaluation and lower wages as the correct path to take (Groenewegen and McFarlane 1990:137).

Copland turned Irvine’s commonplace argument on its head; any reduction in costs, including wages, that brought about a reduction in the prices of internal goods would lead to an increased output rather than a reduced one. He was emphatic that cutting wages would not reduce spending power in the sense that money saved on the wages bill would be spent by the employer. The transfer of purchasing power would give employers an incentive to produce. Giblin and the other economists shared in this Say’s Law perspective of wage cuts. While it seemed counter-intuitive to Labor minds, Copland (1946:166–7) was adamant that there would be no reduction in purchasing power since, to repeat, the reduction in output had already been incurred.

While the court was swayed somewhat by Irvine’s testimony and purchasing power arguments, it nonetheless went along with Copland’s framework of analysis. Copland informed the English political theorist Harold Laski that the court had sanctioned the wage cut as a ‘last resort’. He was well aware how difficult it was to force wage cuts. The wage cut, the court added, ‘is not the magic wand which will restore stability. But as part of a reasoned scheme it is unavoidable’ (cited in Cain 1987b:15). The court was also insistent that other non-wage income recipients engage in ‘sharing the burden’ (Dow 1938:92). Looking back over events Copland told Maclaurin that the court’s decision to cut 26 federal awards by 10 per cent marked ‘the first sign of an adjustment in a community hitherto unwilling or incapable to effect change to straightened economic circumstance’. The first leg of economic adjustment was in place. Copland was effusive in his praise of the court in not just leading the way but of being vigilant and ‘much more alive’ to general economic conditions than any other official body in the country. The arbitration system, moreover, permitted a more elastic national wage policy than one dictated, say, by decentralised bargaining (Copland 1934).

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60 SMH, 2 December 1930, and 3 December 1930.
61 Apart from trade unions, some employer groups also came out against the wage cuts. A newsletter put out by the Australian Manufacturers’ Association in July 1931 entitled The Folly of Wage Reductions pointed out that Montagu Norman at the Bank of England opposed the same expedient for Britain because of the effect on internal trade (see Giblin material, UMA FECC, Box 225).
62 D. B. Copland to H. Laski, 12 May 1936, UMA FECC, Box 44.
63 D. B. Copland to R. MacLaurin, 1 October 1937, UMA FECC, Box 55.
The Melbourne manifesto—October 1930

Before the national wage case opened there had been reluctance by the federal government to implement the Niemeyer plan. With Scullin in London and Theodore having stood down the Acting Treasurer, Joe Lyons commissioned Copland, Giblin and Dyason to frame an alternative plan. Copland identified this as the first instance in which economists were called to ‘give official advice’ against the economic crisis. It came about amid great political drama coming a month after the Niemeyer address in which he had put ‘the hard word’ on his hosts.64

Giblin told Lyons that he was ‘our last hope of a peaceful solution—but it is a tremendous perhaps an impossible job’ (cited in Hart 1967:67). Giblin’s hopes were well placed; Lyons was to prove the man of the hour. In his various guises, Lyons was quite deferential to the views of economists. He had already enjoyed a warm and steady relationship with Giblin and Copland during his tenure as Premier of Tasmania (Hart 1967:39). Copland reminded Lyons how he had saved his native state from insolvency (Denholm 1977:46; Lloyd 1984:47–8). Giblin and Dyason enjoyed early success by persuading Lyons that blindly pursuing the Niemeyer line of parity with sterling would be a ‘fatal mistake’ and would make the forthcoming loan conversion nearly impossible.66 Giblin had deprecated earlier attempts at formulating a plan—he told Lyons:

From the economist side, I don’t think we have anything in the way of a plan to offer. But if in any respect they could be useful you know they would be very willing to do anything in their power. For myself, as for the others I don’t think I see light on the whole problem.67

Copland did not share in his colleague’s despondency. He had been assiduously chiselling away on his compromise plan.

Three months earlier, in July 1930, Copland had given a controversial lecture, spread over two meetings, before the Victorian Branch of the Economic Society in which he expounded his ‘middle monetary policy’. Copland’s model of economic adjustment was inspired by Keynes’s Treatise dealing with an open economy’s adjustment to a disequilibrium situation. It took shape in a chapter from Copland’s own work, Credit and Currency Policy. The scheme entailed money wage cuts coupled with devaluation and some Treasury bill finance to tide over budget deficits but also to slightly raise the price level. This array of measures would depress real wages (Cain 1987b:2). Apart from the heresy of

64 E. T. Crutchley diary, 18 July 1930, NLA.
65 Enid Lyons, TRC 121/30, NLA, p. 49.
66 Giblin to Lyons, n.d., Giblin Papers, NLA.
67 Giblin to Lyons, 9 September 1930, Lyons Papers, NLA.
devaluation there was outrage at its price stabilisation or inflationary aspect. Copland’s ambition was open to misinterpretation. He eschewed the argument that printing money would assist employment and could not have been clearer in dismissing the inflation expedient: ‘The remedy is much more dangerous than the disease, and no nation should enter upon a course of inflation without complete confidence in the powers and discretion of its banking authorities to check the expansion at the appropriate time’ (Copland 1930b:142).

As an indication of their duty to explain the economic predicament Australia was in, economists had, for some years, contributed articles to newspapers.68 The more famous of these was Giblin’s eponymous series of commentaries entitled Letters to John Smith (in 1930), which appeared in the Melbourne Herald. It was, in essence, the sequel to his well-received inaugural lecture on ‘Australia, 1930’, which a newspaper lauded as a ‘consummately able analysis of Australia’s economic position’.69 The lecture was billed as a tract for bad times and its author dubbed ‘Gloomy Giblin’.70 Apart from the refrain of sharing the burden, the Letters were part of a campaign of marrying moderate Labor voters to the idea that the ‘experts’ were in favour of the largely deflationary policy put forward by Lyons. The commentaries also gave notice that another ‘old Labor man’ such as Giblin had forsaken the extreme policies put forward by the Labor left.

The Melbourne school of economists circulated their stabilisation plan in September, displaying a middle way between inflation and deflation (Copland 1937a:408–9; Robinson 1986:8–11).71 Billed as ‘A Plan for Economic Readjustment’, it was outlined in a lecture before the Victorian Branch of the Economic Society by Copland, Giblin and Wood in October 1930. The Melbourne school feared that with nothing to weigh against the externally imposed deflationary shocks a deflation of the price level would lengthen the process of readjustment and delay recovery. The increase in the level of the real debt would impair enterprise. The Melbourne economists felt a marked devaluation, instead of incremental, market-led moves, was the best means of assisting the export sector (Schedvin 1988:345). This would check the fall in export prices and mitigate the effects of deflation. Using what Copland called the ‘principle of equality of sacrifice’, the Melbourne economists also wanted

68 Sometimes they wrote under pen-names. Copland wrote a series of articles for The Age in 1927–28 under the cover of ‘Lux’.
69 The West Australian, 19 June 1930.
70 ‘Notes from hither and thither’, The Margin, vol. 6, no. 2 (June 1930), p. 12.
71 Dyason, while not strictly an academic economist as such, but a stockbroker, was ‘a valuable link between academic economists and the business world’ (Tucker 1981:391). He was, like Davidson, however, highly involved with the Economic Society of Australia and New Zealand. More importantly, Dyason sought out Keynes’s opinion on the feasibility and validity of un-pegging the exchange rate. Keynes replied that he was ‘heart and soul’ with the line the Melbourne school was pursuing. Interestingly, Keynes added that forcing down wage rates as a means of escape from Australia’s problem was likely to be inexpedient (J. M. Keynes to E. C. Dyason, 16 October 1930, KPKC, L/30/57; E. C. Dyason to J. M. Keynes, 3 September 1930, KPKC, L/30/54).
reductions in wages and interest rates. The internal price level would hover near its pre-depression, 1929 price level by monetising budget deficits with Treasury bills. This aspect attracted ferocious criticism from many quarters, including other economists.

Melville was particularly aghast at the Melbourne price stabilisation proposals (Cain 1980:22). Shann, while less opposed, identified the practical difficulties of implementing it with an obstructionist Commonwealth Bank. Shann reassured Davidson that ‘Copland and Dyason are certainly not trying to burke the fact of a reduced real income nor the necessity of reduced costs’. Undeterred, Shann wrote a confidential critique of the Melbourne school’s plan, pointing out that a credit policy was already in full blast: ‘The trio of equilibrists, however graceful and ingenuous their performance avoid finally coming to Earth.’ Shann feared that their school of thought was really a ‘stalking horse’ for Labor interests pushing for a centralised and politically controlled banking system. While critical of Gibson for not enforcing the August resolutions, Shann encouraged him on in ‘the good fight against heavy odds in that den of iniquity’—a direct reference to the Melbourne school.

In a newspaper article, Melville, too, criticised the rhetoric and ambition of the Melbourne school: ‘To pretend that price levels can be stabilised…is affectation.’ He also emphasised its odious political aspects and threw doubt on the institutional competence to carry it out. Melville (1930) believed, in contrast, that the rigours of the deflationist path had been exaggerated. Even the self-made economist Davidson shuddered at the prospect of devaluation coupled with credit expansion.

In a letter to Davidson, Copland vehemently rejected the ‘stupid comment’ and misrepresentation made of his proposals by Melville. He dismissed his critique as not really an analysis of the economic analysis of the proposals but rather a ‘somewhat hysterical outburst’ based on the fear that the situation could get out of hand. Copland was emphatic that inflation formed no part of his plan, but it had already been tainted. It left him exasperated that people were ‘all too
The spirited correspondence between Copland and Davidson secured a bridge between one of Australia’s most gifted economists and the nation’s leading banker. It was to pay dividends soon after when Davidson locked forces with Melville, Shann and Copland to force the breach with parity (Schedvin 1988:344).

After receiving a copy of Copland’s infamous July lecture that had antagonised his Australian colleagues, Keynes replied that he had ‘considerable sympathy with the line’ taken—namely, price stabilisation via a fluctuating exchange rate as against outright deflation. Recalling the episode, Wood marvelled at how, not much later, Copland was placed in the enviable position of seeing economists who had ‘pooh-poohed his stabilisation ideas in 1930 riding to acclaim as the saviour of the country by using his theories two years after they were formulated’. Elsewhere, however, ‘Melbourne brains’ alarmed the conservatives. Niemeyer, while in Australia, informed Harvey about ‘much wild talk in Caucus about expanding credits and tots of brandy inflation has supporters in Theodore and Melbourne economists’.

Meanwhile, the Deputy Secretary of the Treasury, Harry Sheehan, had, in a memorandum to Lyons, corroborated the economists’ findings about the loss in national income and the burden falling on the export sector. Sheehan compared the Melbourne school blueprint with the Federal Treasury plan, which comprised four main parts. Apart from the mandatory wage cut, the other measures were: a modest devaluation, the stabilisation of internal prices by monetary control and, lastly, an arrangement with the banks so that credits could be made available for industry. It was a remarkable submission from a Treasury that, like its British counterpart, was prone to orthodoxy. Whether the Federal Treasury took Sheehan’s proposals seriously is a moot point but there was evidence that the contemporary outpourings of economists had cast some influence on its making.

Lyons took the Treasury’s mildly deflationary plan to Caucus, where it was rejected essentially because of the wage cut clause. Caucus remained in favour of the more expansionary ‘heavy inflation’ plan put forward by Theodore’s backers (Lloyd 1984:49–50). Lyons’ dalliance with departures from financial orthodoxy

79 Ibid.
80 D. B. Copland to J. M. Keynes, 10 July 1930, and J. M. Keynes to D. B. Copland, 20 August 1930, KPKC. Copland’s views were echoed by two authors from the economic underworld: J. A. Gunn and C. A. Alison had penned a pamphlet entitled Is this Depression Necessary? A short treatise on the stability of prices by control of exchange rate. Using the Treatise, they advocated depreciation, cheap money and government stimulation as a form of domestic price stability (1930). A copy was sent to Keynes, who responded: ‘I agree with you that there is a great deal to be said in the case of such a country as Australia, for allowing the exchange to fluctuate in the interest of stability of prices.’
81 G. L. Wood to W. S. Robinson, 21 April 1932, UMA FECC, Box 14.
82 Sir O. Niemeyer to Sir E. Harvey, Cablegram, 3 November 1930, BE, G1/291.
83 Memorandum by H. Sheehan, 30 October 1930, Lyons Papers, NLA.
offered hope for the future, but it went only so far. In his history of the United Australia Party (UAP), Lloyd presents Lyons and his supporters as willing to consider a limited form of economic reflation but totally against schemes of repudiation or inflation.

**The November agreement and the second manifesto**

By late November, the economists had tired of the Scullin government’s drift to the deepening crisis. For two days in late November, a number of economists secretly convened at Dyason’s house in Melbourne. The outcome of this gathering was to press for immediate cutbacks to public sector spending, which they now held to be a first condition for the restoration of business confidence. The meeting was also to bring Melville and Shann into some compromise agreement with the others. Brigden’s confidential memorandum (cited in Schedvin 1970:224)—the only proof that the meeting was ever held—showed that Copland and Giblin, at the others’ urging, had gone cold on price stabilisation by a release of credits, partly because that expedient was already being resorted to with Treasury bill finance. The economists also felt they did not have the degree of confidence in monetary targeting to restore prices to 1929 levels; whether the Commonwealth Bank would prove amenable to the experiment was another matter. Another reason was that restoring budgetary balance was now regarded as the most pressing objective. Henceforth, talk of expansion of credit was removed from the economists’ lexicon though Copland, in the verbiage that surrounded the Premiers’ Plan, always took semantic licence about the modest inflationary dimension injected by Treasury bill finance of budget deficits. Copland (1930) signalled his *volte-face* in an article in *The Australian Quarterly* Shann interpreted it as a ‘counterblast to Wickens and to Copland under the Dyason spell’. Shann encouraged Davidson to get a copy

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84 The Arbitration Court took matters into its own hands by electing the continuing National Wage Case to focus purely on the need for an emergency reduction in the basic wage given the serious fall in the national income compounded by the sudden cessation of overseas loans. Copland had told a trade union representative, Mr Crofts, that things were so desperate Australia would be lucky to escape with a real wage cut of 10 per cent (SMH, 3 December 1930). In the exchange with Crofts, Copland also expressed his displeasure at the failure of governments to curb spending. The Scullin government tried to hold up implementation of the court’s judgment, much to Copland’s annoyance.

85 Among those invited by Giblin on behalf of Copland, Dyason and Wood for this grand council were Wickens, Walker, Shann, Hytten, Gifford, Brigden and Melville. All attended (Giblin Papers, NLA, 366/15/338-9).

86 A point Niemeyer had made to Melville in his letter of 13 November 1930.

87 E. Shann to A. C. Davidson, 28 November 1930, BNSW, GM 302, p. 509.
of Copland’s article to Theodore as ‘‘it may help to wean him from Dyason’s folly’.  

Much to Shann’s chagrin, Dyason, who had been associating with John Curtin, remained an unreconstructed stabilisationist.

The economists’ memorandum ensuing from the conference, which was entitled ‘Monetary policy in the crisis’, proved a watershed. It honed in on the 25 per cent loss in national income as being perpetrated in part by the lack of economic adjustment and, relatedly, a lack of business confidence. Economists reasserted Copland’s submission before the Arbitration Court that real wages had to be uniformly cut by 10 per cent; the mere creation of credits to spend on public works, the economists warned, would not promote recovery. They also reiterated that protection would solve neither the balance-of-payments problem nor unemployment. While they saw the possibilities of synchronising real wage cuts with reductions in the rate of interest, they insisted that the government could not ‘safely’ force a drop in the latter. Finally, they called for immediate economic adjustment lest Australians suffer even greater losses of income.

Brigden, annoyed at flagrant misrepresentation of his views on price stabilisation and how it could justify ‘extravagant inflationary action’, put out a memorandum for private circulation. He concluded that price stabilisation was too dangerous because it diverted attention from making vital wage cuts and necessary economies in government spending. Brigden’s memorandum also concurred with Shann’s view that trying to restore 1929 price levels was too risky a mechanism and that, in any case, Australia ‘was least likely’ to achieve it. This reflected as much on the Commonwealth Bank’s knowledge, personnel and powers of monetary control as it did on Brigden’s economic philosophy.  

As the newly appointed head of Queensland’s Bureau of Economics and Industry, Brigden was, like Shann and Melville, sceptical of ready-made solutions or ‘plans’ and wary about monetary devices such as the scaling down of interest rates (Wilson 1951). According to Colin Clark (1958:223), Brigden was, at one stage, prepared to consider the federal government borrowing and spending heavily once the requisite cuts to incomes had been implemented. That is, he was prepared to alleviate some deflationary pain by expanding credits—to check price deflation, especially if prices fell faster than costs.

Edward Shann’s philosophical disposition had always been to back ‘the banker against the bureaucrat as the politicians’ best economic adviser’. Any economic plan, in any case, had to be congruent with the Realpolitik of economic

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88 E. Shann to A. C. Davidson, 3 February 1931, BNSW, GM 302, p. 590.
89 ‘Notes on monetary policy’, 5 December 1930, Brigden Papers, NLA.
90 Giblin, in particular, lamented the fact that Australia’s public service had few university men. He later told Theodore that Australia did not have the reserve of qualified personnel to staff his and R. F. Irvine’s idea of a National Credit Commission (L. F. Giblin to E. G. Theodore, 1933, UMA FECC, Prof. Giblin Papers, 92/141/Box A-J).
91 E. Shann to G. Gordon, 30 September 1931, Shann Papers, NLA.
policymaking in that the banks, as powerful brokers, together with a vigilant London, had to be appeased (Butlin and Boyce 1988). Shann put it succinctly: 'What we Anglo-Saxons need most is ideas which banks can finance.' Finally, at Copland’s and Giblin’s behest, the economists sanctioned protection enabling secondary industries to absorb some of those laid off from the cessation of loan works.

The third manifesto—January 1931

With Davidson acting as their lightning rod, the economists publicised their new position with a statement released in January 1931 entitled ‘First steps to economic recovery’ (Shann and Copland 1931a:72–5; Holder 1970:693). Eight economists signed the memorandum. Noting that the loss was still concentrated on the export sector, the economists called again for a sharing of that loss. This would be enforced by a reduction of real wages, in tandem with cuts to public expenditure and a commensurate reduction in rentier income by scaling down interest rates.

There was some intellectual antecedence for these measures in Keynes’s evidence placed before the Macmillan Committee. While it had not recommended devaluation, the committee praised it as ‘theoretically the most obvious and comprehensive method of effecting an orderly contraction of money incomes in general’. It was true, however, that Australian economists were, like Keynes, beholden to the idea that regaining equilibrium would be assisted by lower interest rates. The withdrawal of governments from the capital market would, they argued, bring interest rate relief—though Hytten was, to Shann’s consternation, impatient for direct action. Davidson articulated this very point before the Victorian Branch of the Economics Society in May 1931, arguing that lower rates would materialise only once government borrowing was checked.

Where the economists departed company from the Commonwealth Bank was in their striking advocacy of a flexible exchange rate with no foreseeable return to parity. This was to become their pedigree of distinction throughout the early 1930s; Copland would later hail it as a ‘new maxim of advanced monetary authorities’. Copland accepted that Treasury bill financing of government

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92 E. Shann to J. La Nauze, 11 August 1931, La Nauze Papers, NLA.
93 ‘Mr Theodore’s plans: fundamental weaknesses’, SMH, 23 December 1930.
94 D. B. Copland to E. Shann, 8 January 1931, UMA FECC, Box 10.
95 Copland, Giblin, Wood, Hytten, Melville, Gifford, Brigden, Shann and Mills signed the manifesto (see SMH, 21 January 1931; D. B. Copland to E. Shann, 8 January 1931, UMA FECC, Box 17).
97 Hytten, 1971, pg. 66
98 D. B. Copland to F. S Alford, 2 December 1935, UMA FECC, Box 30.
deficits gave ‘sufficient stimulus’ to anchor prices. In public writings, and with the economists’ and Davidson’s encouragement, Copland launched an offensive against the Theodore plan. Indeed Copland wanted to go further and issue another manifesto denouncing the whole fiduciary issue idea. Shann counselled against this, arguing that economists would lose authority if they issued too many statements denouncing the measures of others. Both economists, now working together despite initial policy differences, issued respective denunciations of the Theodore plan in bank circulars; Copland’s piece appeared in the National Bank’s circular. He was delighted at the opportunity it presented in terms of the edification for bankers. Shann’s more strongly worded contribution, ‘Political control of banking’, appeared in a Wales circular.

The economists’ association with the banks led the Labor Party to raise concerns about their true allegiances or what Copland joked to Shann about as ‘our year-long worship of mammon’. The enigmatic Giblin, in contrast, with his blunt manner, hobnail boots and homespun clothing and red tie, did not get on with bankers so readily. In January 1931, with the exchange rate crisis extant, he predicted the possibility of dissolution between the banks and the people. At the time, a London banker felt Giblin’s sentiments nothing but ‘pure bolshevism’. Walker would confirm this dangerous state of affairs in an inquiry into banking and monetary policy in 1936.

Shann found that his involvement in these activities besides his work for the Wales undermined his credibility at his university (Alexander 1963:150–3). His initial appointment at the Wales bemused other bankers who, themselves, had little time for ‘theoretical gentlemen’. One local banker was told by his London overseer that ‘some banks apparently have money to burn and Professor Shann is fortunate in finding a man like Davidson to provide him with jobs which can be of little practical interest and of no use to the Bank of NSW’. Davidson knew otherwise.

Copland’s casual involvement with the banks, particularly the Wales, signified his vaulting ambition not just for his discipline but for himself. His blossoming association with the mercurial Davidson was to be to his future benefit. By June

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99 ‘Creating credit: its limitations and dangers’, SMH, 30 January 1931.
100 To press home the attack, Gibson’s letter to Theodore on gold was included in the book as a ‘magnificent device’ to show how utterly Labor politicians ‘had failed to stop the rot’ (E. Shann to D. B. Copland, 26 March 1931, UMA FECC, Box 12).
101 D. B. Copland to E. Shann, 31 March 1931, and E. Shann to D. B. Copland, 2 April 1931, UMA FECC, Box 31. While Copland had much earlier joked to Giblin that ‘my economic theories will never allow me to make money’, he was, however, not interested in leaving academia to become ‘bank consultants’ like his colleagues Melville and Shann. He was, however, ambitious for his discipline and the more economic analysis the banks invested in, the better for everyone (D. B. Copland to L. F. Giblin, 6 June 1927, UMA, FECC, Box 220).
102 D. B. Copland to E. Shann, 12 June 1931, UMA FECC, Box 31.
104 E. Godward to G. D. Healy, 29 June 1933, Bank of Australasia D/O Letters, ANZ Group Archive.
1931, Copland’s public status was well established. The South Australian Labor Premier, Lionel Hill, invited Copland to become his full-time economic adviser. Copland demurred, preferring to be associated with the enigmatic Davidson: ‘I’d much rather be associated with him than any Government.’

The fawning praise reflected, in part, Davidson’s ability to re-jig Australia’s policy settings by breaking parity with sterling—a step critical in the economic adjustment process.

The role of Davidson and the Bank of New South Wales

The compass has been damaged. The charts are out of date.

— Winston Churchill, Chancellor of the Exchequer, 1930

In his copious writings on the episode, Copland would always perceive the Premiers’ Plan as complementary to the measures undertaken on wages and the exchange rate months earlier. Australian economists were emphatic that the ‘spreading the loss’ clause be implemented across all classes of the economy, including bondholders. This, as we have seen, was the logic that persuaded the Arbitration Court to cut real wages by 10 per cent but to insist on some release of credits. It also resolved the issue of which class would succumb to the first cut in income. In the same month, economists triumphed again by persuading the Wales to forcefully shed the last vestiges of parity. As Australia’s strongest bank with many rural clients on its books, the Wales moved the carded rate in line with market pressures. Australia, beset by rough seas, was at last cut free from its sterling anchor. Other banks, including the Commonwealth, lamely followed suit and a new exchange rate regime came into play (Holder 1970:680–6). Gibson was ‘apoplectic’ at Davidson’s actions, regarding parity as sacrosanct even to the point of considering exchange control.

Many in the financial circles, including even Davidson at one stage, regarded devaluation as inflationary since it would raise exporters’ costs (Schedvin 1988:343). Copland dismissed this, saying that costs were hardly likely to rise during a period of falling prices; in fact, devaluation checked the extent to which cost levels had to be adjusted in order to balance costs and prices (Copland 1932a:116). International prices, moreover, continued to slip.

106 Hytten, 1971, UT, p. 60. Gibson was perhaps more enraged at the Wales usurping the Commonwealth Bank than by the action itself, for he told Ricketson that he had been in favour of a 10 per cent devaluation but the increase in tariffs obviated this (Ricketson diary, 29 April 1931). Melville told the author that there could be ‘two Gibsons’: one uttering public views, the other private.
Davidson had been ‘egged on’ in taking this action by Melville, Copland and especially Shann. The last saw the action as forming part of a broader philosophical crusade: ‘It may indeed set in motion forces working in the direction of stability, but in a country so wedded to the manipulation and restriction of economic forces it is an incessant fight to keep these forces unimpeded.’

Shann had been advising Davidson for some time on the desirability of a natural change in the exchange rate (Schedvin 1988:346–7). Davidson remained, however, unmoved until late in the piece. Initially, he supported the Niemeyer line against the stabilisationists until self-interest and informed persuasion brought him round.

Contrary to his peers at the time, Davidson was an enlightened soul, free from rigid orthodoxy, who enjoyed the company of economists (Schedvin 1988:338; Holder 1970). He had already, for instance, established his own economic intelligence section within the bank, which would allow his bank to, as he put it, ‘be in a position to influence events’. Davidson’s appointment as general manager of the Wales in October 1929 was, therefore, to prove auspicious. At the onset of the crisis, he had urged economists to present ‘a united front’ against Labor’s unorthodox policies of inflationism and protectionism. Melville astutely replied that it would be unwise to criticise indefinite policy and ventured that ‘interference by university economists in public affairs is a delicate matter, because of the strong financial assistance rendered to universities by Australian Governments’. Instead, Melville suggested that economists issue a statement dealing with the general situation. This, as we have seen, was done six months later, though in a situation worse than Melville could have imagined.

Leading economists attended several weekend retreats at Davidson’s Blue Mountains home at Leura to discuss policy proposals (Schedvin 1988:338). These informal arrangements preceded the ‘coffee club’ culture in Sydney in which intellectuals gathered to exchange ideas about economic policy and Keynes (Coombs 1981:5). Apart from establishing an economics research...
section, Davidson launched bank circulars that presented the steps necessary for Australia’s economic reconstruction. Davidson would continue to be a thorn in the side of the federal government, and even more the Commonwealth Bank, throughout the 1930s as he criticised monetary policy settings. It would be wrong, however, to interpret Davidson as entirely the mouthpiece for dissident economic opinion; he was merely supporting a more enlightened approach to exchange rate policy that served his bank’s interests (Holder 1970). Nonetheless, Holder (1970:692, 700), who worked in Davidson’s economic ‘kindergarten’, rates Davidson’s contribution to formulate a recovery policy so highly that it made him almost a ‘godparent’ to the Premiers’ Plan.

The Treasury Committee plan—February 1931

Against the backdrop of a 30 per cent devaluation and a 10 per cent wage cut, the Loan Council, having abandoned the Melbourne conference resolutions to balance the budgets within one year, opted for a three-year plan. Officialdom was, at last, moving towards a compromise plan but was still some way from achieving it. The Loan Council commissioned a committee of under-Treasury officials to report on Australia’s finances. Four economists—Brigden, Melville, Shann and Hytten—were hurriedly and intermittently consulted in the preparation of this report.113 Brigden recalled that it was Shann and Melville who were most ‘influential’. Brigden gave vent to his ‘cut and spend’ approach but Melville dismissed this.114 The Treasury Committee plan, reflecting the serious erosion in budgeting finances, proved a marked departure from Sheehan’s Federal Treasury memorandum of September 1930.115 The four state treasurers and Sheehan traced the lack of confidence in the economy to unbalanced budgets and settled for a reduction of government expenditure by £15 million over three years. The committee regarded the level of government expenditure as ‘the key to the whole position’.116 It was, in fact, not enough, with economists reckoning the projected total public sector deficit of £39 million for 1931/32.117 Perversely, the committee regarded the depreciated exchange rate as a manifestation of that uncertainty and longed for the return of parity.118 Devaluation, they argued, merely added to the burden of overseas interest payments with the benefit to the export sector deemed purely temporary. It would be too easy, the committee

113 In his autobiographical memoirs, Hytten (UT, 1971, p. 58) recalls being astounded by the antics and histrionics of the chairman of the committee—none other than Sir Robert Gibson.
114 J. B. Brigden to L. F. Giblin, 1 April 1947, RBA, GLG-43-1.
115 J. G. Latham, the Federal Opposition Leader, saw the Treasury Committee’s views as being one with his own political party’s (The Hobart Mercury, 13 February 1931).
117 Ibid.
118 This could not have been the sentiment of the economists. Shann, for instance, called the depreciation of January 1930 ‘manna in the wilderness’ (E. Shann to H. C. Finlayson, 25 March 1931, BNSW, A53, p. 409).
said, to ‘gloss over the loss of prosperity by an alteration in the purchasing power of the currency. This was not a road to recovery, but to collapse’ (Shann and Copland 1931a:162). The committee argued that extensive government borrowing would only crowd-out private capital expenditure and that genuine interest rate reduction would come only with the return of business confidence (Shann and Copland 1931a:164). The fact that the chairman of the committee, Gibson, confessed in a letter to Scullin that the committee had ‘perhaps exceeded’ the scope of its instructions in putting forth its recommendations was enough for Scullin to scuttle it.  

The political economy of the Premiers’ Plan

The economists had all but framed the blueprint of what was to become the Premiers’ Plan by late November 1930 but it was only placed before politicians in May 1931. While the economists drew some praise for their efforts, it was their political masters who had to bow to harsh realities. The capitulation of the Scullin government to economic reality was imminent but it underlined the worth of the plan. Australia’s first imperative was external solvency and the adjustment of the domestic cost structure to contain and minimise the loss in real income resulting from external shocks. Scullin’s reluctance to put into effect the Premiers’ Plan until the last moment was encapsulated by C. L. Baillieu: ‘If he accepts fully and applies the Experts’ report he will be forced to jettison policies which he has never ceased to proclaim…and to see his party ultimately broken by courses which he has sworn he would never take.’

Sir Alexander Hore-Ruthven, the Governor of South Australia, reported that Scullin and Theodore’s ‘last minute surrender to sound economics’ was essentially because the federal government had tested the public’s patience. Hore-Ruthven was correct in his assessment that it was the united opinion of five state premiers that kept pressure on the federal government to execute fully the recommendations of the experts. In fact, Theodore pragmatically bowed to orthodoxy and saw the ‘equitable reduction’ of wages and interest

119 SMH, 7 February 1931.
120 In his apologia expressed in his A History of the Central Bank, Giblin (1951), in reviewing the Depression policy of 1931, defended the middle way, stating that ‘it was not far from the best that was possible with a public inexperienced as it was at that time in violent economic vicissitudes and their remedies’.
121 C. L. Baillieu to K. Murdoch, 30 May 1931, UMA FECC, Box 204.
122 Sir A. Hore-Ruthven to the Secretary of State for Dominion Affairs, Sir H. Batterbee, 11 June 1931, PRO, T160/396/11935/02.
123 Hore-Ruthven, at Lyons’ behest, became Governor-General Gowrie in 1936 (Wigran to J. A. Lyons, 2 July 1934, Lyons Papers, NLA, Box 2, Folder 18). Hore-Ruthven urged the Governor of New South Wales, Sir Philip Game, to dismiss Premier Lang over the repudiation controversy ostensibly because of the damage it was doing to Australia’s credit abroad. Hore-Ruthven had been censored by the Adelaide Trades and Labour Council in 1931 for making blatantly political comments (Blanche 1998:102).
rates ‘as the simplest method of economic adjustment’ (cited in Clark 1974b:48). He resolutely defended the Premiers’ Plan against dissidents in the Caucus and drew Shann’s praise for his ‘drive and assiduity over detail in piloting it through Parliament’.  

Theodore justified his decision, stating that it gave respite for the government (Kennedy 1988:297). He confessed though: ‘I never had any belief that the policy would restore employment unless it was accomplished by credit expansionism on a large scale and was accompanied by either an active program of expenditure by government or by a revival of business confidence.’

The irony was that there was, in fact, a revival of business confidence engendered by the Premiers’ Plan whereas a policy of huge monetary expansion, with the obvious connotation with inflation, would have undermined business confidence. Then there was Theodore’s colourful background. As *The Age*, a paper originally sympathetic to the fiduciary issue idea, editorialised: ‘Mr Theodore...is about the worst man who could have proposed it.’

The asymmetry was all the more galling since it had been the Scullin Labor government, as economists conceded, that was the only one capable of piloting the Premiers’ Plan through—a fact Scullin felt his government was never given enough credit for.

Casey, having returned to Australia in search of a political career, apprised Kershaw at the Bank of England of what had unfolded. He reported it as almost a triumph for Theodore, who had managed the proceedings and

has developed the situation very cleverly and with admirable political tactics—as he has shown the country that he has tried every possible expedient to avoid direct attack on the small civil service wage earner and on the small pensioner—but owing to absolute lack of government funds, he is obliged at the last moment to give in to the advice of the experts and enforce the cuts—but, mind you, not until he has obliged Capital also to accept cuts of similar magnitude.

Despite Casey’s view, historians interpret the Premiers’ Plan as a political triumph for Joe Lyons, who had consistently called for balanced budgets and deflationary policy as the best ways to resurrect business confidence (Lloyd 1984; Schedvin 1970; Hart 1967). It was also a triumph for the Australian economics profession.

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124 Shann Papers, 13 August 1931, NLA, Box 2.
125 E. G. Theodore to J. Curtin, 14 October 1932, Theodore Papers, NLA. Theodore corroborated these views in an interview with Rupert MacLaurin (1936:44), a visiting American scholar writing a thesis on the unique attempt by Australia to extricate itself from the Depression.
126 *The Age*, 26 March 1931.
127 R. G. Casey to R. Kershaw, 7 June 1931, BE, OV 13/1.
Economists *in excelsis*?

It is a great time for economists altogether. Long may they flourish!\(^\text{128}\)

The critical assumption underpinning the Premiers’ Plan was a recovery in Australia’s export prices within two years. On that premise, Giblin (1933a:3) figured it was the ‘wisest practical policy’. He was unapologetic about how makeshift the plan really was, being the product of a ‘number of divergent and sometimes opposing forces of opinion, economical and political’.

It might have been therefore a ‘makeshift’ solution to Australia’s economic predicament but Shann saw an air of purposefulness behind it: ‘The economists were under no illusion that their plan was more than a beginning. What they aimed at was a plan to balance budgets and the reverse of all our policies pushing up costs.’\(^\text{129}\) June 1931 was, therefore, a defining moment for the Australian economics profession.

Thrust into the spotlight, Australian economists showed considerable political aplomb and a ‘native genius’ in their deliberations (Cain 1982). Their policy advice underwent a dramatic series of twists and turns within an over-politicised environment—something Melville believed sometimes detracted from ascertaining a real understanding of the economic issues.\(^\text{130}\) In the swirl of high political drama, the economists excelled in what the English economist Brian Reddaway later called the ‘Australian genius for improvisation’.\(^\text{131}\) Also on display was a penchant for social experimentation in dealing with difficult economic problems (MacLaurin 1936:14).\(^\text{132}\) In that respect, Australia was singularly blessed with economic institutions and conventions that could bend to the prevailing winds of circumstance (Copland 1934). For instance, the centralised wage-setting apparatus was praised for being ‘indispensable to engineer the general fall in costs that was virtually necessary’ in 1931 (Reddaway 1938:335). While the Premiers’ Plan made for deflationary economics, it did resemble Keynes’s notion of a national treaty expedient presented before the Macmillan Committee in 1930, in which all income recipients, including rentiers, shared the burden of economic adjustment (Cain 1973:82–3, 1983:17; Petridis 1994:182).

There were, to recall, consistent themes running through the economists’ manifestos and memoranda. These were the restoration of balanced budgets,

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\(^{128}\) G. L. Wood to B. H. Molesworth, 23 February 1932, UMA FECC, Box 14.

\(^{129}\) E. Shann to Gordon, 30 September 1931, Shann Papers, NLA.

\(^{130}\) Melville, TRC 182, NLA, p. 27.

\(^{131}\) Giblin Papers, 30 November 1940, NLA.

\(^{132}\) MacLaurin visited Australia on a scholarship with the express intention of writing his doctorate on Australia’s unique recovery from the depression. MacLaurin turned to Copland as his first contact, who took him under his wing and introduced him to the leading players in the 1931 drama.
a readjustment between export costs and prices, a flexible exchange rate and, under the rubric of spreading the loss doctrine, interest rate reductions. Keynes’s *Treatise*, with its savings and investment dynamic, provided the overlapping theoretical framework. The unity between Australia’s leading economists was made stronger by the seriousness of the situation. Their advice helped Australia navigate through the Charybdis of repudiation and the Scylla of deflation.

It also allayed the fears of British financial minds. At one stage the situation had become so grave that the British Senior Trade Commissioner, R. W. Dalton, believed that only ‘an expert and impartial Financial Commission from the United Kingdom was needed to manage Australia’s reconstruction’. An earlier expedient, canvassed by J. H. Thomas, the Secretary for Dominion Affairs, had been to consider sending out the high-ranking Treasury official Frederick Leith-Ross as the next High Commissioner (Leith-Ross 1968:132). While interested, Leith-Ross (1968:132) felt it would be a heavy-handed move, signalling to Canberra Britain’s palpable interest in Australia’s financial rehabilitation, including the honouring of debt payments to London. After the Premiers’ Plan was agreed to, Kershaw dismissed the alarmism of Dalton’s missive, telling the British Treasury that ‘taking all factors into consideration…putting Australia into commission was neither necessary nor desirable’.

While the plan, as Copland (1935a:600) declared, was a ‘composite’ one drawn up by Australian economists, it bestowed particular celebrity on him. The Australian newspapers dubbed Copland the ‘Keynes of the Commonwealth’ (cited in Harper 1986:46). The Harvard economist Frank Taussig saluted him: ‘Your own part gives one hope that after all, we economists are not so entirely

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133 Melville, TRC 182, NLA, p. 41. At the height of this triumph, G. L. Wood somewhat broke the consensus among economists by urging the reconstitution of a body such as the Development and Migration Commission (DMC) to enforce quasi-Keynesian policies of purposeful state action (AA, A786, and D19/2). Two former officers of the DMC, J. Gunn and J. P. Murphy, called on the federal government to boost spending (AA, A786, and T22/8). Much more disturbing for the future, however, was A. C. Davidson’s reaction to Herbert Gepp’s solicitous advice that the Sydney banker should, as the Melbourne economists had done, gather together a group of young economists for the express purpose of discussing current economic problems (Sir H. Gepp to A. C. Davidson, 6 July 1931, BNSW, GM 302/357). On Gepp’s letter, Davidson wrote ‘what an atmosphere’ and as to Gepp’s talk of economic reconstruction, Davidson annotated ‘Theodorian or Dyasonian’. Davidson’s sarcasm was not sparked by the Melbourne–Sydney rivalry but by the possible fear that the Melbourne school was too ‘red’ for his liking. In his reply, Davidson minced his words fearing that monthly talks between the same circle of economists could become ‘didactic’ and ‘a little too high in the upper air of economic and monetary theory’ (A. C. Davidson to Sir H. Gepp, 13 July 1931, BNSW, GM 302/35).

134 A. C. Davidson drew a comparison between the Copland Committee’s advice and the advice contained in a leading article in *The Economist* put forward to deal with Britain’s own economic problems (A. C. Davidson to W. S. Robinson, 13 August 1931, BNSW, GM 302/574). For his part, Robinson held ‘that the Commonwealth will be setting an example to nearly all other countries’ (W. S. Robinson to Davidson, 20 June 1931, BNSW, GM 302/574).


136 R. Kershaw to Sir Frederick Leith-Ross, 27 July 1931, BE, OV 13/1/453/2.
useless as some of the critics allege.’ Two years later, Copland told Taussig that the Australian economists’ ingenuity in masterminding their country’s economic rehabilitation was only one part of the story:

It has been uncommonly successful, but it has been greatly helped by a run of good seasons. Whether we shall continue...depends more upon the courage we show and the psychology of the people than upon the actual economic efforts themselves. If it succeeds it will at least establish the principle that ‘intelligent economic control’ is capable of handling a difficult situation with great advantage to all concerned.

The English economist Ralph Hawtrey (1934:120) lauded Australia as the first country to appoint a brains trust of economists to help guide the nation out of depression. At a civic reception given to him in Geelong in 1931, Copland stated that had economists been listened to over the past five years Australia might have avoided the Depression. Apart from being diverted from their academic tasks, the economists involved in the plan’s preparation received little remuneration, much less gratitude, for their advice (Alexander 1963:196–7). One instance that exemplified that spirit was Giblin’s readiness to ‘do his bit’ and take up the duties of Acting Commonwealth Statistician in Canberra at great personal inconvenience.

There were, however, some isolated notes of derision about the worth of economists—and from high places. Bruce told Frank McDougall at Australia House in London that Australian economists had seemingly ‘reformed’ and ‘had come down to Earth’. Copland took umbrage, saying that it was not a case of economists deviating from the path of virtue so much as a ‘deviation...occurred with other people who now see the light where all was darkness’.

Equally, when the Melbourne businessman Sir Harold Luxton reported that it was a sign of ‘mental weakness’ and ‘a drawback in our national life’ that economists

137 F. Taussig to D. B. Copland, 19 October 1931, UMA FECC, Box 17.
138 D. B. Copland to F. Taussig, 28 February 1933, UMA FECC, Box 19.
139 ‘The Premiers’ Plan and after’, Geelong Advertiser, 4 September 1931.
140 D. B. Copland to H. Luxton, 23 June 1932, UMA FECC, Box 11. Due recognition perhaps would come in the afterlife. Copland jibed to an associate that ‘making the world safe for private profit and preventing the high priests of high finance from ruining themselves would guarantee a very warm quarter in the upper world’ (D. B. Copland to Kitto, 29 October 1935, UMA FECC, Box 35). Possibly, but Copland would later find his temporal aspirations spiked by those same interests he ridiculed. The Commonwealth Statistician, Charles Wickens, had suffered an incapacitating illness in February 1931 due to overwork and the controversy his views had embroiled him in (Castles 1997:32). Shann’s two-year secondment to the Wales as economic adviser was creating animosity with university administrators and others in Perth (Alexander 1963).
141 Giblin to A. Blakely, Minister for Home Affairs, 27 March 1931, UMA FECC, Giblin Papers, Box 1, 92/141; J. A. Lyons to L. F. Giblin, Cablegram, 24 March 1931, UMA FECC, Giblin Papers, 92/141.
142 F. McDougall to D. B. Copland, 23 December 1931, and D. B. Copland to F. McDougall, 19 April 1932, UMA FECC, Box 11.
were consulted to prise Australia out of her difficulties, Copland replied that businessmen, like everyone else, had been demoralised by the crisis; only economists had conceived a practical, reasonable plan to save Australia.

Bankers, too, were scornful of the intrusion of ‘academic gentlemen’ into the world of economic advice. Ernest Wreford, Chairman of the National Bank of Australasia, told its directors, ‘I am one of many who feel that the world today is getting a little too much advice from professional economists’ (Blainey and Hutton 1983:205). Another banker, C. H. Tranter, Chairman of the Melbourne-based Associated Banks, was scathing about the role of economists in urging the break from parity: ‘I am not too much influenced by the theoretical opinions of economists who, as a rule, take the academic course and have not had practical experience’ (cited in Holder 1970:684). Speaking for the English-owned banks, G. D. Healy pleaded with ‘three professors of economics’ that devaluation was wrong and ‘that even if their contentions were correct’ it was not the time to put them into operation and that ‘practical men’ should be allowed to deal with the situation.143

There was resentment, too, from office-holders at the arrival of economists into positions of influence. McDougall agreed with David Rivett of the CSIR that the economists had ‘lost their heads’ with their newly found sense of importance. Sounding like an aggrieved banker, Rivett went on:

My interpretation of the position is that the ‘homo economicus Australiensis’ was a neglected species up to 1929. Then when depression broke upon us the harried politician hurried to him for aid and since that date your Gibrils, Coplands, Shanns and Melvilles have been taken very seriously indeed. This sudden promotion of men whose experience in public affairs is limited seems to me to have had an unsettling effect upon their mental equilibrium. (Cited in O’Dea 1997:67)

Others, such as Walter Murdoch from the University of Western Australia, refused to acknowledge the worth of economists:

The economist has his uses in the world, and one use in particular... The true use of the economic expert is to refute other economic experts... He may have other uses, though I, personally, have not discovered them... My wireless expert did put my set right; what has the economic expert ever put right? (Cited in La Nauze 1977:118)

While the Premiers’ Plan was later castigated as deflationary and serving the interests of the banking community, the economists drew praise by their insistence on devaluation, Treasury bill finance and lower interest rates—what

143 G. D. Healy to E. Godward, D/O Letters, 20 February 1931, ANZ Group Archive.
Copland called management by ‘intelligent economic control’. There was also Copland’s imaginative voluntary conversion-of-internal-debt scheme. While Copland (1932b:378) admitted that he did not agree with Australian governments rejecting Niemeyer’s therapy in toto, he was emphatic that his plan was quite removed from the Niemeyer blueprint. Copland had identified Niemeyer’s therapy as akin to an aboriginal circumcision causing ‘needless disorganisation and distress’ (cited in Clark 1981b:183). For his own part, Copland did not feel that the cure was worse than the disease. Nonetheless, he later regretted that allowing loan expenditures to fall to a nadir in 1931–32 was as much in error as allowing Australian governments to engage in reckless expenditure during the 1920s. In other words, there was no recognition that public works expenditure be increased to the level occurring before the Depression so as to offset the calamitous fall in private investment; nor was Giblin’s multiplier analysis ever applied to cutbacks in domestic expenditure until Kahn recast it in 1931 (Karmel 1960; Wilson 1951:195).

In his theoretical outlook, Copland (1934:64) set little store on the value of public works; lasting employment would be found in the export and import-replacement industries. Attempting reflation by public works, it was believed, merely inflated the prices of domestic goods, imposing further hardship on the export sector (Plumptre 1935:133). Public works were held to be effective only when they served as a stimulus to private enterprise and for this to occur business opinion was crucial (Brigden 1934). In Copland’s favour were the prevailing psychological circumstances, which called for fiscal consolidation not expansion.

There was contemporary criticism, too, from the Sydney economists F. A. Bland and Mills (1931), who, in their review of the plan, felt that the equity aspect did not wholly extend to pensioners and the low paid. In like spirit, Hugh Dalton, British economist and Labour politician, praised Australia’s wielding of the axe on expenditure and incomes but wondered if it was ‘truly scientific forestry’. He pointed out the gross inequality within the sharing-of-loss principle in that external bondholders were quarantined from having to partake in the sacrifice (Dalton 1934:441). Although there were engineered interest rate cuts, Copland (1960:21) later admitted that the inflationary aspect of the plan was ‘was not pursued by the same vigour and unanimity’ as were the expenditure cuts and tax rises. That said, the banks were praised for playing their part and not taking

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144 D. B. Copland to F. Taussig, 28 February 1933, UMA FECC, Box 19.
145 Even at the hour of triumph, Leslie Melville held grave concerns about whether the loan conversion arrangement would work (L. G. Melville to Sir O. Niemeyer, 6 June 1931, BE, OV9/289).
146 The Herald, 30 December 1935.
advantage of the reduction in interest to reduce the rates on their deposits. Looking back, Hytten (1935:132) concluded that the Premiers’ Plan, while overly severe, had ‘done its work’ in terms of reducing deficits and outlays.

In his reappraisal of the Premiers’ Plan, the New Zealand economist Allan Fisher (1934) suggested that economists had erred in prescribing devaluation because it induced more unprofitable primary production at a time when the world did not desire it. This critique sprang from his research focus on material progress, showing how it did not lead just to a continuous increase in production but to increasing diversification of goods and services. In 1941, Giblin found time to defend the plan’s originality: ‘It would have been difficult to find among those concerned with the Premiers’ Plan any agreement with the theses of Niemeyer who had, in fact, left Australia long before the plan was thought of.’ He was well aware, too, that the plan was bound to be deflationary but Australia, at the time, had little choice. He also defended the 1931 wage cut for being a stimulus—material and psychological—to exporters and import-replacement manufacturers.

In the past 50 years, the Premiers’ Plan has assumed a place of infamy in Australia’s history. A retelling of its origins and rationale, though, casts it in a much brighter light. The economic and political drama of 1931 represented an opportunity for Australian economists to combine the latest theoretical work of the monetary reformers with some native improvisation. It was, in fact, the making of the Australian economics profession.

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147 ‘The myth of the Premiers’ Plan’, 6 November 1942, Giblin Papers, NLA.
148 L. F. Giblin to E. R. Walker, 19 April 1934, Giblin Papers, NLA.