6. The agonistes of the economists, 1931–1932

Introduction

In his account of Australia’s travail through the Depression, Schedvin (1970:225) was dismissive of the efforts of economists in formulating policy dealing with the crisis but also, more importantly for our purposes, in putting forward alternative economic policies. Apart from his main contention that the Premiers’ Plan had a comparatively minor effect on the course of recovery, Schedvin suggested that the economic policy decided on in July 1931 retarded, more than promoted, economic recovery. The interwar economists would have concurred; official economic policy in 1932 took a deflationary bias. The purpose of this chapter, however, and those following, is to show how Schedvin’s view of the role of economists is not grounded in the facts. In particular, the tracking of the development of Australian economists’ thought and policy advice during the 1930s leads to a categorical refutation of Schedvin’s (1970:225) claim that instead of economists re-examining traditional economic thought ‘they clung to the myth of the efficacy of the Premiers’ Plan and implicitly condoned the inept policy of the Lyons Government’.

Australian economists had, in fact, begun to question the traditional patterns of economic thought as well as the appropriateness of the Premiers’ Plan especially as unemployment soared and export prices fell further. Some decided on bold new directions. After 1933, the unity of the economists in promoting anti-depression policies began to fray with a divide re-emerging between the stabilisationists and restrictionists, albeit in muted form. Before then, however, economists were asked to reformulate another bolder plan to retrieve Australia from slump. This advice was not acted on.

To understand why this was, some background on the formation of, and interests behind, the Lyons government is appropriate. There was a revival of economic revisionism with the Commonwealth Bank reasserting its authority over economic policy by ordering a currency appreciation. As the economy

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1 A useful illuminating exercise is to compare Schedvin’s account of economists’ activities in the early 1930s with the more uplifting, albeit self-interested account given by Holder in his history of the Bank of New South Wales. Both books were published in 1970.
continued to stagnate, Lyons commissioned a review of economic policy. The subsequent report, which attracted the attention of Keynes, focused on the contemporary dilemma between exchange rate stability and price stability.

The economic policy of the Lyons government

Economists welcomed the election of the Lyons government. It heralded the return, not just of business confidence that would allow the Premiers’ Plan to start yielding results, but of a Prime Minister prepared sometimes to act on academic economic expertise. In contrast with the boost in business confidence that marked election of the United Australia Party (UAP) to power, there was only a lukewarm response in the stock market when the Premiers’ Plan was first announced. This was partly because Scullin and Theodore had allowed themselves to become, as Casey put it, ‘political charlatans’. Pushing through the Premiers’ Plan, in any event, merely hastened the self-destruction of the Scullin government and allowed its successor to appropriate the electoral credit for pulling Australia out of the economic mire (Lloyd 1984:164).

Economists were aware of Lyons’ backers, particularly a Melbourne-based cabal known as ‘The Group’, and held some fears that economic policy might revert to outright deflation (Hart 1967). With Britain off the gold standard from September 1931, concern focused on a Commonwealth Bank Board asserting its independence and moving to ‘rehabilitate’ the exchange. Sterling had begun to appreciate in any case meaning that Australia lost the benefit of the second de facto devaluation when sterling first came off the gold standard. To safeguard the linchpin of intelligent economic policy—that is, an exchange rate that took account of domestic economic conditions—economists engaged in persuading higher authorities to take the correct approach.

Whatever the growing unease among economists over the policy settings put in place by the Premiers’ Plan, there were two binding constraints on any other feasible alternative. First, the plan was a three-year program and it was on that platform that Lyons, as the titular head of the conservative forces that crystallised around the UAP, won at the polls; Lyons, whose appeal to the electorate was deeper and wider than any political party, had asked for—and overwhelmingly received—a ‘doctor’s mandate’ from electors. His manifesto was built around three broad themes: a restoration of business confidence,

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2 A few years after losing office, Scullin was still bitter that his government was not given the credit due to it for putting in place the measures that saved Australia (Molony, 2000, 149).
3 R. G. Casey to M. Hankey, 6 July 1931, Hankey Papers, Churchill College.
4 That term was taken from Ramsay MacDonald’s successful re-election campaign in Britain in 1931. It was little wonder Lyons used the slogan ‘Tune in with Britain’ in the UAP’s election campaign.
the balancing of budgets and the reduction of unemployment through the stimulation of private enterprise. The UAP election manifesto was drawn from Lyons’ predecessor, Latham, who, even in the dark days of early 1931, saw nothing explicitly wrong with the economic system other than a marked lack of business confidence caused by the dithering of the Scullin government. In that light, Latham, along with The Group, cast a shadow over Lyons’ economic views. One consolation was the return of Bruce, as Assistant Treasurer, though Giblin felt he was hamstrung having to ‘live down’ his reputation for reckless expansion.\(^5\)

The second constraint on alternative economic policy was that Australia’s external obligations to British bondholders dictated sound finance and a stable exchange rate. Apart from choking off imports with tariffs, Australia, on the other side of the ledger, had to muster a large enough export push to meet its foreign debt requirements. This was no easy task. For instance, in 1930/31, the surplus of exports over imports amounted to £28.3 million, while the total interest payments on the external debt of Australian government authorities amounted to £36 million. In the succeeding year, 1931/32, Australia recorded a trade surplus that allowed some accumulation in its London funds. The management and servicing of Australia’s debt portfolio assumed even greater weight once Bruce was dispatched to London to begin the difficult task of converting maturing Australian government securities to a lower rate (Attard 2000). Apart from Australian tariff levels injuring British exports and the repudiation rhetoric of Lang, London financial opinion was shocked at how voluntary conversion of the national debt had become coercive for dissentients.\(^6\) Melville subsequently told Niemeyer of his concern that the process might give impetus for Lang to push for the compulsory conversion of Australia’s external debt since the outstanding Australian loans on the London market exacted a heavy interest burden on government budgets.\(^7\) Even though Britain had a cheap money policy from 1932 onwards, the British Treasury initially opposed the Commonwealth conversion operations on the pretext that the London market could not accommodate the scale of the conversions at hand. London acceded to the Australian request only by July 1933, having by then sorely tried Lyons’ patience (Cain 1985). In a cable to Bruce, Lyons vented not only his own frustration at London’s ‘callousness or thoughtless indifference to our difficulties’, but what the riddance of the Scullin government had meant: ‘It must not be forgotten,’ Lyons intoned, ‘that in approaching consideration of this matter that the Australian people voted us…into power in the belief that London would react…and that, with a Government pledged to pay its way, lower rates

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5. L. F. Giblin to E. Giblin, 9 March 1932, Giblin Papers, NLA.
would inevitably and willingly follow.’8 The explicit threat to London was that such recalcitrance would result in the return to power of the Labor Party, which would set about reducing the country’s external interest rate obligations in a much more ‘brutal and direct fashion’.9

Some three years later, Bruce informed Giblin of the economic Realpolitik behind the conversion program that had, by then, been successfully executed. It was, he said, not just to give Australia the maximum relief with regard to her interest burden ‘but possibly more importantly, to convince Australian public opinion that the policy of respectability is more profitable for Australia’s point of view’.10 Just how far this policy of ‘respectability’ went would soon present economists with their first challenge.

Lyons’ commission, as both Prime Minister and Treasurer, was to carry out the Premiers’ Plan to the letter. The electoral call for orthodoxy and respectability had resonance since Latham delighted in exposing the fact that Theodore and Scullin had not totally forsaken the ‘policy of inflation…and printing bank notes to make the credits effective’.11 Scullin and Theodore, annoyed at the banks’ reluctance to honour their commitment to cut interest rates, explored new expedients (Holder 1970:705–7). Melville feared that Theodore would use the findings of the British Macmillan Report to revive the extension-of-credit idea.12 In a letter to the South Australian politician Charles Hawker, Melville suggested that Theodore’s thunder be stolen by the UAP adopting the Macmillan doctrine urging an international reflation of prices, inter alia, and dismissing domestic inflation as an expedient.13 The three English banks based in Melbourne were delighted, then, at the electoral demise of Theodore because it had removed from circulation notions of inflationary schemes.14 Or so they hoped.

Elected in December 1931, the new Lyons government, with a majority in both chambers of Parliament, commanded a powerful leverage over economic policy. At first, Giblin sensed that Lyons and Bruce were keen on a new economic plan, but this was only electioneering.15 It had, of course, been Lyons’ overwhelming popularity with the electorate that brought this coalition of conservative interests to power (Lloyd 1984). Lyons’ biographer, Philip Hart (1967), got to the nub of

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8 J. Lyons to S. M. Bruce, 11 March 1933, Cablegram, AA, 1970/559, Bruce Correspondence to Lyons, 1933.
9 Staniforth Ricketson diary extract, 20 June 1932.
10 S. M. Bruce to L. F. Giblin, 11 July 1936, AA, M104/4, Miscellaneous Papers Bruce, 1936.
11 The Age, 7 November 1931.
12 The Wales put out a circular on the findings of the Macmillan Committee, which, taken at face value, did not readily accord with Australia’s economic readjustment measures. For instance, the Macmillan Committee dismissed ‘the resort to competition in wage cutting [as] a counsel for despair, especially for debtor nations’. It did, however, urge financial reflation and international monetary reform to lift price levels back to 1929 levels in a bid to eliminate the discrepancy between manufactured and commodity prices.
13 L. G. Melville to C. A. S. Hawker, 31 September 1931, Shann Papers, NLA.
15 L. F. Giblin to E. Giblin, 17 January 1932, Giblin Papers, NLA.
Lyons’ intrinsic appeal to the electorate; it was his essential ‘ordinariness’ and his folksy ‘homely style’ that won over the people. ‘Ordinary men’, perplexed by the monetary schemes of Lang and Theodore, knowing little of economics, turned gladly to Joseph Lyons whose honesty and belief in economy they could easily understand. Lyons expediently played on his unfamiliarity with finance. Such professed innocence and timidity would, as Labor politicians pointed out, cost Australia dear.

Buoyed by the victory of Ramsay MacDonald in the British general election of October 1931, Lyons offered the same sanctuary to the Australian electorate. In similar circumstances to MacDonald, Lyons had also been traduced by conservative interests to be at the head of a motley coalition of conservative groups (Hart 1967; Lloyd 1984). As mentioned, the most outstanding of these interests was the Melbourne group (Lloyd 1984:292; Hart 1967). The Group revolved around the aspiring Victorian politician R. G. Menzies and the Tasmanian-born stockbroker Staniforth Ricketson (Murray and White 1988). It was Ricketson who had marshalled financial opinion behind Lyons’ loan-conversion campaign of 1930, which proved the making of his electoral appeal. As his diary entries reveal, Ricketson shared the confidences of Sir Robert Gibson, B. S. B. Stevens, the NSW Opposition Leader, and Casey, a future Federal Treasurer. Other members of The Group were Sir John Higgins, head of the British and Australian Wool Realisation Association, Charles Norris, an insurance magnate, and Ambrose Pratt, a businessman and former journalist with strong links to Keith Murdoch, the Managing Editor of the *Melbourne Herald*. Murdoch’s newspapers played a critical part in Lyons’ elevation, presenting him as Australia’s saviour. Pratt felt The Group would be the channel through which to meet the ‘desire to influence public opinion for the public good’ (cited in Martin 1999:94). A later recruit, the architect Kingsley Henderson, whom Lyons was especially friendly with, was an intimate of Sir Robert Gibson (Hart 1967; Martin 1993:83). Lloyd (1984) considers that, ‘in terms of access to power and influence, the Group’s presence could not be surpassed’. Ricketson’s diary, however, reveals this applied, perhaps, only to the early days of the Lyons government. Once into his term of office and facing bleak economic times and a divided cabinet, Lyons gently resisted the overtures of The Group, telling its spokesman, Sir Kingsley Henderson, that he was reluctant to call on them for fear that they would think

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16 Pratt also dabbled in political economy with some reasonably cognate analysis of Australia’s economic ills. In ‘Disequilibrium—the measure of depression’, Pratt identified an overproduction of staples as a besetting global problem necessitating lower production costs for secondary industry to restore the balance. In a weightier offering—‘Elements of constructive economics’—Pratt argued that banking policy should be brought under closer partnership with the State. That is, the banking system should be deprived of the power to start cyclic movements, which it could not stop. Pratt was, however, adamant the banks should not engage in financing budget deficits (Ambrose Pratt Papers, State Library of Victoria, Box 327/6, Mss 6547 and Mss 6546).
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he was ‘imposing on their good nature’. Nonetheless, The Group reassured Lyons that they had a duty to support him at a difficult time of economic adjustment, with Ricketson informing him that ‘[c]apital has a very definite responsibility at the present time to aid people like yourself who are fighting for the preservation of contracts and the honouring of our obligations’.

Apart from opposing the policies of inflation and repudiation, The Group had earlier struck a discordant note with mainstream Australia by resisting the clause that domestic bondholders partake in the equality of sacrifice. Indeed their trenchant opposition to what Menzies called ‘the breaking of contracts’ initially hindered acceptance of the Premiers’ Plan (Martin 1993:106). Lyons, however, in a rare show of strength, broke from his backers and Deputy Leader Latham and pushed for cuts in interest rates as part of the package (Hart 1971:134). That is, he sided with the economists on the issue of equal sacrifice. Lower interest rates, forthwith, took their rightful place as an integral part of the economic rehabilitation process. Despite this partial reverse, The Group continued to lobby for balanced budgets, the funding (retiring) of Treasury bills and the return to sterling.

Meanwhile, Lyons had to give thought to the formation of his cabinet. Apart from Bruce and Latham, the only other ‘brain’ in his cabinet was Charles Hawker. While Lyons took the portfolio of Treasurer it was merely to lend an air of psychological assurance; Bruce, as Assistant Treasurer, carried that portfolio’s duties. Bruce laid the foundations of the UAP’s economic policy until replaced by Massy-Greene in July 1932.

With his genial personality and political acumen, Lyons’ leadership was about reconciling conflicting requests from different interests. Rarely, however, did he have the stomach for a fight within cabinet. His biographer, Philip Hart, has described Lyons’ modus operandi in policymaking as basically to rely on expert advice that met his philosophical framework and then, in turn, emphasise the non-partisan nature of the path taken. His main role appeared, to many, as merely to occupy office and let the private sector, coupled with the strictures of the Premiers’ Plan, bring about recovery. In some ways, this interpretation was correct; as Coombs intimated to Shann, what Australia required after 1931 was not a Bruce or Theodore but a ‘steady unimaginative soul’. Lyons was their man; he was, as the leading businessman C. L. Baillieu put it, ‘the man Australia had been waiting for’. Lyons disavowed any gift for economics: ‘I know little about finance,’ he frequently intoned, implying perhaps that

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17 Ricketson diary, 23 April 1932.
18 S. Ricketson to J. A. Lyons, n.d., Lyons Papers, NLA.
19 Ricketson diary extract, 23 April 1932.
20 Shann Papers, NLA, Box 4.
21 Ricketson diary extract, 17 March 1932.
he would solicit the wisdom of economists and others before making policy decisions. He entertained a fetchingly simple view that equated government debt with personal debt. To be fair, Lyons had been broad-minded enough to accept the Melbourne school’s plan of constructive deflation in September 1930. Lyons was also not content to leave economic salvation purely to market forces even if his government was ostensibly a ‘private enterprise’ one (Hart 1967:243). Indeed with Giblin and Brigden having his ear, and Bruce ‘happy to be back in harness’, Lyons began his administration by letting slip the comment that ‘the credit of the Commonwealth would be utilised’ to pursue public works. The Group, along with a ‘hard-shelled minority’ in cabinet led by George Pearce, the Minister for Defence, feared Lyons coming under the influence of ‘the economists’ (cited in Hart 1967:264). Sir John Higgins, too, was ‘apprehensive’ that Lyons would if not be overwhelmed by Bruce and Latham, become entangled by his ‘close association [with] economists and Treasury officials [with]…the latter’ falling for ‘the line of least resistance’. This, perhaps, was a veiled reference to the liberally inclined Sheehan who was years later to become Governor of the Commonwealth Bank.

A consummate chairman of the board, Lyons was, at the last resort, never prepared to breach cabinet solidarity or disappoint his backers by pandering to the advice of experts; nor for that matter was he prepared to leave the comforting confines of the Premiers’ Plan or, just as importantly, brook the independence of the Commonwealth Bank on monetary and exchange matters. On assuming office, Lyons’ first brief was to hold a premiers’ conference—the first of many—to audit the progress of the state governments in winding back their budgetary deficits. They were struggling to rein in their deficits as the full force of the Depression hit. Lyons was, however, intent on placing the Commonwealth in a fiscally strong position from which it could browbeat state governments into submission. In that regard, Shann and Copland might have triggered the new government’s attention with a report entitled The Australian Position, exposing how some states had still not yet complied with the Arbitration Court’s wage cut. Consequently, the Gibson-led revaluation of the currency made the burden of domestic costs on the export sector more onerous. Melville, in a delicate but nonetheless influential position at the Commonwealth Bank, summarised the report for Gibson’s edification, agreeing with the authors that a policy to restore

23 Ricketson diary extract, 23 January 1932.
24 Senator Pearce had been instrumental in the destruction of Theodore’s proposed Commonwealth Bank Act by coming up with the idea of inviting the ‘grand old man’ of Australian finance, Sir Robert Gibson, to be a witness before the bar of the Senate where in turn a consummate performance dammed the proposed legislation (Pearce 1951:188; Margaret Gibson, draft memoir of her father, Gibson Papers, Mss 10823, State Library of Victoria).
25 Ricketson diary extract, 28 January 1932.
26 L. F. Giblin to E. Giblin, 17 January 1932, Giblin Papers, NLA.
parity, irrespective of the prices of Australian exports, would have disastrous consequences (Booth 1988). To placate Gibson, Melville tactfully added that too much tampering with the exchange rate to adjust costs and prices would not compensate for a direct adjustment in domestic costs.27

The battle over the exchange rate

Near the end of 1931, a slight rise in export prices, together with a hefty increase in export production, replenished the London funds. This, in turn, sparked fears among economists that the economic bourbons were in the ascendant. It was another call to arms for the economists as unemployment reached 28 per cent by December. In an attempt to pre-empt efforts to restore parity with sterling, the economists issued a manifesto in November 1931 fortifying the case for further devaluation (Shann and Copland 1933:29–34). The signatories to the statement—basically the whole Australian economics fraternity, bar Melville, who was economic advisor to the Commonwealth Bank—warned that a return to par with sterling ‘would, on present and prospective prices, gravely imperil the chances of economic recovery in the near future’ (Shann and Copland 1933:86). The economists, together with Davidson, urged the Commonwealth Bank to fulfil its central bank duties by assuming responsibility for the exchange rate. As if on cue, the Commonwealth Bank, in one fell swoop, took responsibility for the exchange rate free from any sectional interest other than what preoccupied the bank board. While economists welcomed the sentiment and principle, they were horrified by the board’s decision to revalue the currency.

Gibson’s action could have been swayed partly by advice from Niemeyer. He had cabled Gibson in September 1931 ‘offering some thoughts and observations for reflection only’ about Australia’s exchange rate. An appreciation of the exchange, Niemeyer held, would ‘liberate some of your finances now earmarked to meet budget deficits’.29 Niemeyer had already advised the New Zealand government against devaluation on the basis that it would widen the budget deficit. This would, in turn, necessitate higher taxation falling on exporters or, even worse, the use of Treasury bills to bridge the shortfall in finances.30

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28 Edward Shann in The Statist, 10 December 1931.
30 ‘The premiers’ economy plan; further report by special committee’, National Bank of Australia Circular, April 1932, pp. 11–12.
In their campaign to prevent any further appreciation, the economists had been vindicated in their arguments by the findings of the Macmillan Committee in Britain that problems caused by fluctuations in the price level were now ‘transcending in importance of any others of our time’ (cited in Shann and Copland 1933:32). Davidson, with Shann’s help, in a Bank of New South Wales Circular, analysed the Macmillan Committee’s findings. They focused on the key problem facing Australia, which was not the exchange rate per se, but globally depressed price levels. Revaluation would intensify the burden of rural indebtedness and drive debtors to despair. Moreover, the safer option of keeping the exchange rate steady would, if export prices fell, spell further deflation and more adjustment of domestic costs. The logic did not convince Gibson even with Melville’s protests within earshot. Tragically, it also did not register with Lyons or Latham until much later.

The economists—correctly as it turned out—held fears that Lyons would fall craven to the weight of Melbourne banking and financial interests. The Prime Minister had already stated that governments ‘should not be entitled to dictate to those who are controlling the exchange what the rate should be’ (cited in Learning 1934:407). Shann identified a Melbourne–Sydney rivalry over who had primacy in setting the exchange. Melbourne, then the financial and business hub of Australia, waged a tug of war with the Sydney banks and exporting interests over the setting of the exchange rate. Shann, who felt that the 1931 devaluation saved the country from a ‘collapse of the whole financial system’ (cited in Cain 1985:63), appealed to Hawker to do his utmost in maintaining the ‘great improvement’ in exchange rate management: ‘Don’t let the respectabilians and importers in Melbourne stampede you into an impossible attempt at deflation of prices by a further 20 per cent.’

Just after the November 1931 statement was issued, Copland told Latham that the build-up in London funds was the end result of a bumper season and would be further augmented by a renewal of private capital flowing back to Australia with the return of a conservative government. Copland asked Latham to encourage the Commonwealth Bank to exercise its role as a central bank and purchase the surplus funds of the Australian banks held in London. With export

31 Signatories to the Memorandum on the Exchange Position were Copland, Giblin, Shann and R. C. Mills from the University of Sydney. Melville did not sign because of his position with the Commonwealth Bank, but helped in its drafting.

32 E. Shann to C. Hawker, 3 December 1931, Hawker Papers, NLA.

33 Melville, at this stage, partly broke rank with the other economists—not just because of his position at the Commonwealth Bank, but because he felt there was danger of a lopsided boom in the exportable industries riding on a depreciated exchange rate and recovering prices. This fear rightly struck Shann as ‘absurdly thin and pedantic’ (E. Shann to C. A. S. Hawker, 18 January 1932, Hawker Papers, NLA). Despite Melville’s rather premature prophecy, Shann reminded the Adelaide businessman W. Young that Melville’s command of his brief and, in particular, the most appropriate setting for Australia’s exchange were vastly superior to anything London opinion had to offer (E. Shann to W. G. Young, 17 February 1932, BNSW, A-53-409).
prices subdued, revaluation would have farmers in despair over the board’s decision. Copland asked Latham to make a statement that his party was against ‘unnecessary deflation’—that is, it would not allow the exchange to appreciate. If this were done it would enshrine the new exchange rate policy until overseas prices intervened. It was to no avail. This, and subsequent behaviour by Latham, drew Copland’s lasting bile that ‘[h]e has never been prepared to admit that economic policy as such can do very much’. Davidson also did not get much purchase from Latham when he enclosed an article by Keynes that spoke of the precipice of outright deflation the world economy was perched on. Somewhat sinisterly, the article, ‘The consequences to the banks of the collapse of money values’, published in London newspapers in August 1931, had not been reproduced in the local press because of the political climate (Cain 1985:63; Keynes 1931:150–8). Davidson also made sure that Lyons received Keynes’s article with the accompanying plea not to ‘press high-handed and thoughtless measures of restoring parity’. His bank released a statement on the dangers of revaluation. Despite the lobbying, the economists’ advice went unheeded and the prospects for enlightened economic policy receded. Another opportunity presented itself when Lyons established an expert committee to deal with the worsening economic climate. After the rebuff on the exchange rate only months earlier, economists must have felt heartened that their expertise and input were still in demand. Indeed, with Copland and Wickens incapacitated from overwork, Wood mused, ‘I wonder whether Governments will ever realise the necessity of keeping a sufficient staff of scientific advisers against the day when adversity cometh.’ It was a salient point.

At the official level, the Commonwealth Bank had Melville on its staff while the Treasury had its first graduate economist even if Wilson was employed as an assistant to Giblin, the Acting Commonwealth Statistician. This internalisation of economic expertise was barely enough for Casey, a new and energetic member of the government, who told his London confidant and mentor, Maurice Hankey, that Australia needed a body similar to Britain’s Economic Advisory Council. Such a body was better than having to ‘depend upon sporadic and occasional advice by financial and economic experts hurriedly drawn together’. Casey envisaged the body independently advising on the exchange rate. The idea of

34 D. B. Copland to J. Latham, 30 November 1931, Latham Papers, NLA.
35 D. B. Copland to H. Gepp, 5 November 1934, UMA FECC, Box 23.
36 A. C. Davidson to J. Latham, 23 December 1931, Latham Papers, NLA.
37 A. C. Davidson to J. Lyons, 23 December 1931, Lyons Papers, NLA.
39 G. L. Wood to M. H. Baillieu, 10 March 1932, UMA FECC, Box 13. Three young, promising economists—J. K. Gifford, E. R. Walker and H. C. Coombs—had gone abroad to undertake theses with some policy bearing on the Depression’s impact on Australia. Two Tasmanian-born economists, Arthur Smithies (Oxford) and Keith Isles (London School of Economics), were already overseas.
40 CPD Hansard, 1255, 13 October 1932.
41 Cairns Post, 28 October 1932.
an agency of independent economic advice became a hobbyhorse of Casey’s though he was joined in it by an assortment of identities ranging from R. F. Irvine to Herbert Gepp. In Niemeyer-like tones, Casey went on and bemoaned to Hankey that ‘[o]ur Parliament...is a totally inadequate body to discuss economic problems, and our Government Departments are much less able than yours to express themselves on this type of subject’. Casey went on to talk about the magnitude of Australia’s problems then extant, including ‘our most inadequate civil service’, ‘our out of balance economy as between town and country’ and ‘our queer economic ideas about tariffs and bounties’. He closed, inimitably capturing the eternal Australian economic predicament: ‘We are swung about, like a tractor after a motor car, at the tail of the world’s price levels.’

The Wallace Bruce Report

Very quickly an air of economic desperation encircled the new Lyons government. It impelled Giblin to think it time for a ‘bold—perhaps desperate—policy to kick things together’. He sounded out Lyons, whose cabinet was already showing signs of division about the direction of economic policy. Possibly swayed by Giblin’s advice to do ‘something’ about mounting unemployment, Lyons commissioned a group of businessmen and economists in March 1932 to hurriedly make a preliminary survey of the economic problem and, in doing so, review the appropriateness of the Premiers’ Plan. This part of the chapter discusses the intellectual makings of the subsequent report and its reception.

Melville, Shann and Giblin, in that order and weight, drew up the terms of reference for the inquiry. They were: ‘to formulate a long run policy with the aim of maintaining and expanding both the primary and secondary industries; and to explore the possibility of immediate action to tide over the period which must elapse before results can be expected from the long range policy.’ The terms of reference were similar to the tasks set before the short-lived Secretariat on Employment and Production set up by Scullin and the premiers in August 1931. The secretariat’s mission had been to formulate ways of increasing employment—something the Premiers’ Plan was never intended to address. At that forum, Giblin and Dyason, arguing without much theoretical conviction other than pragmatism, pressed the authorities with the need for more public works, or reflation, to stem the alarming rise in unemployment (Wilson 1951:198).

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42 R. G. Casey to M. Hankey, 30 March 1932, Hankey Papers, Churchill College.
43 L. F. Giblin to E. Giblin, 9 March 1932, Giblin Papers, NLA.
44 E. Shann to J. La Nauze, 11 April 1932, La Nauze Papers, NLA.
The other economist appointed to the Wallace Bruce Committee was Mills, who replaced Copland, who had fallen ill in New Zealand. An apprehensive Giblin told his wife that, with Mills’s ‘conservative instincts’, the prospects of a ‘positive policy’—that is, public works and credit expansion—were decidedly poor. Copland’s absence, however, did not significantly affect the bearing of the committee’s findings and he supported their recommendations (Cain 1985:2–3). Cain (1985:4) suggests, in fact, that Copland’s report on New Zealand economic adjustment exerted a strong impact on the Wallace Bruce Report. Giblin, while more idiosyncratic than the rest of his colleagues, was adamant that its findings be strong and unanimous to help Lyons overcome the ‘hard-shelled’ cabinet minority demanding orthodox finance.46

While the Chairman of the Committee, Sir Wallace Bruce, was, along with G. S. Colmen, a businessman sympathetic to economic discourse, the report was, as Melville recalls, ‘very much an economists’ show’.47 Shann, who laboured tirelessly over the committee’s drafts, optimistically told a university colleague: ‘We economists—an inveterately hopeful band—are doing our best to push the governments into a sound monetary policy’ (cited in Alexander 1963:153).

He told his protégé, John La Nauze, that he hoped the report would convince the thinking public, adding that ‘the Treasury officials whom we have to use as a medium of transmission to Premiers are as snake-headed deflationists as the bankers’.48 Despite Shann drafting much of the report, its genus was largely concocted by Melville. Giblin, Melville and Shann gave an in-camera briefing of their findings to leading members of the government at Keith Murdoch’s house (Hart 1967). It made for sombre listening.

Analysis

With primary product prices on international markets falling a further 15 per cent since November 1931, Australia’s fundamental economic problem—export prices falling below the costs of production—had become acute. Australia was just ‘hanging on’ even with good seasons and efficiencies in production.49 Since a general recovery of employment could, given the nature of the economy, come only by way of net exports, the long-term plan had to focus on a reduction of costs since a recovery in export prices was now wishful thinking. To expedite this, the committee settled for a threefold strategy that embraced a further devaluation, compensatory tariff cuts and enforcing the 1931 wage cut. Copland (1937a:409) labelled it ‘the middle course’ between continued deflation and devaluation of

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46 L. F. Giblin to E. Giblin, 24 March 1931, Giblin Papers, NLA.
47 Melville, TRC 182, NLA, p. 35.
48 E. Shann to J. La Nauze, 14 April 1932, La Nauze Papers, NLA.
49 G. L. Wood to W. S. Robinson, 21 April 1932, UMA FECC, Box 14.
the currency. Attracted by the idea of exchange rate manipulation, Melville felt devaluation contained its ‘own safeguards’ since, by penalising governments and importers by forgoing revenue, it prevented the mechanism from being overly abused. Melville also wanted the devaluation executed at a time when the London balances were healthy; to do otherwise would be perceived as a sign of weakness. Their recommendations came also with the reminder that budgetary deficits still be reduced in accordance with the Premiers’ Plan. Indeed the committee reiterated that there could be no plan to relieve unemployment until deficits, in the name of business confidence, were progressively reduced. In a key paragraph, the committee assimilated Theodore’s line that budgetary improvement was, however, as much a function as a condition of recovery (Cain 1985:11).

The blended formula was, in short, a reprise of the Premiers’ Plan strategy with the three measures deemed interdependent and inseparable. The stress was to further improve Australia’s relative cost structure so that the nation would be well placed to ride any recovery in export prices (Cain 1985:9). The report also recommended that state parliaments make the necessary amendments to allow arbitration courts and wage boards to fix wages in line with economic circumstances. The economists, however, generally eschewed bridging the gap between export costs and prices by solely resorting to cutting cost levels since this would impair financial stability and, in turn, prevent budgetary equilibrium from being realised. Likewise, electing to let the exchange rate carry the whole burden of adjustment might trigger capital flight. The most revolutionary proposal was not just devaluation but having the Commonwealth Bank Board manage the exchange rate according to economic circumstances and thereby making it an instrument of economic policy. For Melville, this was a calculated risk since he hitherto felt that rational management of the exchange rate required authorities to be not only omniscient, but omnipotent.

Informed by the analytical framework of Keynes’s Treatise, the committee’s thinking on devaluation also had an underlying macroeconomic rationale. It would allow more domestic reflation to be contemplated but only after the relative cost adjustment had been undertaken (Cain 1985:12; Cornish 1993b:12). That is, more public investment or public works would be attempted to counter the drag of excess savings lying idle in bank vaults. This proposal was similar to one of the expedients Keynes presented before the Macmillan Committee in

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51 An assured Copland, having just recovered from a bout of illness that saw him confined to bed, told the editor of a news magazine that ‘[t]he Experts’ report is curiously enough a restatement of Chapter 6 of my book on Credit and Currency control. When this Chapter was first written in 1930 it caused rather a stir among the good folk of Melbourne and the inner councils of the UAP—the middle course is the very one I recommend Australia should take’ (D. B. Copland to E. Knox, 16 April 1932, UMA FECC, Box 17).
52 L. G. Melville to E. Shann, 30 November 1931, Shann Papers, NLA.
March 1930 to pull Britain out of the slump. The higher activity and devaluation would prevent the price level from slipping due to lower wage levels. The Australian economy would emerge, then, with steadier prices together with lower real wages and restored profit margins. It was Melville who articulated this strategy. Shann saw some hope of cranking up capital expenditure, which would augment, in turn, the spending power of consumers and thereby stabilise business confidence. It would also allow the orderly retirement of the formidable total of Treasury bills then extant. Giblin wanted an increase in public works irrespective of devaluation. His colleagues felt this might reignite Australia’s trade deficit and bring back the spectre of default that had only just been faced down.53

**Reaction**

Within days of the report being released, the economists came under fire from many quarters. As Giblin intimated to Keynes, there had to be something in the report since ‘[b]anks, Chambers of Commerce, Trades Hall and Mr Lang abuse it in terms of equal intensity’.54 A month before the report’s release, Giblin, working behind the scenes, tried to solicit favourable press treatment for the report by getting on side Keith Murdoch, who, while equivocal, agreed that ‘something’ was needed and that the *Experts’ Report* was the ‘only plan in the field’.55

Much criticism revolved around the clause to lower money wages to give effect to the 10 per cent real wage initially prescribed by the Arbitration Court. At the premiers’ conference held to discuss the report, Premier Lang and the Acting Premier of Victoria, Tom Tunnecliffe, denounced it as an attack on the working man. The West Australian Labor Opposition Leader, Collier, chanced his arm against the economists ‘and all their works’ even before a copy of the report reached Perth.56 Even the Acting Vice-Chancellor of the University of Western Australia reproached Shann and the other economists ‘obsession’ with wages:

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53 There were other staunch defenders of the parity besides Gibson and the Commonwealth Bank Board. B. Latham, the actuary of the Commonwealth Bank and a confidant of Ricketson’s, told the stockbroker that he was ‘distrustful of the professional economist’ with his belief that the only cure for Australia ‘is to live within her income’ (Ricketson diary extract, 28 January 1932). Melville’s act of wanting to tread carefully within the bank came unstuck with the release of the *Experts’ Report*. Gibson disallowed Melville from going to the Imperial Conference until the Governor of the Bank, Riddle, specifically requested Melville accompany him to Ottawa. Casey informed Sir Henry Battersbee of the Dominion’s Office to keep an eye out for Melville, who was ‘as near a real winner in the way of an economist as we have produced’ (R. G. Casey to Sir H. Battersbee, 10 June 1932, Hankey Papers, Churchill College).

54 L. F. Giblin to J. M. Keynes, 19 April 1932, KPKC, CO/2/188.

55 L. F. Giblin to E. Giblin, 18 April 1932, Giblin Papers, NLA.

56 ‘Blind critics, and worse’, *Adelaide Advertiser*, 22 April 1932. A more highly pitched critique of the report came from Senator Sir Hal Colebatch, who assailed the economists for their penchant to ‘fix’ wages, the exchange rate and other economic variables as distinct from letting the market rule (‘Economists’ plan; a criticism: currency, wages and trade’, *SMH*, 26 April 1932).
‘Why not lift your nose from its persistent sniffing at wages and let us know what you think of the money root of our problems?’ (Alexander 1963:153). A mortified Shann, already acutely sensitive about uninformed attacks on the economists, gave a riposte:

[Y]ou are a little unjust to the economists concerning interest. We did have the ‘guts’—your phrase—to press the proposal of a cut in fixed money charges in the teeth of the fiercest opposition from Tories and ‘mugwumps’...The Australian economists are not ‘concentrating on wages’ and have not done so in any conference I have attended. (Cited in Alexander 1963:154)

More effective censure of the committee’s report came from a statement issued by Gibson on 20 April 1932, which quelled speculation about the exchange by stating that the board would not be swayed by ‘sectional interests’ in its decision making; by sectional interests, Gibson meant economists and the self-seeking Davidson. In a sense, the Wallace Bruce Report had merely intensified the exchange rate struggle between Davidson, who ‘talks too much’, and Gibson, ‘who understands little and talks less’.57 Gibson did ‘talk’ but to bankers more than anyone. The bank board, moreover, rather disingenuously eschewed any notion of directing economic policy even though Gibson had told Lyons in January 1932 that the exchange rate was ‘more than a mere banking question and indeed impinging on national policy’ (cited in Cain 1985:144).

A week before Gibson’s statement, H. T. Armitage, Deputy Governor of the Commonwealth Bank, assured Ricketson that ‘their people’ would not be rushed into a quick decision about devaluation. Echoing the sentiments of private bankers, Armitage reminded Ricketson that the views of the ‘professors’ were ‘academic’ in the sense that their ideas were put forward without any notion of profit on the matter.58 Nonetheless, Gibson did not take the economists’ recommendations lightly. On the day the report was released, he cabled to Montagu Norman the committee’s findings, warning that if the economists’ views prevailed there would be devaluation irrespective of Australia’s foreign reserves.59 While economists were surprised by Gibson’s intransigence, they did not help their cause by invoking the convention that the bank board remain free ‘from both the fact and the fear of political control’ in its deliberations (Shann and Copland 1933:97–8). Davidson alluded to this likely problem in a cable to Robinson detailing the committee’s recommendations but doubting whether the bank board had the ‘knowledge and grasp of situation’ sufficient to enable them to act wisely.60 Perhaps the truth was that Davidson and the economists were,

57 G. Wood to W. S. Robinson, 21 April 1932, UMA FECC, Box 14.
58 Ricketson diary extract, 13 April 1932.
59 R. Gibson to Sir M. Norman, Cable, 20 April 1932, BE, G1/276.
60 A. C. Davidson to D. Geddie, Cablegram, 16 April 1932, BNSW, GM 302/569.
given the institutional and constitutional constraints facing them, seeking a *deus ex cathedra* to undermine Gibson’s campaign for revaluation. The higher authority sought was the opinion of the City.

Lyons and Bruce initially welcomed the report (Shann and Copland 1933:96; Hart 1967:268). Bruce, in particular, facing the prospect of half a million unemployed before him, was, according to Bertram Stevens, ‘greatly influenced by the recommendations of the Theorists’.\(^\text{61}\) Lyons, the one man who had the power to direct Gibson on the exchange rate, elected to sit on his hands for fear of antagonising his cabinet; the experts’ vision proved larger than his own ambition. Bruce, too, cooled in his support for the economists’ argument as he looked forward to beginning duties as the High Commissioner in London.

The committee’s report was a ‘political Godsend’ for Lyons. It was critical of Lang for not reducing wages in New South Wales and reaffirmed faith in private enterprise and abrogated the federal government from taking responsibility for economic policy; that should lie with the state wage tribunals, the Loan Council and the Commonwealth Bank (Cain 1985:13–14). The Lyons government had, in any case, an escape clause from the committee’s findings by supinely upholding the convention that matters of exchange deliberation remained with the bank board. The board, however, was asked to take into consideration the effect on the economy—internally and externally—of their policy deliberations. On reflection, it appears that Gibson had persuaded Lyons that preserving Australia’s financial architecture and international standing was a greater concern than domestic economic activity. Another key consideration was that the economy was beginning to recover, in any case, from the mixture of unintentional expansion from the floating debt coupled with the stimulus of reduced money costs (Walker 1933a:209). Nonetheless, as Schedvin pointed out, the failure to devalue was a major policy error and lengthened Australia’s tenure within depression. As it was, the premiers’ conference summoned to discuss the committee’s report quickly fell into stalemate because Lyons refused to arrange a loan program until the recalcitrant states committed themselves to the report, particularly the need to contain deficits and enforcing the 1931 wage cut. The conference afforded Lang a last opportunity to attack the ‘professors’ and ‘experts’ for being inconsistent in having reversed their views about the relationship between the budget and the economy (Cain 1985:35–6). There was a general consensus at the conference that ‘economy alone is not the solution’.\(^\text{62}\) That is, bearing down on expenditure would merely worsen the prospects of achieving budgetary balance. Lang, together with Acting Premier Tunnecliffe from Victoria, took the economists to task for excluding overseas rentiers from making any sacrifice. Despite the political stalemate, Gibson had, in fact, made

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\(^{61}\) Ricketson diary extract, 11 April 1932.

\(^{62}\) *CPD Hansard*, 1422, 20 October 1932.
up the government’s mind for them. It was a major setback for the economists, but one they were not readily prepared to accept. Their greatest surprise, though, was to find the empire’s most eminent economist, J. M. Keynes, playing a key role in undermining their case.

**Keynes and Australia**

Keynes had always taken an abiding interest in Australia’s fortunes, triggered by intellectual curiosity and his private financial portfolio advice. In 1929, he observed how Australia was ‘gravely embarrassed’ by the fall in the price of their staple exports and was craven to borrow at ‘whatever rate lenders demand of them’ (cited in Markwell 1985:13; Cornish 1993b:17). At one stage, Keynes even advised against subscribing to Australian loan issues (Gilbert 1973:79).

Having a pecuniary interest in Australian securities, Keynes was in regular contact with two of its leading businessmen, Claude Baillieu and W. S. Robinson, and the two economists, Giblin and Copland, on academic and economic policy matters. There was, in addition, an abiding interest in how a semi-industrialised, rural-based economy could extricate itself from serious economic and financial difficulties. In 1930, Lyons had urged the London-bound Scullin to contact Keynes as he had correctly predicted that the storm centre of the early stages of the Depression would fall on primary good-exporting, debt-laden countries such as Australia. Like other British economists, Keynes was struck that Australian counterparts had been uncommonly influential in the running of their country’s economic affairs (Goodwin 1974:235).

Such was Keynes’s prestige in Australia that, at one point, Baillieu, Robinson and Keith Murdoch hatched an extraordinary plan to bring him out to Australia for a study tour, writing exclusively for Murdoch’s newspapers—for the princely fee of £2500. For six months, Keynes had provided political and economic briefings for Robinson’s Collins House group. Oswald Falk, one of Keynes’s business associates, relayed the proposal to him. It drew an immediate response. He told his wife, Lydia Lopokova, ‘I have an invitation to go to Australia for six months for a fee of £2,500 and all expenses. I shall refuse.’

The counterfactual ‘What if?’ aspect to this would prove intriguing. One could safely argue that Keynes’s advice—the tenor of which we know—would have

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63 It might be argued that Keynes’s views of Australian economic policy were coloured by his advice to friends on the holding of Australian bonds. The equivalent to that line of thought was that since Sir Robert Gibson banked with the National Bank of Australasia he was attendant to the trading banks’ views on monetary policy.

64 ‘JMK and self’, W. S. Robinson Papers, UMA FECC, 101/70/file 94, Box 5.

65 O. Falk to J. M. Keynes, 17 March 1932, KPKC.

66 J. M. Keynes to L. Lopokova, 17 March 1932, KPKC.
given him a less frosty reception than that meted out to Niemeyer. Perhaps, too, a greater appreciation of the local facts might have led Keynes to alter his at times rather patronising view of Australia’s economic options in 1932. In a sense, Keynes did ‘come’ to Australia, albeit in the form of an incisive, though lopsided review of the Wallace Bruce Report. It came, too, at one-tenth of the cost to the Murdoch chain of newspapers. Apart from also receiving a handwritten summary of the committee’s findings from Robinson, Keynes received Davidson’s version of the committee’s findings, which he found ‘very useful’.

The report of the Australian experts

Keynes, as always, wrote his draft quickly but this commission caused him uncharacteristic unease. In enclosing a draft for comment, Keynes admitted to Baillieu that it was ‘a responsible task writing it’ and it was a struggle ‘to strike just the right note’. Keynes’s review was dispatched on 25 May 1932 and splashed over the front pages of the Melbourne Herald on 27 June when the Wallace Bruce Report was released.

The Report of the Experts’ Committee, as Keynes’s précis became known, was an enigmatic account that drew many reviews, the most incisive being Cain’s (1985), Markwell’s (1985) and Turnell’s (1999). While in some ways the memorandum had an ‘all things to all men’ quality, the general tenor was unmistakably clear—namely, that the Australian (and New Zealand) economists are all disposed to be a little too drastic and to attempt to cure troubles that are really incurable so long as the existing international environment persists. The object should be rather to hold the situation than to try and force through impracticable adjustments upon wages and the exchange rate and run the risk in the process of social upheaval.

Keynes (1982b:95) was therefore extremely reluctant to support the committee’s recommendation for a further devaluation because he felt that the level of prices countenanced was not ‘a practical working hypothesis’—that is, it was too pessimistic and quite unsustainable given the structure of national and international indebtedness. Keynes felt that the proposed action would be the act, therefore, of a bad neighbour and instead of promoting international

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67 C. L. Baillieu to J. M. Keynes, 7 April 1932, KPKC.
68 W. S. Robinson to J. M. Keynes, 16 April 1932, KPKC.
69 A. C. Davidson to J. M. Keynes, Cablegram, 16 April 1932, KPKC.
70 Summary of Wallace Bruce Report in KPKC, A32/1/244. The visiting Latham dined with Keynes and others on the evening of 12 April 1932. Latham might have informed Keynes about Australian political developments including the Lang factor.
71 J. M. Keynes to C. L. Baillieu, KPKC, A/32/1.
72 J. M. Keynes to H. Belshaw, 24 May 1932, KPKC, L/32/113.
cooperation would engender more competitive devaluations. The only devaluation Keynes (1982b:83) was prepared to accept was of sterling, which would lighten Australia’s debt and give the global economy a fillip. Keynes also derided the option of further reducing money wages on practical and theoretical grounds. He suggested that further resort to cutting money wages would, in the absence of a new source of fresh purchasing power, be the case when ‘prices are related to costs after the same fashion as a tail is to a cat’ (Keynes 1982b:99). Devaluation, in any case, would achieve the same outcome. As Colin Clark later recalled, this observation on wage cuts led Keynes to make the only reference to Australia in The General Theory, citing that attempts to adjust wages to prices over the business cycle would prove futile. In concluding, Keynes delicately chided his Australian colleagues:

If, therefore, I were an Australian economist advising Mr Lyons today, I should be decidedly moderate in my view. I should recommend him to ride his difficult and suffering steed with as light a rein as he dare. I should not press for heroic measures. It is a time to chastise gently. Moreover, I should have sufficient confidence to take this line, precisely because Australia has done so much already, and has been relatively so successful in her programme of necessary adjustment—if only, in spite of disappointments, she could, by comparison with the state of others, know it! There is more chance of improving the profitableness of business by fostering enterprise and by such measures as public works than by a further pressure on money-wages or further forcing of exports. The problems of the Budget and of Unemployment are more pressing than that of the Balance of Trade. (Shann and Copland 1933)

While Copland strangely likened Keynes’s words to ‘a breath of warm, fresh air’, the latter was urging his Australian colleagues to lobby for more domestic stimulation regardless of the external account (Markwell 1985:18–20). Copland and Shann (1933:xiii) issued a statement defending the position of the economists on the Wallace Bruce Committee, declaring that ‘we are already doing all the things Mr Keynes recommends as much as courage and prudence allows. But they form parts of a policy the central principle of which is and must be the restoration of balanced budgets as the chief test of our success in retaining economic control.’

Giblin begged to publicly differ with Keynes on the devaluation option. 73 He argued that Keynes would be unaware that Australia’s trade surplus came by dint of exports having risen due to two exceptionally favourable seasons. In more normal times, however, Australia would need the insurance of a devaluation to generate the trade surplus necessary to meet her external obligations.

In private correspondence with Keynes, Giblin advised that his main grievance with the committee was not over the exchange rate but over their reluctance to unequivocally sanction public works. On this, of course, Giblin shared the same view as Keynes though his theoretical case was not as well grounded. Feeling isolated alongside his three colleagues, Giblin intimated to Keynes the inner agenda of the committee had been ‘too pre-occupied with the narrowness of the bank and financial people’ to the extent that the case for immediate public works to stem the growing rates of unemployment was deemed secondary to that of restoring business confidence. Like Keynes, Giblin felt that the danger of social dislocation from high unemployment should have been given equal billing. Consequently, on signing the report, albeit ‘with some hesitation’, Giblin issued a private letter to Lyons urging some ‘immediate action…be taken to relieve the strain, until the long term policy bears fruit’. His ideas had antecedents in the Scullin-appointed Secretariat of Unemployment, which had been commissioned with identifying feasible, remunerative public works to alleviate unemployment. Giblin’s report concluded that ‘artificial methods of creating credit’ to the tune of £18 million, a la Theodore, be raised to maintain employment on public works. Predictably, the secretariat’s report, released in September 1931, was criticised for embracing the 1920s’ philosophy of spending for development.

While the Wallace Bruce Committee, for its part, could not identify any ‘profitable’ short-term public works, Giblin, using a modification of his own multiplier analysis—not Kahn’s, of which he was unaware—estimated that a £20m public works program, financed by Treasury bills, would generate employment for 100 000 workers provided the original expenditure continued (Cain 1985:26). The proposed spending, Giblin reminded Lyons, would be not only for ‘tiding over a limited period’ until export prices recovered, it would be not so large as to endanger business confidence or invoke the wrath of the Commonwealth Bank Board over its method of financing and disbursement (Cain 1985:27). In signing off his missive, Giblin would have known that his proposal was in vain since Lyons’ cabinet was increasingly becoming unreceptive to unorthodox advice. Keynes signalled his approval of Giblin’s proposal and reminded him that trying to get a commercial return on the projects should be relaxed in the circumstances (Cain 1985:28).

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74 L. F. Giblin to J. M. Keynes, 19 April 1932, KPKC, Co/2/187-8.
75 L. F. Giblin to J. A. Lyons, 13 April 1932, KPKC, Co/2/189.
76 Hytten 1971, pg. 64
77 Ibid. p. 65.
78 Giblin’s stance might have been contemporaneously fortified by a memorandum on unemployment prepared for the cabinet of the Victorian government by former DMC officials, Gunn and Gepp, which posited that the problem would get markedly worse since business enterprise was unprofitable and economic despair widespread (‘Memorandum on unemployment’, H. Gepp and J. Gunn, 30 March 1932, UMA FECC, Box 15).
79 L. F. Giblin to E. Giblin, 9 March 1932, and 24 March 1932, Giblin Papers, NLA.
Apart from Gibson’s intransigence on the exchange rate, and Lyons’ refusal to have the Commonwealth government instruct the bank board, Melville recalls that what also helped to sink the committee’s report was Keynes’s refusal to support a further devaluation (Melville 1992:671). Melville recalls that the Commonwealth government was denied, therefore, the latitude to practise public sector stimulation by Keynes’s reluctance to support devaluation.80 Keynes’s qualified support elsewhere for an increase in public expenditure—a second-best solution in the Australian case—proved of little consolation. While Schedvin (1970) and Clark (1974b, 1981b) point out that Australian economists were deflationary in their advice during this period, they rarely point out that Keynes’s one and only profound intervention in interwar Australian economic affairs helped Gibson face down the economists. The bank board’s trenchant opposition to palliative public works schemes and devaluation meant that the Wallace Bruce Report ‘fell between two stools’ (McTaggart 1992:672).

While Keynes agreed with Giblin that public works be pushed ‘to the limits of prudence’, neither Giblin’s correspondence nor the full, unabridged report he subsequently received enticed Keynes to revise the pitch of his original article. In correspondence with Giblin, Keynes, while acknowledging that there were anomalies between the states in wage levels, took the opportunity to demonstrate, as he had told Horace Belshaw, the New Zealand economist, that they were inclined ‘to be too drastic and to attempt what may be socially impossible’.81 Mulling over this afterwards, Keynes became even more adamant, telling Baillieu that the Wallace Bruce Committee ‘is inclined to be too drastic and is aiming at adjustments which are humanly impossible for Australia’ (Keynes 1982b:100–1). Keynes now also disputed the commission’s figure work over export costs and prices thereby undermining—again—the arguments for devaluation. Keynes felt that artificially restoring prosperity to wool exporters in the then abnormal conditions was ‘unnecessary and altogether impracticable’.82 Before Giblin had a chance to reply, Keynes recycled his doubts about the committee’s statistics and recommendations on further relative adjustment, telling Baillieu he found them ‘too simpliste’.83 The letter was reproduced in the Melbourne Herald.84

If economists were disappointed by Keynes’s foray into Australian economic policymaking, they did not readily show it. They had every right, because as Cain (1985:17–20) cogently demonstrates, Keynes had overlooked certain key policy aspects, dismissed further relative cost improvements and been

80 Melville, TRC 182, NLA, p. 25.
81 J. M. Keynes to L. F. Giblin, 2 June 1932, KPKC, CO/2/195.
82 Ibid. Meanwhile, Shann and Melville, heading home from the Ottawa conference via London, were to be sorely disappointed when told by Keynes and Hawtrey, inter alia, the same advice—namely, that Australia should focus on achieving internal equilibrium rather than fussing over exchange rates (Holder 1970:744).
83 J. M. Keynes to C. Baillieu, 24 May 1932, and C. Baillieu to J. M. Keynes, 2 June 1932, KPKC, A/32/1/293.
84 ‘Production costs: Mr Keynes doubts 20 per cent gap’, The Herald, 5 July 1932.
selective and sometimes self-serving in his arguments. He had, moreover, been
disarmingly glib about Australia’s economic problems, arguing that, in some
respects, Australia was in better shape than other countries and could therefore
spend more on public works (Cain 1985:29). In private correspondence, Giblin
pursued Keynes on this, pointing out the truly marginal existence of many
rural exporters (Cain 1985:31). Nonetheless, the thrust of Keynes’s remarks
stuck. In this respect, several authors besides Schedvin—namely, David Clark
(1976), Colin Clark (1958), and Hancock (1972)—have condemned Australian
economists for their position at this time.

These reviewers, however, tend to overlook, as Keynes did, the delicate and
problematic circumstances confronting the Australian economy. First and
foremost, there was the direct relationship between public spending and the
deficit on the external account (Cain 1985:17–18). Second, the guilt and waste of
a prodigal past hung in the air. Copland felt that ‘Australian governments had…
shot their bolts before 1930 and so were in no position for bold initiatives’ (Cain
1980:17). That is, Australian governments had exhausted their credit of public
borrowing to exercise what Keynes in the Treatise called ‘nature’s remedy’ to
prevent business losses in a slump (Bland and Mills 1931). Third, greater public
spending at this stage would have upset the deficit-reduction strategy enshrined
in the Premiers’ Plan, which was, in turn, fostering business confidence. Keynes
completely overlooked this aspect, whereas the Australian economists—already
mindful of the concern the huge amount of Treasury bills was causing the
authorities—did not (Cain 1985:20). Latter-day critics of Australian economists
also seem unaware of Keynes’s earlier praise of their predecessors’ involvement
in public policy, especially the line Copland and Giblin took.85 Keynes (1982b),
for instance, spoke of being ‘intensely sympathetic’ to the report’s ‘general
method of approach’. By that he meant the strategy of relative cost adjustment
to improve Australia’s competitive position. He praised Australian efforts in
that regard and acknowledged the use of the ‘National Treaty’ expedient of
an across-the-board cut in costs and debts, which he had raised before the
Macmillan Committee.

Nonetheless, Keynes’s review of the Wallace Bruce Report must have exasperated
the Australian economists. They would have agreed with Keynes’s (1982b:94)
confession at the start of his commentary that ‘[i]t is a rash thing to write from
a great distance on a matter which demands practical judgement more than
theory’. While he would not have concurred, Keynes was barging in on an
applied and specific economic problem that Australian economists probably
knew best how to deal with. It was, however, a different matter on theory. As
Cairncross (1996:88) notes, Keynes’s infuriating genius was that he would modify
his ideas with changing circumstances. Keynes’s review of the Expert’s Report

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85 J. M. Keynes to C. L. Baillieu, 14 July 1932, KCKP, A/32/1/307.
was a classic case, therefore, of having to discern and identify the changing nature of his ideas as he shifted position on theory and policy. And here the Australian economists were lagging behind. Keynes felt that the reliance on monetary measures such as interest rates and exchange rates to drive a wedge between costs and prices in a bid to revive economic activity was becoming ineffective and outmoded; something bolder, such as public expenditure, was needed to jolt the economy into expansion. In terms of theoretical development, Keynes was at a crossroads, moving in early 1932 from one Marshallian analysis of an economic system in which the *quaesitium* was price changes to one in which it was the change in quantities (Turnell 1999:400).

**Aftermath**

In subsequent correspondence with Giblin, Keynes returned to the vexed issue of devaluation, arguing that it would ‘not be very material’ and, in any case, would merely compound the downward pressure on Australia’s export prices. This translated into diminishing the sterling or gold equivalent of Australia’s exports. In any case, too much rural production for export was hindering the longed-for recovery in export prices. Keynes went on to concede that if Giblin’s ‘rather pessimistic prognostications’ about Australian export prices in the future came to pass, ‘it will in effect be impossible for Australia to meet her London charges in a season of only normal productivity. It is no good attempting the hopeless task of reaching adjustment on the basis of meeting your London charges without any rise in the price of your exports.’

In other words, under those trying circumstances, Keynes saw no other option but for Australia to default on her overseas commitments. This startling admission by Keynes was kept from public consumption; Bruce, however, would use the threat of default to force London to embark on a more expansionary monetary policy to the benefit of the dominions (Turnell 1999). Even Giblin was taken aback by Keynes’s talk of default. Later, however, after drafting a document, ‘The burden of external debt’, for official edification, he assimilated Keynes’s global view of the problem at hand—namely, that ‘the effect of the Australian effort to preserve external solvency must have been to intensify and prolong the depression’. By that Giblin referred to Australia cutting its imports by half and physically increasing its rural exports by one-third. By the end of 1932, Giblin told Melville:

> If every debtor nation strives to meet its foreign obligations and succeeds—whether by exchange or tariffs, or by reducing internal costs and expanding exports—then the result is going to be the further

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86 J. M. Keynes to L. F. Giblin, 31 August 1932, KCKP, Co/2/214.
87 ‘Memorandum no 6, the burden of external debt’, n.d., Giblin Collection, UMA FECC, Box 213.
drying up of trade, further falls in price and general intensification of the depression. I fancy a condition precedent to recovery is a scaling down of all internal debt...so I should be inclined to use the higher exchange rate as an argument for debt readjustment in the first place— and I’m not sure that I would not default rather than raise the exchange in the last resort.88

Melville would tend to agree with this prognosis following the lack of resolve by Britain at the Ottawa talks to activate a concerted monetary expansion that would assist indebted commodity-exporting countries such as Australia. He told Senator Colebatch that Britain’s refusal to engage in such action forced Australia to reconsider devaluation or ‘a more direct method of cutting debts’ (cited in Turnell 1999:65).

Bruce’s departure to London removed a player receptive to expansionist thinking, though Davidson had noticed that he was more interested ‘with the body of London opinion which takes a deflationary view of the economic problems confronting Australia’ (cited in Cain 1985:59). His replacement as Assistant Treasurer, Senator Massy-Greene, was a hard-nosed believer in orthodoxy with a ‘great natural gift’ for finance (Kemp 1964). Giblin felt the new appointee was a good man with an intelligence to match, ‘but with a deflationary bias also a little hampered by the invariable Treasury complex with its preoccupation over Government receipts and expenditure’.89 For his part, Massy-Greene was distrustful of high officialdom and he did not entertain a high opinion of economists (Kemp 1964:135). He was, for instance, scathing of Giblin’s paper on ‘Exchange and tariffs’ prepared for the July 1932 Premiers’ Conference (Cain 1985:54). Giblin had modelled the economic effects of a massive devaluation before settling for one of lower magnitude. The dilemma Giblin faced was how to sustain the level of Australian rural exports without resorting to devaluation. That, he thought, would almost certainly invite retaliation. Massy-Greene felt that ‘arbitrary’ exchange rate movements did little to elicit any further export gains of either commodities or manufactures but would rather merely reignite a capital flight problem at a most injudicious time.90 With that rebuttal, and most of the Wallace Bruce Report, economic policy took a deflationist turn— something the next part of the chapter will focus on.

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88 L. F. Giblin to L. G. Melville, 3 December 1932, UMA FECC, Box 15.
89 L. F. Giblin to E. Giblin, 29 June 1932, Giblin Papers, NLA.
90 Sir W. Massy-Greene to L. F. Giblin, 11 July 1932, Giblin Papers, NLA.
Orthodoxy regained

The Premiers’ Conference of July 1932 was to prove a setback insofar as enlightened economic policy was concerned. Budgetary, monetary and exchange policy was now, with Lyons’ connivance, in Gibson’s lap. Perversely, the Australian economists’ monetary reform proposals for the Imperial Trade Conference at Ottawa, which met with government approval, helped Lyons fudge the Wallace Bruce Report on the premise that the conference would deliver the export bonanza economists were trying to engineer. That is, if successful, Ottawa would deliver an increase in the velocity of trade within the British Empire that, when coupled with cheap money, would allow world prices to rise. While the delegations voted in favour of the monetary resolutions put forward by Shann and Melville, there was little multilateral action to follow up the good intentions. Meanwhile, the approach of the Chancellor of the Exchequer, Neville Chamberlain, to raising prices—restricting production rather than by monetary expansion in the locomotive economies—was anathema to the Australian economists (Turnell 1999).

Giblin attributed Lyons’ volte-face over the Wallace Bruce Report, besides the promise of greater inter-imperial trade represented by Ottawa, to tiredness and the loss of Bruce. Lyons spoke of feeling ‘isolated’ in cabinet. His isolation was accentuated in September with the departures in quick succession of Fenton, over tariff levels, and Hawker, who resigned over politicians’ salaries (Sawer 1963:43). It was difficult, however, to ascertain whether there were more sinister forces at play behind Lyons’ backdown, other than to tailor a policy that curried favour with a conservative cabinet. In this critical instance, Lyons’ decision to defer to Gibson’s wishes was ultimately borne of the conventional belief that the Commonwealth Bank should exercise full, untrammelled authority over money and banking matters—a position he spelt out in detail while responding to Country Party calls for more expert management of the exchange rate (Cain 1985:56–7; Giblin 1951:142). Lyons would later declare that no-one had been closer to Gibson than himself and no-one knew the problems confronting the bank board better than its chairman. The Wallace Bruce Report had not helped matters by agreeing that the exchange rate be managed by the Commonwealth Bank ‘free from both the fact and the fear of political control’ (cited in Cain 1985:9). The caveat here was that the committee wanted the bank board to take into account economic considerations in their brief.

91 L. F. Giblin to E. Giblin, 6 July 1932, Giblin Papers, NLA.
92 Ricketson diary, 23 April 1932.
93 ‘Overseas exchange: government’s policy defended by Mr Lyons’, SMH, 16 July 1932.
94 SMH, 27 August 1934.
The necessity of having an independent monetary authority was reinforced by the repudiation antics of Lang. Lang held up the rehabilitation process simply because no constructive economic policy was possible while the strongest state, New South Wales, was out of kilter with the rest of Australia. The removal of Lang from office in May 1932 steeled Gibson and Lyons to apply the plan to the letter on the pretext that an economic spring would now be in the offing.

Neither, however, had reckoned on the feisty, independent mind of the newly elected Premier of New South Wales. Bertram Stevens would prove just as big a thorn in the side of the federal government as Lang (Cain 1985:61). Stevens used his accounting background to circumvent the federal government’s Financial Agreement Act, which limited loan expenditure. State authorities bypassed that legislation to spend money on public works (McFarlane and Healey 1990:8). The NSW electorate had elected Stevens because they wanted a ‘strong man’ who ‘would get things done’ (McCarthy 1979:155). Lyons complained to Bruce that with Stevens ‘one is continually sabotaged from behind’. The first signs of this appeared when Stevens, briefed and egged on by Copland and Davidson, put the Wallace Bruce Report back on the agenda at the July 1932 Premiers’ Conference. The NSW Assistant Treasurer, E. Spooner, was equally adamant that Australia ‘must blaze a new trail’ and that ‘deflation had gone too far’ in terms of economic reconstruction. Before the NSW Branch of the Economic Society, Spooner sang the praises of the Wallace Bruce Committee as ‘the first really comprehensive proposal for reconstruction that had been placed before the Premiers’. There was good cause for this position since rural export prices had tumbled 30 per cent since July 1931, spelling further blowouts to budget deficits. Furthermore, with a huge state deficit to wind back, Stevens told Gibson that cutting back public expenditure was ‘counterproductive’, besides being undertaken within a completely unrealistic time frame. Earlier, Davidson had briefed Stevens that ‘while the balancing of budgets is essential to economic recovery it cannot itself promote such a recovery. The budget situation is indeed as much an effect as a cause of existing economic difficulties.’ Duly enlightened, Stevens held that the Wallace Bruce Report ‘pointed the way’ with its hydra-headed emphasis on wages, exchange and tariff revision. It was ‘a sound economic policy of reconstruction’ (cited in Cain 1985:43).

Lyons relented, issuing a resolution that, while adhering to the Premiers’ Plan, the federal government would thereupon ‘conduct public policy with a view to reviving industry so as to restore normal employment’. This was an admission...
that there would be more public works. Brigden (1932a:1) feared the effect on business confidence of the confusion of opinion over the exchange rate, public spending and funding. The issue of the extent of Treasury bills in circulation was hard to reconcile since there were no standards for judgment with the emergency being faced. The Commonwealth Bank Board wanted to ‘play for safety’ and reduce their circulation.101 Backstage, the economists were waging a campaign, via the press, to again bring the spotlight back on the exchange rate. Copland reminded Davidson and Premier Stevens that ‘[t]he exchange problem is a matter of public policy on which the bank must have a direction from parliament’.102

Getting to the nub of the issue, Davidson lamented to Lyons that there had been clear signs of a marked ‘reorientation towards a policy of deflation’ commensurate with ‘dangerous tendencies of financial thought’ circulating (Holder 1970:737). In his 1932 Crawford oration, Davidson argued that the Commonwealth Bank did everything in its powers to keep prices up as it was ‘the most hopeful expedient of relief from the torment of depression in the midst of abundance’ (Shann and Copland 1933:206).

Deaf to such sentiment, Lyons spoke optimistically about how the upcoming international conference on imperial trade and monetary reform would bide Australia well if only she maintained an even keel in domestic economic policy.103 The new Labor Premier of Queensland, W. Forgan Smith, argued that the Premiers’ Plan was insufficient to generate recovery—nor did waiting for international cooperation console him.104 Citing Brigden and Keynes, Forgan Smith, a Theodore protégé, rejected fears of crowding-out if the Commonwealth should open its purse strings and begin spending (Cain 1985:45). Unlike Stevens, Forgan Smith agreed with Keynes’s conclusions about the Wallace Bruce Report and looked instead for the government to take the lead. Stevens, impatient with Lyons’ preference for leaving the exchange rate issue to lie until after Ottawa, accused him of ‘fiddling while Rome burns’.105

As a consequence, Lyons asked Giblin, as Acting Statistician, to model the necessary exchange rate alteration in lieu of a wage cut, which would give Australia a competitive advantage (Cain 1985:47). Giblin and Copland had already accepted Keynes’s point that relative cost adjustment was in the

101 L. G. Melville to R. Kershaw, 21 December 1932, BE, OV13/2.
102 D. B. Copland to A. C. Davidson, 18 July 1932, UMA FECC, Box 32; D. B. Copland to B. S. B. Stevens, 13 July 1932, UMA FECC, Box 32.
103 Keynes also did not entertain high hopes of the Ottawa conference since proceedings would be in the hands of the ‘ultra-conservative’ Neville Chamberlain and Montagu Norman and, as he told Clive Baillieu, ‘they can be relied on to nip anything constructive in the bud, and no one else will have sufficient knowledge and energy to force them along the right lines’ (J. M. Keynes to C. Baillieu, KPKC, A/32/1/302).
104 W. C. Hankinson to Sir H. Battterbee, 12 July 1932, PRO, T160/808/11935/7.
105 SMH, 2 July 1932.
The Economic Power of Ideas

circumstances best expedited by devaluation rather than wage cuts (Copland 1932a:118). Meanwhile, the Commonwealth Bank became nervous about the growth in the floating debt and was increasingly critical about using Treasury bills to finance public works. Even Shann warned that ‘the swelling tallies’ of Treasury bills could result in a distorted, public sector-led economy; it was a curious admission given his position as economic adviser to Davidson’s bank, which had been instrumental in taking the bills up.106 The trading banks had been at first reluctant to hold the bills as part of their cash reserves until Davidson, realising their generous returns, led the way and absorbed them as bank reserves (Holder 1970).107 The purchase of the bills by banks involved no reduction of their reserves but rather they grew as the credit provided to governments gave rise, in turn, to new deposits.

The issue of funding—that is, retiring short-term government debt by raising public loans—was to prove the next testing ground over which the economists waged battle with the bank board. The issue revolved around the tendency to inflation as against deflation. In the debate, Casey (1933:62) commented on how some of the ‘most orthodox economists in Australia’ were now in favour of the former expedient. Not denying the palpable benefit Treasury bills had on his bank’s balance sheet, Davidson argued that reducing their volume in circulation would not just tighten credit generally, it would prevent a much-needed reduction in interest rates.108

Since trading banks regarded Treasury bills as part of their reserves, the fear of the bank board, articulated by Melville’s input, was that as the economy improved these reserves could form the basis of a massive and inflationary expansion of bank lending. Alarmed at this prospect, Gibson ‘put a pistol’ to the heads of the premiers by insisting on a speedier reduction in budget deficits before he would allow credits for public works.109 One English observer at the July 1932 Premiers’ Conference, W. Hankinson, likened the spendthrift states to recalcitrant children, who, having refused their breakfast, would face the same bowl of ‘cold porridge’ later before something more palatable was served up.110

Meanwhile, Stevens’ advocacy for devaluation saw him perceived as being under the sway of Davidson. It was Copland, however, who supplied the arguments to Stevens, demonstrating how a revaluation would be disastrous

106 E. Shann to C. A. S. Hawker, 18 January 1932, Shann Papers, NLA.
108 A. C. Davidson to J. Lyons, Telegram, 21 October 1931, Lyons Papers, NLA.
110 W. Hankinson to Sir H. Batterbee, 12 July 1932, PRÓ, T160/808/11935/7.
The agonistes of the economists, 1931–1932

Stevens had brought Copland up to Sydney to brief him on finance and economic matters, overlooking therefore the economics expertise at the University of Sydney. Stevens and Forgan Smith’s refusal to toe the line exasperated Gibson. The sniping attacks by economists, and Davidson, on the exchange rate, and now funding, together with the states stonewalling on their deficits, brought Gibson to the end of his tether. Feeling his authority slipping away, Gibson wanted a public loan of some £20 million floated with more than half of the proceeds intended for funding. Stevens accused Gibson at the October 1932 Loan Council meeting of behaving like a banker towards borrowers caught short and imposing humiliating conditions on them. Intending to put Stevens in his place, Gibson, in a bravura performance, thundered that he was ‘the horse and cart and the dog under the cart’ as far as the Australian financial system was concerned. The truth was that he was not and it was the economists, including Melville, who were undermining him.

‘Deflationists in the bag’—orthodoxy challenged

Apart from the states’ resistance to funding, Gibson’s outburst was probably sparked by frustration at having been unable to press on with returning the Australian pound to parity with sterling. When Gibson announced his intention to regain parity in late 1932, economists, in league with exporters and the Country Party, engaged in a campaign to prevent it. Copland and Giblin met with Sheehan over the matter but both were wary that Gibson might see this as undue interference. After another meeting with Sheehan, Copland told his Sydney-based colleague Claude Janes that it had been ‘a great comfort’ to talk to the Treasury official, who, fearing too many deflationary impulses were being unleashed on the economy, wanted the board to take a ‘reasonable view’ of things with respect to the exchange rate and funding.

In the gathering light of the mixed outcomes from the Imperial Trade Conference, economists felt that conventional opinion had to be made more exchange-rate conscious than hitherto. Economists, therefore, eagerly lent their support to Senator Hardy of the Country Party, who called for a royal commission into

111 D. B. Copland to B. S. B. Stevens, 25 August 1932, UMA FECC, Box 32.
112 F. A. Bland to E. R. Walker, 20 November 1932, Bland Papers, University of Sydney Archives.
113 Sir Robert Gibson’s daughter movingly records in her unfinished memoir of him the strain the contretemps was having on him (Gibson Papers, State Library of Victoria).
114 Rickston diary, 26 October 1932.
115 D. B. Copland to L. G. Giblin, 2 September 1932, UMA FECC, Box 15.
116 D. B. Copland to C. Janes, 12 October 1932, UMA FECC, Box 15.
the exchange rate matter. To further that end, Janes, head of the economics section at the Wales, liaised with the leader of the Country Party, Earle Page, over the likely personnel for the commission as well as drafting tentative terms of reference. Janes told Copland that it was his impression Lyons might welcome the opportunity of shifting the responsibility of exchange rate policy to a body of experts.117 Copland, happy to lend his support, informed Janes of the Realpolitik behind the issue:

My feeling is that you must persuade the people in London and the Government to do this by a little well-organised propaganda there as to the meaning of the exchange rate to Australia. Moreover it should not hesitate to deal with the attitude of shareholders of the London banks operating in Australia. They are the real devils in the piece.118

To that end, Copland, spurred on by Davidson, engaged in an attempt to educate high opinion in the City and, no doubt, financial interests in Australia by penning a piece for the *Economic Journal* attacking Niemeyer’s and Gregory’s recommendations that New Zealand neither devalue its exchange nor engage in Treasury bill finance as Australia had done (Copland 1932b:378–9). While the article was ostensibly about New Zealand’s likely economic course, it had resonance with the policies Australia was pursuing. Although Copland had completed the article as early as April 1932, it appeared only in the September issue of the journal. Davidson in fact expressed his annoyance to Keynes that the article had not appeared earlier, stressing ‘[t]ime is the essence of the contract and September may be too late. Criticism of such deflationary policy is urgently needed on this side and you should lend support to opponents of deflation on your side.’119

Towards the end of the year, Copland (1932c) penned another piece for the same journal, further extolling the anti-deflationary virtues of Treasury bill finance, the rapid issue of which concerned not just the bank board but the City. In a reprise of his earlier article, Copland warned that the zealous pursuit of funding and rehabilitating the exchange rate would be detrimental to Australia’s financial system by intensifying the real debt burden. He closed by noting how the bank board seemed oblivious of the dangers of falling back into deflation, nor did it ‘realise the enormous powers it now possesses for guiding Australia along the present course of credit creation to avoid unnecessary deflation’ (Copland 1932c:587).

At the academic level, Copland told the University of Yale economist Irving Fisher that he believed he had basically anticipated his debt-deflation theory,
which predicted that orthodox economic policy efforts to work off debt in fact intensified it. Australian banks, he told Fisher, quickly found that they had fixed money claims to meet but with assets that would shrink as deflation proceeded. While he did not pursue the matter, Copland drew Fisher’s attention to a series of press articles he had written in 1930, later consolidated in his *Credit and Currency Control*, on the dangers of following deflationary policies.\(^{120}\)

While Copland and Janes doubted the ability of Page to get the exchange rate on the agenda, it all became academic when Reading, informed by Melville and Shann, reported about London opinion concerning the future for the global economy, alerting the board to the likely precariousness of export prices in the near future (Turnell 1999:49; Cornish 1993c:443). This persuaded the bank board to override Gibson’s wishes and keep the exchange rate steady. The Bank of England decreed, moreover, that it had no objection to the Australian exchange rate moving in accordance with internal conditions (Schedvin 1970:363). Giblin sought out his *bête noire*, Sir Otto Niemeyer, to confirm the change of heart. He received a letter from Niemeyer, full of English understatement, precisely to that effect.\(^{121}\) This was enough for Copland to tell his colleague at the Wales: ‘I think at the moment we have the deflationists in the bag, but how long we can hold them there is another matter.’\(^{122}\)

Apart from Gibson wanting to ‘rehabilitate’ the exchange rate, Lyons knew that devaluation would have a detrimental impact on Bruce’s brief in London of converting Australia’s loan portfolio. Australia continued to import more than what her export income could warrant and this, in Copland’s view, could be checked only by devaluation. Theodore felt more tariff protection was the answer. Giblin disparaged this line of thought, believing it would only make Gibson ‘an even greater menace to Australia than he is’ (cited in Cain 1985:56–7). Copland told Stevens that the bank board was ‘acting imprudently’ over the matter and that the bank should be brought to account over it just as any other recalcitrant was for not playing their part in the economic rehabilitation of Australia.\(^{123}\) At last, official and academic opinion had penetrated through to the bank board that Australia could ill afford the revaluation Gibson dearly wanted to impose.

Copland’s (1932a:113–17) temperate optimism about the deflationists ‘being in the bag’ was also based on how Gibson had been checked about raising a huge public loan intended purely for retiring short-term public debt. Lyons complained to Bruce that Stevens should be treated warily since he ‘is

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\(^{120}\) I. Fisher to D. B. Copland, November 1933, and D. B. Copland to I. Fisher, 23 November 1933, UMA FECC, Box 23.

\(^{121}\) Sir O. Niemeyer to L. F. Giblin, 19 October 1932, BE, OV13/2.

\(^{122}\) D. B. Copland to C. Janes, 16 September 1932, UMA FECC, Box 15.

\(^{123}\) D. B. Copland to B. S. B. Stevens, 7 December 1932, UMA FECC, Box 32.
persistently advocating a policy on monetary matters directly opposed to our
own’. Gibson’s public loan proposal, however, also met with the disapproval
of the Assistant Treasurer, Massy-Greene, who told his predecessor, Bruce:
‘He [Gibson] is very strong for carrying through a big funding operation only.
Personally I regard this as a mistake. I think that it would be considered in many
quarters as a further deflationary move.’ Massy-Greene was further of the mind
that the bank board should have much less say in determining the extent of the
states’ loan programs. He felt a more liberal view of financing state deficits with
Treasury bills was in order since these deficits were bound to continue for some
time.

Even the arch-conservative Latham could now see how the subtle use of Treasury
bills to finance deficits was keeping prices buoyant. In a public speech, Latham
noted that ‘[t]he greatest menace to our economy is not to be found in any
incipient boom or expansion of the note issue but rather, if I may speak frankly,
in a certain indifference on the part of the Commonwealth Bank to the effects on
public opinion of a “stand–pat” policy and of a falling price level’.

With Gibson under fire from several quarters, Copland reported that ‘[t]he
general feeling...is that the Old Man of the Bank...cuts a sorry figure’. Yet
Copland (1936:16) later paid tribute to Gibson for his financial stewardship.
It was Gibson’s reassuring presence with the capital market that also allowed
Australia to resort to the use of Treasury bills from July 1931 onwards (Copland
1937a:418). Almost incapacitated—and succumbing to his infirmities not long
after—Gibson’s influence would continue to exert a conservative bearing on the
making of Commonwealth economic policy.

124 J. Lyons to S. M. Bruce, 2 November 1932, Lyons Papers, NLA.
125 W. Massy-Greene to S. M. Bruce, 4 October 1932, AA, M104, Item 1, 1932.
126 Speech given at the Constitutional Club, 6 March 1933, Latham Papers, NLA.
127 D. B. Copland to C. Janes, 2 November 1932, UMA FECC, Box 15.