7. The Australian recovery, 1933–1936

Introduction

In September 1932, a year in which unemployment peaked at 28 per cent of the available workforce, Lyons told Parliament of a growing return in business confidence now that the Premiers’ Plan was being implemented. Lyons relentlessly played on the psychological comfort of having a conservative government in power (Lloyd 1984). It was, as the economists knew, barely enough. At one point, Lyons was reduced to enumerating the number of new telephone connections as proof of the green shoots of recovery.¹ In another instance, he made an appeal reminiscent of Keynes’s public broadcasts:

What we need now is not to button up our waistcoats tight but to be in a mood of expansion, of activity...to do things, to buy things, to make things. Activity of one kind or another is the only means of making the wheels of economic progress and all the production of wealth go round again. (Cited in Lloyd 1984:240–1)

While MacLaurin (1936) dated the economic recovery from the last months of 1932, it was to take another three years before unemployment rates fell below 10 per cent—the rate it had been during the 1920s (Copland and Janes 1936).

This chapter discusses the nature of the Australian economic recovery and how economists reacted and adjusted to it in thought and advice. In terms of theoretical development, some economists were groping along proto-Keynesian lines and stressing the case for public spending and exchange rate flexibility. Others, however, were more beholden to Hayekian themes and insights. By 1935–36, Australia’s economic recovery had become so robust that the foreign exchange reserves were judged inadequate to meet overseas obligations. Copland (1936) marvelled at the nature of recovery and the unique novelty of having to check spending in the mid-1930s. Economists, whose advice had been neglected for some time, were consulted before remedial action was taken. That advice sprang from the latest views on the art of monetary management. Initially, the

¹ Budget speech, 1934/35, CPD.
academic economists were in favour of keeping the expansion going but it was the ‘inside’ economists—those within the policymaking agencies—who won the day.

Some background on the conventional economic policy at the time and the policymaking process in which the various players were involved is necessary before proceeding. Issues of public works, funding and the exchange rate predominated. The thinking of academic economists was to advocate strengthening the recovery with public spending. Economists still had to contend with the view of the Commonwealth Bank Board, which wanted short-term debt quickly retired. Sometimes economists found their perspectives shared by a new Federal Treasurer. This step forward, though, was tempered by the schism within the economic fraternity that came to the fore over curbing public sector spending and funding.

**Conventional economic policy**

In 1934, Lyons proclaimed that the Australian economic recovery was ‘one of the most spectacular…the world has known’.2 He asserted that unemployment due to the Depression had been cut in half. By 1935–36, Australia regained the peak of pre-depression output achieved in 1927–28. Certainly, the business and financial constituencies, having had their fill of economic experimentation, were, like high opinion in London, comforted by the fiscal consolidation and the marked lack of adventure in economic policy. To help ensure this, the Lyons government gained notoriety for its lack of parliamentary sessions and the frequent use of the guillotine to suspend debate on economic policy.3 In 1934, for instance, the Federal Parliament sat for just four weeks. This was done in the name of fostering business confidence. Scullin, now Opposition Leader, saw it, however, as representative of an intellectual torpor gripping the government’s thinking. Newspaper proprietors assisted the government by not publishing the attacks of its critics or by censuring them such that their impact was dissipated. Lyons returned the favour by giving editors advance notification of cabinet decisions to forestall any criticism (Hart 1967). The Lyons government won electoral support by not taking risks with the currency or exchange rate. In close cahoots with its financial backers, the government’s faith in supply-side policies to deliver economic salvation did attract criticism from some backbenchers. One former minister, Charles Hawker, complained of the

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2 ‘Mr Lyons’ Sydney speech’, SMH, 14 August 1934.
3 ‘Federal session: the guillotine’, SMH, 30 November 1934.
‘flabbiness’ and ‘flapdoodle’ within cabinet, its outlook ‘bounded by Collins Street’ (Pike 1968:21). Labor politicians echoed this, attacking the government for its ‘shilly-shallying’ over policy.4

While the patchy economic recovery was seen as vindicating the Premiers’ Plan, the truth was that recovery, as Walker (1933a) recounted, was probably as much to do with rising commodity prices and propitious climactic conditions as it was with policy. Nonetheless, the recovery was protracted, punctuated by dissension emanating from within and outside the government. One source of that dissent, of course, was academic economists and this chapter charts how they attempted, admittedly with little success, to influence economic policy in the mid-1930s. Their frustration, as seen in the previous chapter, became all the more evident as monetary policy became markedly deflationary from 1932 onwards. In the mid-1930s, their frustration turned to the pace of the recovery. The key policy question revolved around the funding debate and the ambit given to public works. Given that a private sector recovery was vital to reduce the country’s external debt, it meant that the diversion of credit resources into public consumption expenditure—represented by Treasury bills—could be ill afforded unless, of course, there was an excess of savings. Apart from upholding the Premiers’ Plan, official policy enshrined external balance and exchange stability as priorities—certainly for first half of the decade (Reddaway 1960:192).

Academic economists noted, too, with some dismay, that the more the economy recovered, the less their advice was heeded. A document drawn up by Copland and Wood in early 1933 suggested that the improvement in the business climate was quite precarious, in part because the causes of the improvement were not clearly recognised in financial circles and partly because some of it was, as Walker noted, due to good fortune.5 Another fly in the ointment, identified in the report, was the low level of private investment. Yet other perennial concerns were the disparity between farm prices and industrial prices, high long-term interest rates and the bank board’s desire to revalue the exchange rate as soon as export prices recovered. Moreover, as recovery began to take hold, the Commonwealth Bank became insistent on funding irrespective of interest rates. As prosperity gradually returned, the bank board, in league with the Federal Treasury, suppressed notions that there was more opportunity to finance public works (Cain 1988a). Recovery was made conditional on the government not doing anything rash in policy. As Lyons told Parliament after presenting the 1932/33 budget, ‘[c]onfidence has in a large measure been restored. All that is necessary now to enable us to reach the haven of complete recovery is an increase in world commodity prices.’6 The Ottawa Trade Agreement, despite its

4 Holloway in CPD Hansard, 1333, 18 October 1933.
5 ‘Report on the Australian economic position 1929 to 1932’, Wood Collection, UMA FECC, Box 206.
6 ‘Federal budget’, SMH, 2 September 1932.
early promise, prevented Australia from increasing its export revenue to match the rise in imports that came with the improvement in business confidence.\(^7\) The London balances were already under strain, meaning those calling for more internal economic stimulation would remain voices in the wilderness. This would never appear more evident than in 1933.

At the political level, Lyons was lumbered with a hostile and unimaginative cabinet. With Lang removed, the mind-set was to merely await the return of business confidence. This squared with the view of Latham, who considered wise governance was not just the good one did but the evil one prevented others from committing. Casey was not happy to settle for such lassitude. He told his London friend Hankey that he was agitating for ‘the dirty work’ to begin. He went on: ‘If it becomes apparent in the next couple of years that our side is not prepared to risk its hide to save the show then my present feeling is that I will chuck it in and try some other form of entertainment.' Casey would have his chance with his elevation to Assistant Treasurer in late 1933. For the moment, however, he could only agree with Keynes that high interest rates were the ‘villain in the piece’ and that ‘a great reduction in long term interest rates…may even be a necessary condition for the survival of the existing financial structure of society’ (Shann and Copland 1933). Casey pinned the blame for stubborn rates on the local banks being run by ‘such hidebound old conservatives and rather ignorant money grubbers’ (cited in Hudson 1986:102). For their part, the Melbourne banks looked on Casey with suspicion, with Healy telling his London overseer, Edmund Godward, that Casey was inexperienced and inclined to be ‘too academic’.

A floating debt of £50 million maintained spending and liquidity, while the devalued Australian pound anchored the price level ensuring that the real burden of the internal debt did not worsen. As detailed in the last chapter, however, the bank board feared that the Treasury bills portended a massive and highly inflationary expansion of bank lending if the trading banks chose to ‘unload’ them on to the central bank (Brigden 1932b:4). If, on the other hand, full-scale funding of short-term debt was vigorously pursued it would, by being intrinsically deflationary, intensify the internal debt and thereby endanger the whole banking and financial structure. Casey showed his colours by writing against the practice of using Treasury bills to finance deficits and public works though he did not believe their retirement was as yet practically possible. In the

\(^7\) L. G. Melville to R. Kershaw, 21 December 1932, BE, OV13/2.
\(^8\) R.G. Casey to Hankey, 1932, Hankey Papers, Churchill College.
\(^9\) G. Healy to E. Godward, 8 December 1933, D/O Correspondence, ANZ Archive. It was an accurate assessment. Casey, an engineer by training, had written to Hawtrey inquiring whether the attached summary of his work, *The Trade Depression and the Way Out*, was accurate. He mentioned to Hawtrey that it was his intention to keep abreast of all the contemporary works on economic affairs (R. G. Casey to R. Hawtrey, 19 June 1933, Hawtrey Papers, Churchill College).
same article, he dismissed devaluation as an option, preferring instead cheap money as the way out of depression (Cain 1988a:5). In a parliamentary exchange in 1932, he opposed wresting control of the exchange rate away from the central bank because it would then merely become ‘a shuttlecock of party politics’.10

The first federal budgets brought down by the Lyons government added to the deflationary pressures placed on the economy. When Lyons discovered, for instance, that the projected budgetary outcome for 1932/33 was likely to be a deficit of some £3 million, he quickly moved to cut industry bounties, aged pensions and politicians’ salaries—measures supplementary to those already taken under the Premiers’ Plan. In seeking these economies, he rejected the idea of levying more taxes, preferring to cut outlays instead.11 Correspondingly, budgetary surpluses in subsequent years were dissipated in the form of tax remissions to rural producers and the propertied. Academic economists were, by this stage, pushing for something different.

**First stirrings of expansionist economics**

As Chapter 6 discussed, most economists had begun to express doubts that the measures taken within the Premiers’ Plan were entirely appropriate. Keynes’s critical comments on the Wallace Bruce Report swayed minds towards new expedients. Meanwhile, the Treatise won over more converts. Some Australian economists, it was true, had their concerns about the Premiers’ Plan before Keynes did. It was Giblin who was the first to recognise just ‘how deep and abiding…the stagnation in investment’ really was.12 That revelation came as early as August 1931. In his 1933 Marshall Lectures, Copland (1934:145) conceded that not allowing more monetary stimulation at that time was a ‘serious lapse’ on the part of the economists. Loan expenditure on public works in 1931 was £9 million down from £40 million the year before. More public spending and liquidity would have checked the deflation caused by falling wages and costs. While deflation was a wonderful tonic for the export and import-competing industries, its general effect was income depressing. This did not mean, however, that Copland accepted public works as the means to a higher level of economic activity. That realisation only came some time in 1934, even though Copland had been in Cambridge during 1933 when the firmament of the General Theory was being discussed by Keynes and his circus (Cain 1988a).

It was Giblin and Dyason who developed the line that businessmen were too demoralised by deflation to be revived by cheap money and fiscal balance. In

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10 ‘Budget debate: control of the exchange rate; Mr Casey’s views’, SMH, 14 October 1932.
12 L. F. Giblin to E. R. Walker, 20 April 1934, Giblin Papers, NLA.
terms of the framework of the *Treatise*, savings was vastly in disproportion to investment. Both argued in a supplementary report to the premiers and Scullin in September 1931 that public spending be undertaken to mop up the liquidity in the banking system (Cain 1983:206; Wilson 1951). Public works, however, were regarded as only a palliative, with the central strategy being a long-term one of restoring relative competitiveness. By March 1932, Shann (1932:100–1), after reviewing the British *Macmillan Report*, was saying the same thing—that is, accumulating savings in bank vaults was hardly to the common good. In addition, it did not, as monetary policy should, ensure stability in purchasing power. Ten months later, Shann (1933:11) wrote a more forthright piece lamenting ‘the cancer of hoarding’, particularly in the United States, with savers reluctant to deposit their funds in the banking system. Perceiving ‘consumers’ outlay as the crux of the problem of recovery’, Shann (1933:12) embraced Keynes’s expedient of public works, together with a rudimentary notion of the multiplier, as the way out of the muddle. It was, as Turnell (1999:64) identifies, ‘an extraordinary journey’ for Shann given his polemical outbursts against public works in 1930.

Brigden, head of Queensland’s Bureau of Industry, was also becoming more receptive to the idea of more public spending and relaxing the campaign to cut costs. Deflation and cost cutting, taken too far, could extirpate business confidence. While concerned about unwise borrowing by the government, he saw how ‘the motive power of industry—the aggregate of individual willingness’ did not respond quickly enough to lower costs. It was a case, Brigden concluded, not of ‘what ought to be done’ but of ‘what can be done’; if the private sector would not spend then governments must (Brigden 1932b:1). Four months later, Brigden, seeing no end to depression in sight, was now having doubts about Australia’s economic strategy of fiscal consolidation. Brigden wondered whether Australia should continue to pursue the policy of balanced budgets. He was concerned that the taxation required to fulfil that objective might impair the possibilities of recovery (Brigden 1933:1). The ‘awkward dilemma’ was that the means to ensure balanced budgets and, in turn, business confidence, could dampen the spirit of enterprise. That is, employment and production were speculative, driven by net profit, yet the burden of taxation meant that the surplus was diminished. Should taxes be lowered there would have to be recourse to more Treasury bills and their portent for inflation. It was a choice, Brigden concluded, ‘between evils’.

The next shot in the expansionist campaign came from Davidson’s bank in the form of circulars. Copland was commissioned to write a commentary showing how Treasury bills kept the domestic price level up. This was followed by another circular that focused on price levels and economic activity. Davidson wanted what Australian economists had been advocating at Ottawa applied domestically. That is, the price level should be raised by devaluation and Treasury bill finance,
which would give a stimulus to local enterprise. Devaluation gave exporters, of course, a higher local price for their produce. Another circular entitled ‘Towards recovery’, issued in May 1933, put the case for a major sea change in economic policy (Cain 1985:65–8). Instead of trying to equalise savings and investment with deflation and cheap money, the article suggested that falling prices destroyed business optimism. The alternative, as Keynes had recently spelt out in his 1931 Harris Foundation Lectures, was to increase demand by greater public spending. This, in turn, would lift the domestic price level and close the gap between producers’ costs and receipts. Public works, financed by Treasury bills, would not crowd-out private expenditure simply because the banks had plenty of idle balances on their books. By the same token, insisting that public works projects yield a positive or commercial rate of return was silly when the opportunity cost of using what were idle resources was set at zero.

Melville was wary about the wisdom of further public spending, feeling that devaluation alone rather than ‘playing about’ with Treasury bills and the note issue was the answer. He told a federal senator:

My only position is that of ‘wait and see’. But then I cannot see how the tail can wag the dog. I do think that by management of the exchange and a suitable credit policy, we should keep the tail well up. No more than that is possible. If the dog is ill the tail cannot but feel the effect.

There was no suggestion, though, of restoring the bold developmental policy of the 1920s since Australia had learnt its lesson about unremunerative public works and reckless borrowing.

Proposals to increase public works were, of course, what Keynes was then advocating for the British economy. In Australia’s case, further government borrowing, executed by Treasury bills, would make it easier for banks to lower their rates to the private sector by giving them an increased return on their investments through the placement of surplus funds. Strictures, therefore, about always balancing the budget should not come at the expense of unbalancing the economy. Scullin was an active proponent for public works, though only in the sense of alleviating unemployment rather than a means to recovery. He did, however, echo economists’ views that cheap money by itself would not trigger recovery (Robinson 1986:121).

Copland, meanwhile, was heading overseas for a sabbatical, part of which would be spent at the University of Cambridge giving some lectures on Australia’s

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15 BNSW Circular, May 1933, p. 11.
economic experience at the express invitation of Keynes. The proposed set of lectures, which Keynes had suggested as early as late 1931, would materialise as the 1933 Marshall Lectures. While Copland would speak on Australia’s economic rehabilitation, he was not to know that Walker, who was undertaking doctoral work at Cambridge, had already given a lecture on that subject before the Marshall Society in 1931. Casey felt the sojourn would do Copland a ’lot of good’, explaining that he ’had been going to the left a great deal lately and is much too sure of himself. London and the rest will affect a little bloodletting.’ By that, Casey meant Copland’s involvement with the expansionist cause, especially his dealings with Davidson and Stevens. The Melbourne man had been intermittently advising Stevens since mid-1932 and helped articulate the case against funding and strict budgetary economy. Casey’s prophecy of Copland being brought to earth by sharper minds abroad did not eventuate. Indeed, it was to prove the contrary and Herbert Gepp’s appreciation of Copland and his policy work that appeared in The Herald on the day of his departure portended even greater recognition abroad.

Keynes’s invitation to Copland was, in some way, representative of the standing of Australian economists in the world. Australia’s attempt at economic rehabilitation and the role of economists in bringing it about had not escaped the notice of London. Nigel Davenport, who penned the weekly Toreador column in the New Statesman and Nation, felt that the Commonwealth government was unique in heeding the advice of their economists. It augured well for the country’s further adjustment, he held, should the external account deteriorate. Such an exigency would certainly arise if the run of good export seasons came to an end. For the moment, Australia was managing to meet the annual interest on its external debt—some £36 million—with comfort. In that regard, The Spectator warned that, whatever the plaudits of Australia’s economic readjustment, she had been doubly fortunate, not just with the generous trade concessions extracted from Britain at Ottawa but by the fact that global interest rates were subdued.

While the Lyons government had more latitude concerning the repayment of imperial debts than was commonly realised, a visit by a Bank of England officer apparently to appraise the Australian economy guarded against any laxity

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16 J. M. Keynes to D. B. Copland, 19 May 1932, KPKC.
17 E. R. Walker to F. A. Bland, late 1931, Bland Papers, University of Sydney. Copland later reported that while at Cambridge he had heard ‘excellent accounts’ of Walker (Occasional Notes, 26 May 1933, BNSW, GM302/412).
18 R. G. Casey to S. M. Bruce, 20 February 1933, AA, A1421.
19 ‘Professor and Premiers’ Plan: an appreciation of D. B. Copland’, The Herald, 13 April 1933.
20 In his autobiography, Davenport (1974:18) recalls being given a brief by Montagu Norman to secretly write a pamphlet critical of the inflationary nature of Australian government financial policies in the Theodore period.
21 New Statesman and Nation, 12 December 1932, p. 866, and 16 September 1933.
The officer apparently asked Melville for briefings on the budget, banking, employment and the exchange rate. On this score, Theodore would later raise the spectre that perhaps the Lyons government’s monetary policies were somewhat under the dictate of Threadneedle Street. While this claim of interference could never be proved, London was certainly appeased by Gibson’s insistence on containing the growth in floating debt and operating monetary policy to reduce further the risk of devaluation. Davidson took up the baton, telling the London-based Robinson: ‘There are repeated rumours that “friend Gibson”, as you call him, and the Commonwealth Bank are more influenced by a certain influential section of London opinion than their duties to and responsibilities for the welfare of Australia.’

Davidson’s remark was also prompted by his and others’ annoyance at the tardiness of London in passing interest rate relief on Australia’s debts to the City, but, more importantly, that Gibson’s fixation to restore parity with sterling might be at the behest of English financial interests in Australia. In an earlier letter, Davidson bemoaned to Robinson that Gibson ‘was unable to grasp the big disparity between prices and costs’. If the pressure from London continued, Davidson warned that Australia would not just default, it would see extremists back in power.

Shann concurred with Davidson, noting that he had observed from Gibson’s ‘own lips’ that he seemed more impressed with London opinion regarding Australian monetary problems than that of local commentators. In Shann’s mind, here were the views of the Commonwealth Bank’s own economist, Melville, whom the bank board greatly ‘underestimated’ primarily due to his youth. Shann felt that relying on London financial opinion was risky since ‘[s]uch people, no matter who they may be, cannot be as well informed as Melville is, both in a general and statistical way, upon Australia and its very complicated politics and finance’. That said, Shann advised his London-bound friend and businessman, Sir Walter Young, to tell those in the City that before expressing

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22 Sir M. Norman to Sir R. G. Gibson, 7 July 1933, RBA, GRG-33-5.
23 M. McGrath to Skinner, 8 February 1934, BE, OV13/3.
25 In his book of speeches on current events, The World We Live In, Casey disputed the contention that Gibson was influenced by the views of Montagu Norman. He went on: ‘As a matter of fact, it is fairly well known to many that Mr Norman has been of the opinion for many years that he has not been taken sufficiently into the confidence of the Commonwealth Government’ (1933:66). Casey also took the opportunity in the book to renew his call for a permanent economics body along the lines of Britain’s Economic Advisory Council (1933:68). That body, he hoped, would help the Commonwealth Bank in its deliberations on exchange rate policy.
26 A. C. Davidson to W. S. Robinson, 12 August 1933, BNSW, GM 302/574.
27 Writing about the controversy, Copland told a Canadian economist that he had asked ‘some of his friends in the Commonwealth Bank about the influence exercised upon them by the Bank of England. Melville says that the influence is precisely nil’ (D. B. Copland to A. F. W. Plumptre, 6 May 1934, UMA FECC, Box 36).
28 A. C. Davidson to W. S. Robinson, 26 September 1932, BNSW, GM 302/574.
any opinion about Australia’s financial position they might seek out Melville first.\(^{29}\) Perhaps, by that conduit, the bank board might just realise what a ‘find’ they had in Melville. The Commonwealth Bank’s resident economist would soon come into his own (Cain 1988a:4).

Theodore took up the expansionist cause in 1933 with an address to the NSW Branch of the Economic Society on the matter of monetary management with a proposal for a more scientific, less doctrinaire basis from which to conduct monetary policy. Giblin told Theodore that the country would be hard put finding enough suitable men to sit on the proposed National Credit Commission that would deliberate on monetary policy.\(^{30}\) By this time, the Labor Party was fancifully consumed with the notion of bank nationalisation and the socialisation of credit (Robinson 1986; Kuhn 1988). It had little interest for what economists, such as Giblin, were saying. His enthusiastic review of Keynes’s (1933) ‘The means to prosperity’ in the *Economic Record*, for example, went unnoticed because the Labor Party shunned university-educated men and ‘experts’ just as much as bankers did (Giblin 1933).

According to Giblin (1951:120), Keynes’s pamphlet popularised the notion of using ‘credit expansion in a depression’ though Australian economists had already advocated it in a minor way. The pamphlet used Kahn’s employment multiplier, showing how a public stimulus was almost self-financing in the tax revenue generated. Giblin (1933:141–2) drew strength from the pamphlet, stating that Australia had already been practising what Keynes was urging but only, alas, in a ‘piecemeal’ fashion and ‘without any general acceptance of principle’. Giblin corresponded with Keynes over the figurework behind Kahn’s multiplier (Coleman and Hagger 2003; Markwell 1985:29–30).

Having returned to Melbourne, Giblin gave a lecture at the Shillings Club, a political economy club he had founded for university staff and students. Giblin spoke, again, of the need for expansionist policy (Downing 1960:46). Inspired by Keynes’s pamphlet, Giblin used Kahn’s multiplier analysis to show how a net increase in public spending could trigger a bountiful jump in employment. Giblin made his proposals in the light of an expected substantial federal budgetary surplus. Judging from the notes of the minute-taker, the reception from staff and graduate students was hardly welcoming, perhaps because Hayek’s *Prices and Production* was then more in favour than Keynes’s *Treatise*. Roland Wilson, down from Canberra, believed that the added expenditure would put pressure on the exchange rate. Jack Horsfall, a graduate student, said that the expenditure would not compensate for the cessation of overseas loans together with the adverse terms of trade. Another critic maintained that

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30 L. F. Giblin to E. G. Theodore, 6 October 1933, Giblin Collection, UMA FECC, Box 1.
the expansion would pander to the greed and avarice of trade unionists—a problem Giblin, like Keynes, felt would be allayed by a sense of community mindedness. Another questioned the elasticity of supply assumptions behind Giblin’s figure work. Lastly, Frank Mauldon, a departmental colleague, felt the plan was ‘too easy...as economists we could not be satisfied with any simple means of recovery’.31 Apart from the stigma of public sector borrowing going to wasteful ends, Mauldon’s reservation reflected the concern of his colleagues that Giblin’s expedient was all too similar to proposals bubbling up from the economic underworld. One economist who was not there and who would have appreciated Giblin’s line of thinking was Walker. He had compared the anti-depression policy prescriptions of Keynes with Hayek and found the latter’s approach ‘not relevant to the problem of recovery from a slump’ (Walker 1933b:201).

Politically, 1933 was to prove an annus horribilis for Lyons, with questions raised in the press about his leadership. Bruce’s departure to take up loan-conversion duties in London left the front bench, as Casey put it, ‘tragically weak’ (Hudson 1986:83). Casey kept Bruce informed about the condition of the government and pandered to the notion of him staging a return to Australia to assume the prime ministership. After some thought, Bruce thought a return to the leadership would reignite ‘the old prejudices and passions’ held against him and that he was better off serving his country in London.32 Meanwhile, Latham’s ‘grandstanding’ in driving policy together with Gibson’s refusal to budge on financing more public works tested Lyons’ patience.33 The Prime Minister’s hands were tied since he had promised in the 1931 election campaign that the UAP would not interfere with the decisions of the Commonwealth Bank (MacLaurin 1936:103).

In addition to moving towards budgetary equilibrium, Gibson wanted a considerable fraction of the public loans raised put towards retiring debt (Tsokhas 1993:109; Cain 1988a). Initially, Gibson, in what Davidson called a ‘diabolical scheme’, wanted all the proceeds from the public loan to be used to fund short-term debt rather than to finance public works. Gibson was forced to back down by the united opposition of Lyons and the Loan Council.34 Davidson told Shann that Gibson’s gambit was the exact opposite of what ‘the rest of us’ had been about for some years (Holder 1970:795). Premature funding of Treasury bills would have starved industry of funds. It came at a time when there were repeated calls from Labor and the Country Party for an inquiry into the banking system. Lyons decided to wrest the political initiative and meet

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31 ‘Minutes of Shillings meeting’, July 1933, author unknown, UMA FECC, Box 219.
32 S. M. Bruce to R. G. Casey, 13 September 1933, Casey–Bruce Correspondence, AA, A1421/1.
33 S. M. Bruce to R. G. Casey, 19 January 1933, Casey–Bruce Correspondence, AA, A1421/1.
34 A. C. Davidson to E. Shann, 24 October 1933, BNSW, GM 302/590.
the call for economic expansionism by putting pressure on the banks to further cut their rates. With the rural sector unhappy with bank overdraft rates, Lyons reasoned that cutting interest rates might nip the problem of an inquiry in the bud. Lyons browbeat the trading banks by predicting that if they did not cut advance rates the 1934 federal election would be fought on the issue of bank nationalisation.

Davidson told Lyons that the rate on advances was ‘now lower than it has ever been’. He took the opportunity to point out the ‘logical results’ of the bank board’s decision to reduce the amount of Treasury bills in circulation. It would, he claimed, spell higher rates in the future since the bills were a key part of a trading bank’s cash reserves. Interest rate relief would also not come from the Commonwealth Bank taking the lead and cutting the rate on fixed deposits. Davidson reminded Lyons that when it came to the issue of bank nationalisation ‘a show of excessive nervousness’ by the central bank merely played into the hands of ‘the forces working towards this end’. Stevens also felt lower rates would be ‘insurance’ against moves towards controls over interest rates.

The prevailing mind-set in government and banking circles was that economic prosperity would tamely follow as world commodity prices recovered. In 1933, Lyons presented his ‘prosperity’ or ‘restoration’ budget. The budgetary surplus was dissipated in the form of tax relief rather than dispensing it to the states. This, Lyons figured, was the best way to cut producers’ costs. The stock market boomed the day after the budget with press reaction, local and abroad, giving it a chorus of approval. The London Times hailed the budget as ‘the nearest approximation to a prosperity budget anywhere since the beginning of the depression’. It went on to record how it was ‘fitting’ that the first country to go into depression would ‘also be the first to be able, in a national budget, to take account of the definite signs of improvement’.

Notwithstanding the exchange rate issue, the cautious budget strategy facilitated the task of converting Australia’s huge stock of debt on the London capital market. In that respect, the collateral for Australian securities in London lay solely with Lyons. Another plaudit for Australia’s economic achievement came from the English financial expert Sir Henry Strakosch. He attributed it not to favourable wool prices—as some now did, including Toreador—but to the Premiers’ Plan. It struck him as ‘a daring [plan], yet logical, comprehensive and wholly consistent with accepted economic theory’.

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35 E. R. Riddle to Sir M. Norman, 24 August 1933, BE, OV13/3/454/1.
36 A. C. Davidson to J. Lyons, 4 December 1933, BNSW, GM/5/46.
37 B. S. B. Stevens to Sir R. Gibson, 25 March 1933, RBA, GRG-33-33.
38 ‘Recovering: Australia’s achievements: Premiers’ Plan result’, SMH, 24 June 1933.
39 SMH, 6 October 1933.
40 ‘Opinion in London: unstinted praise’, SMH, 6 October 1933.
41 ‘Australia’s recovery: financial expert’s praise’, SMH, 11 December 1933.
might have been prompted after reading press reports of Copland’s Marshall Lectures at Cambridge University. Copland had warned that Australia could ill afford to return to a policy of ‘forced economic development’ with heavy overseas borrowing, public works and immigration, but he praised devaluation and cheap money and suggested that the large internal debt might well remain a ‘permanent’ feature of the money market. Should the expansion of credit prove troublesome in the future by overstimulating activity, it could be checked by devaluation and open market operations. With economic nationalism resurgent, Copland felt Australia would have to rely on its internal market and that, in turn, could be harnessed by cheap money and tariff protection as long as it did not penalise the export sector.42

When Copland’s lectures were published in 1934, they drew the attention of Montagu Norman. In a confidential, never disclosed review, Norman believed Copland was about ‘90 per cent right’ in claiming that the remedies applied were suitable to the Australian economic situation and national character. The ‘ambitious, dogmatic’ Copland, however, had a ‘marked tendency “to rationalise” Australian experience’ in order to make it fit ‘a monetary pre-conception of a Keynesian—or more probably Hawtreyan—cast’. Like most commentators, Norman praised Australian economists for their ingenuity in saving their country from economic disaster though full recovery was ultimately dependent on the revival in the creditor and industrial countries.43 There was no reaction from Niemeyer.

As wool prices recovered and the psychological stakes improved in 1933, Gibson took the opportunity to put the exchange issue back on the agenda.44 It was to be Gibson’s last piece of executive action.45 A Commonwealth Bank briefing backed it up, with Melville positing the thesis that the economy was more in danger of boom than deflation. This surprised Shann.46 Melville had, in fact, raised the same concern a year earlier fearing the ‘risk’ of an inflationary boom in the exporting industries due to the combination of devaluation and rising commodity prices.47

The Secretary of the Federal Treasury, Harry Sheehan, who was also a director on the Commonwealth Bank Board, told Bank of England officials that there were not enough grounds to warrant the revaluation Gibson wanted. Kershaw felt that Australia could practically appreciate its exchange only if there was a recovery in the industrialised countries in tandem with her diversifying her

42 ‘Recovery: Australian policy: Professor Copland urges continuance’, SMH, 29 November 1933.
44 Memorandum on exchange—from Chairman to the Board of Directors, 9 October 1933, RBA, GRG-33-5.
45 W. S. Robinson to J. M. Keynes, 30 January 1934, KPKC.
46 A. C. Davidson to E. Shann, 23 November 1933, BNSW, GM 302/590.
export markets. Melville, on the way home after the Ottawa trade conference, sounded out London high opinion on the Australian pound’s preferred value. He was told, unequivocally, that the Australian currency should not be realigned with sterling at parity (Markwell 1985:22–3).

**Economists and the funding debate**

While Gibson’s death put an end to thoughts of revaluation, it did not dispel the bank board’s concern about the floating debt, which was approaching £50 million by the end of 1933. It was a matter that was to unite academic economists against the Commonwealth Bank. Indeed, with Melville articulating the reasoning, the bank came out stronger than ever for retiring them. Melville found support from the Treasury, where Wilson was becoming a key source of advice. Brigden (1932a), too, expressed public alarm at the build-up in Treasury bills, believing their number undermined business confidence. Brigden (1932b:4) reiterated his warnings about the ‘latent’ inflationary potential of this borrowing, especially when business confidence revived. Yet Brigden (1932b:1) could also see the other side of the ledger—that is, the ‘motive power of industry’ needed more than reduced costs to become stimulated.

The bank board informed the Loan Council that public works projects, henceforth, must be financed by public loans in a bid to rein in government spending, particularly the spendthrift habits of Queensland and New South Wales (Tsokhas 1993:108–9). The other fiscally weaker states became what Colin Clark later called ‘mendicant’ states and joined the federal government in opposing the expansionist policies of New South Wales and Queensland at Loan Council meetings (Higgins 1989:301). The bank board and the Loan Council agreed to reduce the amount of Treasury bills in circulation and also to reduce the rate of discount, or return, on them. This, Davidson feared, would put upward pressure on interest rates at a time when there was a clamour, from the Prime Minister down, for lower rates. Davidson also felt this deflationary policy would become an obstacle to achieving balanced budgets. The more enlightened approach, he argued, would be to continue with more central bank credit, which, with lower rates, would help revive business activity and, in turn, restore government budgets. As recovery proceeded, it might have been thought the controversy over short-term debt would diminish since public works could be financed by public loans hand-in-hand with piecemeal funding. The bank board, however, remained vigilant. Besides its philosophical reservations about public works, the board was wary that borrowing for public works was a greater drain on Australia’s credit resources than before the Depression. Melville

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48 A. C. Davidson to W. S. Robinson, 20 February 1933, BNSW, GM Files, 302/574.
felt that the level of internal debt was too large for the economy to cope with. Public deficits had to be wound back, as the Prime Minister put it, to ‘free money for investment purposes’.  

This debate over government finances and funding highlighted the differences between Melville representing the bank board’s view of things and that of academic economists (Cain 1988a:10–11). By 1934, Melville had shifted position, not just on funding and public spending, but on the related issue of the flexibility of the exchange rate, which he felt was an invitation to overexpansion. He insisted that devaluation not be triggered by overstimulation of the economy. There had been enough of the latter in any case with the amount of Treasury bills extant already making monetary management difficult (Cain 1988a:9). Instead of exchange flexibility, Melville suggested a managed exchange rate as the best means of ensuring economic progress. As he later told John La Nauze, ‘My conclusions...are so fundamentally different from that of my economic brethren in Australia that I am anxious to get as much criticism as possible.’ 

Reflecting on it a decade later, Roland Wilson felt it was Melville’s ‘rigidity rather than the essential substance of his views which made us regard him at the time as a pain-in-the-neck’. 

When someone, therefore, under the pseudonym of ‘Bystander’ penned a piece in the Australian Quarterly outlining economic arguments for funding Treasury bills, suspicion fell on Melville as the author. Baillieu sent a copy to Keynes suggesting that he could easily ‘divine’ the authorship of the article. Keynes was puzzled why the author was so intent on funding. Keynes added that while Treasury bills did make it easier for governments to spend, he felt the author’s claim that a large volume of bills impeded credit control was somewhat ‘exaggerated’. The main thing, according to Keynes, was whether Treasury bills afforded a cheap form of government borrowing. He did, however, agree with the author’s contention that there were dangers in over-borrowing but Keynes did not feel that the article demonstrated that the ‘limits of prudence’ had been yet reached. Moreover, Keynes felt that while the author had set out to show why funding would not do much harm, he had not established whether it would do much good either.  

Fresh from his sabbatical abroad, where he had taken note of how other countries were promoting recovery, Copland marked his re-entry into domestic public affairs by calling for lower interest rates. In a speech before the NSW Branch of the Economic Society in April 1935, Copland stressed that ‘[w]e must revise

50 L. G. Melville to J. La Nauze, 26 July 1935, La Nauze Papers, NLA.
51 R. Wilson to L. F. Giblin, 7 December 1949, RBA, GLG-51-5.
52 C. L. Baillieu to J. M. Keynes, 28 March 1934, KPKC.
53 J. M. Keynes to C. L. Baillieu, 6 April 1934, KPKC.
our ideas about rates of interest’. Investment, which had been stagnant for four years, could be restored only by cheap money and if that meant more public debt it had to be faced: ‘The world cannot get richer unless its debts are greater. The modern capitalist world must feed on its own fat or it will be destroyed.’

Copland might at this stage have been reading the doctrines of the early Australian economist William Hearn. An invitation to deliver the Macrossan Lectures at the University of Queensland in May 1935 presented an opportunity to deliver a timely lesson and also shed light on a neglected Australian economist. Hearn had emphasised that with depression the economy was not the key to economic recovery. To wit: ‘The world which refuses to increase its debt must increase the impoverishment; it will grow richer by increasing its debts and not by reducing them.’ Hearn’s premise, identified by Copland, was that ‘[w]e have much that we may expend more. The World that refuses to expend more because it has much will very soon have less, until it reaches the stage where it will have nothing at all’ (Copland:1935b). Copland’s lectures, later published, caught the ire of Hayek. He lamented that the expedient attempt by Copland to use Hearn ‘as a peg on which to hang an exposition of the views of a particular group of modern Australian economists will do little to enhance Hearn’s reputation’ (Hayek 1936:101).

Copland dismissed the policy, put forward by some, including a federal parliamentary secretary, Frederick Stewart, of following Franklin Roosevelt’s strategy in the United States of increasing wages as a means of generating recovery. Wages, Copland felt, would rise as recovery proceeded, which could be sustained only by a prior increase in investment spending. Brigden and Shann publicly backed Copland’s call for lower interest rates. Shann reasoned that lower interest rates would encourage internal spending without impairing the export surplus. Lower interest rates would also alleviate rural indebtedness, especially since a scheme drawn up by Copland and others to write down farmers’ debt had been received by banks as if it were ‘marking the beginnings of the end of Australian capitalism’ (Hart 1971:131). An angry Copland pinned the government’s U-turn on rural debt relief on the reaction from Melbourne financial interests (Hart 1971:131).

55 D. B. Copland to E. Harding, 16 October 1934, UMA FECC, Box 24.
57 ‘Liberal credit: Prof. Shann’s views’, The West Australian, 22 August 1934.
58 Senator Massy-Greene, the Assistant Treasurer, had floated a scheme to alleviate—indeed liquidate—rural indebtedness using ideas from the Douglas credit movement. It was designed also to counter the Labor Party’s election proposal to nationalise credit while getting the Country Party onside. It disappeared without trace (Sir W. Massy-Greene to J. Lyons, 15 February 1934, AA, AA1068/391, Item 66).
59 D. B. Copland to D. Heaton, 18 June 1934, UMA FECC, Box 24.
60 D. B. Copland to W. S. Robinson, 27 June 1934, UMA FECC, Box 26.
Copland now detected a lack of leadership within the Commonwealth government, especially on matters of economic policy. According to Copland, Lyons’ only really hope was Stevens, who, as he later put it, ‘can understand the economic position better than most economists’. In a memorandum written for a business associate, Copland noted an inconsistency in economic policy with the government lamely pushing for lower rates yet happy to indulge the bank board with thoughts of more funding. Copland, too, detected that Casey, for all his energy and promise, was captive to the bank board’s view of things (Tsokhas 1993:109).

As the economic recovery gathered momentum, the board, along with Melville, was still nervous of the possibilities of inflation if the trading banks presented the bills for rediscount and the note issue expansion that would subsequently ensue. The board took the view that the bills were issued only as an emergency measure to finance governments when loan markets were closed and it was never contemplated that they would reach such a high level. Expansionist economists, such as Giblin and Walker, however, dismissed such concerns, adopting the Keynes–Kahn view that with so much supply potential available there was little chance of inflation as expenditure rose (Cain 1988a:10). Any move, therefore, to curtail the issue of Treasury bills met with the opposition of Stevens, the Wales and, as Casey noted, ‘the majority of economists of consequence in Australia’ (Copland and Janes 1936:318). The odd economist out was Melville, who, as Wilson noted, had ‘views on these matters…not shared in government or Treasury circles’. In fact, Wilson was being a little disingenuous since the Federal Treasury also took a hard line against public spending (Cain 1988a:11–12).

The Assistant and Acting Treasurer, Casey, would moderate his views on funding, arguing later that the issuance of Treasury bills was defensible ‘so long as it roughly does no more than is necessary to offset the reluctance of the community to use its savings’. The new Chairman of the Commonwealth Bank Board, Claude Reading, however, relentlessly hammered home the message over the next few years that there was too much short-term debt for the Australian financial system to carry and that public loans be raised to reduce the number of Treasury bills in circulation. Casey was convinced by Reading’s argument that it left the central bank with no margin for emergencies such as adverse seasonal conditions or the ‘recrudescence of depression’.

61 D. B. Copland to C. Baillieu, 24 March 1936, UMA FECC, Box 41.
62 ‘Confidential memorandum for Mr Clive Baillieu’, 5 April 1934, UMA FECC, Box 21.
63 R. Wilson to L. F. Giblin, 7 December 1949, RBA, GLG-51-5.
64 ‘Memorandum on the present monetary position in Australia’, 1935, AA, RGC 5.
65 Meeting with C. Reading, 10 May 1935, AA, CP503/1, R. G. Casey Records of Conversations.
Reading noted that the campaign was aimed directly at changing public opinion away from the allegedly ‘short-sighted’ policy of the Commonwealth Bank, which was being painted as the scapegoat. Reading said this alternative view was ‘warped’, with the correct policy being some moderation in the rate of recovery.

In a switch in policy consistent with Melville’s new outlook, the bank board adopted a more cautious attitude to public works, emphasising the psychological and open economy repercussions of too much loan expenditure (Cain 1988a:11). Funding would deliver an appropriate check to economic activity, which was being fuelled by public spending, deficit budgets and good export prices (Cain 1988a:12). The bank held that a paucity of savings, not investment, was the problem. It criticised the expansionists on their ‘primrose path’ for having no sense of proportion or limitation about the carrying capacity of the Australian economy (Cain 1988a:12).

Armitage, now a London-based officer of the Commonwealth Bank, relayed news of the contest of ideas between the economic expansionists and restrictionists to Montagu Norman:

The desire of the States to spend money on public works continues, whether or not, the money can be raised from the public. Indeed a preference exists in some influential quarters for continuing to finance deficits and public works by Treasury Bills. This view is not held by this Bank.

Emboldened by news of a turnaround in the global economy, the bank board informed state governments that central bank credit would be no longer available for either deficits or loan expenditure except as a temporary measure. Treasury bills, it held, were only a form of emergency finance. Stressing the integrity of the Premiers’ Plan, the bank board served notice that it would not finance deficits from 1934/35 onwards (Copland and Janes 1936). The bank board had become impatient with the states’ tardiness in balancing their budgets. Budgets had to be balanced first before further expenditure would be considered. This view was in stark contrast with what expansionist economists and Davidson believed—namely, that the sporadic signs of recovery should not be mistaken for the return of general prosperity and that stimulatory measures must continue (Holder 1970:795).

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66 C. Reading to Sir M. Norman, 15 October 1935, BE, G1/287.
When the mercurial Davidson visited London, Niemeyer thought it would be good if Montagu Norman saw him soon before he got up to mischief. Kershaw’s brief on the governor’s visitor noted that Davidson was ‘strong and brutal, a good banker…not instinctively theoretical…impressionable with all’. Norman, alas, was not impressed by the Australian, finding that he put ‘self and profit’ before country. Davidson wanted to raise a number of matters with Norman, including Treasury bills, Australia’s exchange rate and rebuilding her sterling reserves. Apart from quizzing Davidson on his opinion on state budgets, Kershaw suggested Norman might ‘shift your ground’ by asking the visitor whether it might not be wise for ‘Australia to go slow for a little while’. That rather puzzling concern, at a time when Australia still had 20 per cent unemployment, invites a closer look at the peculiarities behind Australia’s continuing economic recovery and the role economists—inside and outside—played in sustaining it.

‘On the side of the angels’: economists and recovery

This bleeding country seems to impose severe exertions upon the nervous energy of economists. We are about to have an election and the banks are showing a little disenchantment to proceed with further reductions in interest rates and to encourage the Government to spend a reasonable amount on public works…when one sees the light so clearly it is difficult to keep one’s patience with nit-wits.

Lyons had won the federal election of spring 1934 promising nothing other than continuing economic recovery. In the election campaign, he reminded the electorate of the ALP’s policy on bank nationalisation before declaring that the trading banks had been the country’s ‘sheet anchor’ and had ‘saved the country from complete failure’. This was a direct riposte to the Labor Party’s campaign, which focused almost entirely on the reform of the banking and monetary system, including giving Parliament the authority to direct the central bank (Sutherlin 1980:12–13). The private banks gave Lyons election material to wage

69 Davidson also met Keynes in London (A. C. Davidson to J. M. Keynes, 18 June 1934, L 34/62, and J. M. Keynes to A. C. Davidson, 28 June 1934, OC/2/171, KPKC).
70 E. Skinner, Secretary to the Governor, Memorandum, 13 April 1934, BE, OV 13/3 454/1. ‘McKennaish’ was a reference to the chairman of the Midlands Bank and former Chancellor of the Exchequer, Sir Reginald McKenna, who was of the expansionist bent. McKenna had incidentally praised Copland’s efforts at economic reconstruction contained in his Marshall Lectures.
71 A. T. Lewis to L. G. Melville, 27 March 1937, Melville Papers, NLA.
72 Memorandum to Sir O. Niemeyer from R. Kershaw, 18 April 1934, BE, OV13/3.
73 D. B. Copland to H. Innis, 1 June 1934, UMA FECC, Box 24.
75 ‘Mr Lyons defends banks’, SMH, 6 April 1934.
76 ‘Labor’s policy explained by Scullin’, SMH, 16 August 1934.
an ‘essentially negative’ campaign focusing on the disunity within the Labor camp, together with its unorthodox economic policies (Sawer 1963:72). Despite their grumbles about the professionalism of the government, both Davidson and Copland drafted a series of briefs for the Lyons election campaign highlighting the positive role the banking system played. Shann penned articles for the press depicting the Australian banking system in a favourable light compared with those operating abroad. During the campaign, Lyons pledged to spend more on welfare and reproductive development work such as the unification of railway gauges. That came with assurances to state governments that the Commonwealth would work closely with them on major developmental and welfare projects. These plans for greater public spending were later shelved, being too much for the financial backers of the federal government to stomach (Lloyd 1984:241).

By this time Australia was, in any case, no longer ‘feeling her way’ but was treading the path towards full recovery (Copland and Janes 1936:xvii). Copland and other economists, however, felt that, with the mood of national emergency no longer present, a sense of complacency was creeping into the minds of policymakers. Copland told a Sydney University economics graduate, Ian Potter, that economists had to be prepared to see their advice thwarted by political pressures. Copland showed some hubris, however, when he told his Sydney colleague Mills that ‘[i]t is always necessary to exert constant pressure on the politicians to keep them moving at a satisfactory pace in the right direction’. One national issue was the continuing high level of interest rates, which Copland attributed to a ‘rentier psychology’ and ‘hard money’ view within the Commonwealth Bank. Copland assured a friend that he was ‘on the side of the angels and…working behind the scenes’ trying to change it. Economists attributed the nascent recovery to improving export prices, favourable business sentiment and rising levels of public and private investment (Copland 1936). Copland told Per Jacobsson of the Bank of International Settlements that the key force behind the ‘extraordinary improvement’ in Australian economic activity during 1932 and 1933 had been the combined effect of reductions in money costs and credit expansion.

77 The hand of Copland can be palpably detected in a broadcast Lyons gave on the financial system in which he defended the role of the banks in the crisis and recovery and rejected the notion that the Bank of England influenced the Commonwealth Bank Board (‘Banks’ administration’, SMH, 1 August 1934). This is scarcely surprising because Copland had written to Irvine Douglas, the Prime Minister’s publicity officer, listing the positive role the banking system played in the economic crisis (D. B. Copland to I. Douglas, 29 May 1934, UMA FECC, Box 27).
78 D. B. Copland to I. Potter, 26 March 1934, UMA FECC, Box 25.
79 D. B. Copland to R. C. Mills, 24 May 1934, UMA FECC, Box 24.
80 D. B. Copland to E. H. Stinner, 8 June 1934, UMA FECC, Box 27.
81 D. B. Copland to P. Jacobsson, 27 August 1934, UMA FECC, Box 24.
In June 1934, the NSW Branch of the Economic Society conducted a forum on ‘The economics of recovery’ with Walker, Melville, Mills and a newcomer, Allan Fisher, all contributing. Fisher spoke of how the individual capitalist had been prevented from doing his duty due to fear and a lack of confidence. Melville complemented this by suggesting that it had to do with expectations that interest rates might fall further. Mills made noises about how properly banded action by the government might trigger private investment.\(^{82}\)

With the re-election of the Lyons government one might have expected a steady-as-you-go approach to economic policy but this was not to be. The UAP was forced into a coalition with the Country Party, meaning that some inquiry of the monetary and banking system was now imminent (Sutherlin 1980:18–19).\(^{83}\) The return of the Lyons government quickly brought attention to the state of the recovery—in particular, the reluctance of interest rates to fall. By the start of 1935, export prices had begun to slip again.

Besides commissioning an inquiry into the monetary system, Lyons also had to contend with younger blood unhappy with the government. The new member for Kooyong, R. G. Menzies, found the workings of the Lyons’ cabinet amateurish compared with the Victorian state government he had just left. Casey, too, after a year of being Assistant Treasurer, felt that ‘[o]ur methods of giving consideration to matters of importance would disgrace a girls’ school. The absence of study and research into important matters and the off hand decisions “on the voices” is a constant menace to the best interests of the country.’\(^{84}\)

His friend Hankey, a former British Cabinet Secretary, found on his visit to Canberra that procedure within the Lyons cabinet was quite ‘loose and rambling’ (Martin 2000:124).

Long enamoured with economics expertise, Casey brought in Roland Wilson to advise ‘on Treasury questions proper’.\(^{85}\) Not long after, Wilson became Casey’s key economic adviser.\(^{86}\) The Treasurer had, however, to fight to secure his services by matching an enticing offer from his alma mater, the University of Tasmania. Wilson elected to stay put because it was ‘the bigger job’ (Cornish 2002b:20). Casey told Bruce that the young man ‘had turned out very well’ and ‘besides knowing all the economic nonsense…has a good head, good judgement

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\(^{82}\) ‘Economics of recovery’, SMH, 13 June 1934.
\(^{83}\) The Country Party Leader, Earle Page, also wanted the inquiry to examine the relationship between export prices and domestic costs (‘Country Party policy; Dr Page’s reconstruction plans’, SMH, 15 August 1934).
\(^{84}\) R. G. Casey to S. M. Bruce, 3 November 1934, AA, A1421/1; D. B. Copland to R. C. Mills, 24 May 1934, UMA FECC, Box 24.
\(^{85}\) R. G. Casey to S. M. Bruce, 3 November 1934, AA, A1421/1.
\(^{86}\) Copland congratulated Wilson, one of his former students, telling him, somewhat presciently, that ‘I hope it will be a further step towards freeing you for consideration of the larger issues of policy’ (D. B. Copland to R. Wilson, 1 March 1935, UMA FECC, Box 40).
and general balance’. Casey arranged, probably with Giblin’s help, to get a young economist to assist Wilson. It came in the form of another Tasmanian, Arthur Smithies, who returned from the United States with commendations from Joseph Schumpeter and Copland. There was also Ian Potter, who was for a brief time Casey’s personal secretary. Casey also toyed with the idea of adding Giblin to the Commonwealth Bank Board in a bid to put monetary policy on a more scientific footing. He assured Latham that the idiosyncratic Giblin would not be a risky appointment since ‘[t]here are sufficient “practical men of affairs” on the Board to dilute and, if necessary, to offset any radical tendencies that he may have’. That counsel did not assuage the London manager of the Bank of Australasia, who felt Casey’s appointment was, in itself, unwise since having ‘had practically no business experience to the post he [Casey] now holds lays itself open to a danger of the introduction of revolutionary ideas and methods which a more experienced man would hesitate to employ’. Their fears were misplaced for Casey rarely strayed from the bank board’s economic perspective.

Apart from the homecoming of Smithies and Copland, three other economists returned to Australia after engaging in study overseas. Each would try to enlighten public opinion using the latest in overseas economic thought. Walker returned with one of the first doctorates in economics earned from Cambridge University (Cairncross 1998:43–4). Like Syd Butlin, Walker was supervised by D. H. Robertson, meaning that he was distant from Keynes’s inner circle. Walker, nonetheless, had invested much of the Treatise’s analytical framework into his doctorate on wage cuts and unemployment in Australia and would quickly become the most erudite Keynesian of interwar Australian economists. Butlin, who was undertaking another degree, fell under the influence of Robertson and was, like his mentor, wary of Keynes’s doctrines (Butlin 1978). J. K. Gifford from the University of Queensland returned home also having completed a thesis, at Kiel in Germany. H. C. ‘Nugget’ Coombs, too, returned home having completed a doctorate from the London School of Economics on ‘Dominion exchanges and central bank problems’ (Rowse 2002:65). Against the flow came a young visiting

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87 R. G. Casey to S. M. Bruce, 20 February 1935, AA, A1421/2.
88 Schumpeter felt Smithies was an economist of ‘unusual force and ability and of a very wide range of possibilities’ (J. A. Schumpeter to L. F. Giblin, 18 August 1934, UMA FECC, Giblin Collection, 92/141, Box 2 k-t).
89 Smithies told Copland on 22 April 1935, ‘I know that it is likely due to your efforts that I got the job in Canberra’ (UMA FECC, Box 38).
90 Ian Potter was one of the first graduate economists to become fully engaged in stockbroking.
92 E. Godward to G. Healy, 11 January 1934, D/O Letters, Bank of Australasia, ANZ Archive.
93 Apart from a few statistical quibbles, Giblin favourably reviewed Walker’s book in the Economic Record. He later confessed that the review did not do Walker full justice.
94 Gifford’s thesis was also published. Entitled Devaluation and the Pound, it dealt with the general problem of correcting the balance of payments and the deflationary effects of the British pound devaluation and the advisability of returning to the gold standard.
scholar from Harvard to expressly compare Australia’s recovery experience with that of the United States. Copland took Rupert MacLaurin under his wing and introduced him to the key players in the drama. The American duly reciprocated by trotting out the economists’ line that the Australian recovery had not been fully effective because of mistakes with exchange rate policy and the lack of a coherent public works program. In a lecture, however, he told his audience that the Australian recovery had been a more effective one than the US effort. The scaling down of interest rates on internal debt, engineered through a special clause of the Premiers’ Plan, MacLaurin felt worthy of imitation elsewhere. When MacLaurin’s book was published in 1936, it was warmly received by local economists.

The nature of the Australian recovery had attracted considerable international attention, which Copland, and less so Walker, appropriated with their accounts. Walker’s treatment of the issue was, of course, more theoretically weighted than Copland’s account. It was also closer in spirit to Keynes’s world view of the conundrum than Copland’s account, which had not theoretically developed from his position of 1931. Copland, for instance, still eschewed public works as the way out of the Depression. Walker found that the Australian wage cut of 1931—in terms of purchasing power analysis—had in fact done little to engineer economic recovery other than to give the export trades some breathing space. For a year after the wage cut, employment had not risen. Facing another burst of deflation, entrepreneurs would use the lower costs to reduce their overdrafts rather than to hire more workers. In short, wage cuts would do little to stimulate investment and bring it into line with savings. This, of course, was the advice Keynes conveyed to Australian economists in 1932. Public works was the answer; it would absorb savings and trigger a multiplier effect in consumption spending. If this was attempted, entrepreneurs’ expectations would focus more on expansion than on retiring debts. Walker was insistent that public works be financed by borrowing from the public rather than resorting to bank credit. This was crucial in the name of business confidence (Cornish 1990:61). Once recovery was under way, some wage cuts, Walker mooted, might be of advantage though it opened the door to international retaliation. On that score, Walker held that the Australian devaluation of 1931 had been effective, not by giving a stimulus by way of more net exports, but rather by allowing more space for domestic stimulation to take place (Cornish 1990:61).

Copland’s book, too, gave hope for some degree of economic enlightenment. The Canadian economist A. F. W. Plumptre (1935:131–3) said Copland’s account demonstrated that Australia was indeed a land where ‘the plans of Economic Men have been put into practice’. In his own mind, Copland was intrigued by Roosevelt’s ‘unorthodox’ attempts at recovery but complained that he could

not ‘get any line on the point of view of American economists’ in tackling the slump. This drew a compliment from the polymath Archibald Grenfell-Price that the lack of progress in the United States made one realise ‘how good has been the job that you and the other Australian economists have done’.  

Copland’s account of the crisis, however, sparked a feud in the expansionist camp. Davidson was incensed with Copland’s account because it omitted mention of the Commonwealth Bank Board’s doctrinaire position on funding and the exchange rate. The book also did not mention the role of the Bank of New South Wales in forcing the 1931 devaluation (Plumptre 1935:132). Copland had praised the coordinated, albeit improvised, strategy effected by Australia’s economic institutions, including the central bank, in leading the country out of the slump. In fact, the local banking system had, by creating an amount of credit greater than any other country, pulled Australia out of the slump. Moreover, Copland (1937a:411) also held that the Commonwealth Bank’s appreciation of the currency in December 1931, while at first glance ‘an act of deflation turned out to have strong expansionist tendencies’. That is, the action lent confidence to local and overseas capital markets that the Commonwealth Bank was taking control of matters. Capital inflow piled in.

Davidson was annoyed at Copland’s faint praise of the Commonwealth Bank, fearing that ‘it played into the hands’ of those opposed to the expansionist school. Copland tried to mollify Davidson by replying that the Commonwealth Bank did not really understand the good it had done by adopting ‘unorthodox’ financial measures. Unmoved, Davidson still felt Copland had made a blunder in making benign reference to an institution that was still following a ‘dreadful deflationary policy’. Copland told his contact at the Bank of New South Wales, Claude Janes, that while Davidson’s charge was ‘absurd’ he did not want to jeopardise the unity within the camp. Knowing his chief’s vanity and, indeed, that of his mentor, Janes suggested letting the matter rest. Besides placing Janes in an invidious position, the disagreement opened a divide between two of the most powerful players within the expansionist camp. The feud festered into the new year with Copland feeling that the headstrong Davidson—‘His Royal Highness’—was, for all his good work in promoting the discipline, prone to dismissing the worth of economists especially when their views did not match

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96 D. B. Copland to A. Grenfell-Price, 6 March 1932, and A. Grenfell-Price to D. B. Copland, 6 April 1932, UMA FECC, Box 204 A.
97 A. C. Davidson to D. B. Copland, 7 December 1934, and D. B. Copland to A. C. Davidson, 19 July 1934, UMA FECC, Box 22; D. B. Copland to C. Janes, 12 December 1934, and C. Janes to D. B. Copland, 14 December 1934, UMA FECC, Box 24.
98 A. C. Davidson to D. B. Copland, 21 December 1934, UMA FECC, Box 22.
99 Another economist with an Australian connection not entirely swept along by Copland’s work was F. Benham. Copland told Austin Robinson, the Associate Editor for the Economic Journal, that Benham did not fully understand the point of view of the Australian economists circa the early 1930s (D. B. Copland to E. A. G. Robinson, 24 October 1934, UMA FECC, Box 25).
his own. One instance of this was when Melville took the line from late 1933 onwards of pursuing exchange stability. Davidson warned Kershaw not to take the advice too seriously as Melville ‘is really an actuary and statistician, and owing to that training, finds it extremely difficult to take into consideration the general economic, financial and business aspects of the problem’. It was also inaccurate. Melville wanted the exchange rate to move ‘in accordance with internal conditions’ (Schedvin 1970:364–5).

The Sydney plan

When a businessman suggested to Copland that it was time for the Wallace Bruce Committee to reconvene to consider the state of the economy, Copland assured him that economists already had another plan in the offing. Copland had already been invited by Stevens to contribute towards devising a ‘new Premiers’ Plan’, or better still, one that would complement it, by dealing with problems of public finance, unemployment, trade and marketing. With unemployment still at 20 per cent and national income at £500 million compared with the pre-depression level of £650 million, and world export prices sliding again, Stevens had a point. Impatient with the pace of recovery, Stevens commissioned a group of Sydney University economists in May 1934 to devise major changes to economic policy. The resulting submission was presented to a Loan Council meeting.

Led by Mills, the committee comprised Walker, Copland and Hermann Black with William Wentworth from the premier’s office assisting (Cain 1988a:7). In the press, Walker had called for more public works with the economy still in depression. The committee’s report was full of expansionist precepts and policies, meaning that Sydney and Melbourne academic economists were now of the same ilk. In fact, there had been some undercurrent of antipathy between the two schools with Mills and Butlin having ‘limited sympathy’ for the public activities of the Melbourne school (Butlin 1978:104). Walker’s arrival on the stage helped to bridge the divide.

The Sydney plan or ‘forward policy’ was one of controlled inflation achieved through a concerted plan through increased public works expenditure. The plan was ‘forward’ in the sense that the slow rate of world recovery made preemptive, constructive policy imperative. Some fundamental changes in the economy were necessary even if export prices continued to hold up. Interestingly,

100 D. B. Copland to C. Janes, 13 March 1935, UMA FECC, Box 34.
101 A. C. Davidson to R. Kershaw, 20 August 1934, BE, OV 13/3.
102 H. V. Howe [NSW Chamber of Manufactures] to D. B. Copland, 6 July 1934, UMA FECC, Box 24.
103 B. S. Stevens to D. B. Copland, 21 May 1934, UMA FECC, Box 27.
the preamble on public works expenditure was regarded primarily as a means of generating consumption demand. Copland claimed the rise in income from the public spending would generate the savings to fund the operation (Cain 1988a:8–9). The plan, as presented to Stevens, bore the imprint of Walker’s latest research in establishing that the two principal economic problems were unemployment and the transference of workers from uncompetitive industries. The final polished version sounded almost like Keynes in his public writings. It began with the words: ‘In times of depression the resources of a country are not fully employed but men and equipment are idle. This idleness arises from a failure of consumers’ demand and can only be overcome by an expansion of that demand.’

Its premise was that the slower and more uncertain the world recovery, the more necessary it was to revive consumption spending. The Sydney plan also envisaged reducing interest rates while suspending funding operations, if not increasing the amount of Treasury bills in circulation. There were also clauses on debt reduction, the exchange rate, wages policy and trade preferences. Copland was so heartened by it that he told Stevens that he must make a serious play to enter federal politics. Only he truly understood and had the technical ability to push the expansionist cause. If Stevens chose to remain where he was he would be driving policy ‘from the back seat’. It was better and indeed far easier, Copland assured him, to be driving from the box seat, and that meant the position of Federal Treasurer. If Stevens entered the federal arena it would buttress Lyons’ position, which, while partial to the philosophy of the plan, was neutralised by a cautious cabinet.

Despite the memorandum raising the hopes of the economists this remarkable proto-Keynesian document registered little impact at the intergovernmental level. Stevens did, however, extract from Lyons the promise to authorise more public works after the election. While Copland bemoaned to W. S. Robinson that things would be much easier ‘if the forces of conservative finance were a little less strong’, London was told a different story. Dalton, the British trade representative, told his superiors in London that there was ‘a strong tendency to indulge in expansionist policies’, entailing borrowing ‘for public works and the like’. There was also the suspicion that the Commonwealth Bank was not exercising the same degree of restraint since state government deficits persisted with the total public sector borrowing nearly £25 million per annum. Dalton pondered whether the resort to public works might lead to ‘conditions of

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104 ‘The case for expansion’, n.d., UMA FECC, Box 27.
105 D. B. Copland to B. S. B. Stevens, 11 June 1934, UMA FECC, Box 27.
106 W. Wentworth to D. B. Copland, 13 June 1934, UMA FECC, Box 27.
107 D. B. Copland to W. S. Robinson, 18 June 1934, UMA FECC, Box 24.
artificial prosperity’, which had triggered Australia’s financial crisis in the first place. While he thought this recurrence unlikely, he was still anxious about whether Australia could meet her liabilities without assistance.\textsuperscript{108}

In his missives to powerful business associates such as Robinson and Baillieu, Copland fathomed the layers of the psychological mind-set financial circles held against expansionary policies. Most business and finance houses were, quite simply, unaware and unappreciative of the fact that Australia had extricated itself from the slump by a policy that was no less unorthodox than it was inflationary. Sir Robert Gibson, for instance, had always interpreted the rehabilitation of Australia’s finances as ‘something in the nature of a fairy tale’.\textsuperscript{109} Despite Australia’s heavy resort to credit most bankers were still unable to see how Treasury bill finance had helped them and were now resisting cutting rates, which would ‘only require a small effort on their part’.\textsuperscript{110} When the unorthodox policies of economists failed to generate a full-bodied recovery it merely confirmed bankers’ doubts about the efficacy and worth of experts’ plans. This, as Copland told Jacobsson at the Bank of International Settlement, led to ‘a greater agitation than ever for deflationary policies’. Moreover, even when the economic situation did improve conservatives were just as likely to attack not just the heretical measures that were found necessary during the crisis but to prevent other progressive changes from occurring lest they disturb the equilibrium.\textsuperscript{111}

Copland closed his letter to Jacobsson with the hope that ‘a counsel of moderation’ would prevail and allow Australia to tread further along the path of mild inflation.\textsuperscript{112} They would face, however, the unremitting and quite uninformed opposition of the rentier class. The opposition from Collins Street mounted against Copland was particularly galling since the Trades Hall frequently charged him with being in the pay of the banks. For their part, bankers, as one had half-jokingly told Copland, would like to see him and his doctrines ‘floating down the Yarra’\textsuperscript{113} Nonetheless, Copland was happy to foresee the day when the Commonwealth would assume greater responsibility for the relief of unemployment by more loan expenditure. He was joined in this wish by Sydney economists. Walker gave an address before the NSW Branch of the Economic Society in March 1935 contesting the view that once public works

\textsuperscript{108} R. W. Dalton to Sir E. Crowe, Department of Trade, 6 November 1934, PRO, T160/808/11935/7, File No. 8.
\textsuperscript{109} The Argus, 19 December 1934.
\textsuperscript{110} D. B. Copland to P. Jacobsson, 27 April 1934, UMA FECC, Box 24.
\textsuperscript{111} D. B. Copland to W. S. Robinson, 26 September 1934, UMA FECC, Box 26.
\textsuperscript{112} D. B. Copland to P. Jacobsson, 18 June 1934, UMA FECC, Box 24.
\textsuperscript{113} D. B. Copland to Laing, 7 December 1934, UMA FECC, Box 24.
slowed the economy would slip back into depression. Rather, if undertaken correctly it would trigger private investment spending that would use up idle savings thus allowing public expenditure to gradually taper off.\footnote{114}{Public works', SMH, 13 March 1935.}

Copland astutely read the prevailing psychological mood as having reached a position of security such that business and finance were impatient with further experimentation. The consequence was that, as in 1932, Australia faced a reoccurrence of ‘a somewhat reactionary phase’ with the danger of undoing the good already done.\footnote{115}{D. B. Copland to F. Taussig, 23 November 1934, UMA FECC, Box 27.} This manifested, as we have seen, in the advocates of funding raising the cry of over-borrowing and the Commonwealth Bank insisting that all deficits be financed by public loans. Copland felt the federal government might cave in to the board’s demand since ‘it is not a government with great convictions about anything and it has very few strong Ministers’. Despite this, Copland was optimistic that ‘the pressure of public influence in favour of spending is so great’ that the Commonwealth would abide with its program of public works even if it meant a hardening of interest rates in the future.\footnote{116}{‘Memo on the financial policy of Commonwealth government’, 16 November 1934, UMA FECC, Box 27.}

Giblin also attacked the government’s lassitude and deference to the Commonwealth Bank by sending a memorandum to Casey in late 1934 warning that falling export prices again compelled the need for a more proactive policy stance. Calling for a new Premiers’ Plan ‘to meet known tendencies and prepare for the unknown’, Giblin felt the only way of preventing an economic relapse was more public expenditure financed by Treasury bills \cite{Cain 1988a:7–8}. He took the opportunity to wage on Casey the augmentative power of the multiplier. Should the Commonwealth Bank prove recalcitrant Giblin encouraged the re-elected Lyons government to take charge and not ‘shelter behind a Bank Board of their own creating’. In closing, Giblin warned Casey that if the federal government failed to act an alternative government would, with consequences as disastrous as the present administration’s complacency.\footnote{117}{Untitled manuscript, November 1934, UMA FECC, Box 23.}

The calls made, therefore, by both Melbourne and Sydney economists for more boldness and adventure in policy settings during 1933/34 gives the lie to Schedvin’s \cite{Schedvin 1970:375} claim that they were still bound to the Premiers’ Plan framework. In the light, too, of Schedvin’s thesis about the leading, if accidental role of manufacturing in generating recovery, the Melbourne and Sydney economists had also focused their minds on generating internal recovery rather than relying on exports to deliver salvation. The former Assistant Treasurer
Massy-Greene drew attention to this after receiving a copy of the Sydney plan.\(^{118}\) Primary production for export was, in any case, not as employment intensive as manufacturing. Massy-Greene told Copland that the development of secondary industry was the only means to absorb the unemployed. Moreover, with the drying up of foreign loans, Massy-Greene felt Australia would be stretched accumulating foreign balances sufficient to pay her way in the world.\(^{119}\) On this point, Copland admitted his concern that any upturn in economic activity would, with rising imports, jeopardise the external account.\(^{120}\) Those fears were soon to materialise.

Before then Massy-Greene informed Copland that he had asked Casey to reconvene the committee of experts who had drafted the Premiers’ Plan to make some reappraisal of economic strategy. This was something the economists welcomed. Like Giblin, Copland felt that with the election over, it was time for the government ‘to take a risk’, even if both sides of politics would object to ‘the Government calling in wicked economists again’ for advice.\(^{121}\) Copland believed that a strong report from a competent committee would allow the government to disengage itself from the fetters of Melbourne high finance—a sentiment Massy-Greene agreed with.\(^{122}\) That hope depended on the advocacy powers of Casey.

Casey at the helm

We are all ‘expansionists’—it is only a matter of degree.

— R. G. Casey, 1936

While he would not fully assume the mantle of Federal Treasurer until October 1935, Casey had effectively been in command of the portfolio since 1934. He was a ball of energy, matched by an equal intensity ‘to be in the limelight’; but whether his usually homespun economic proposals would win over cabinet was another matter entirely (Hudson 1986:93).\(^{123}\) There was no doubting Casey’s industry and mental versatility, but his biographer, W. J. Hudson, argues his subject did not have the forbearance to overcome the cut and thrust of cabinet.

\(^{118}\) Working alongside Copland within the Austral Development Company in an advisory capacity, Massy-Greene changed his tune on the worth of economists. He had even begun to appreciate the outpourings of Keynes, particularly on public sector stimulus. At the same time, he grew wary of ‘The Hard Money School’, who trenchantly opposed a more liberal central bank policy (W. Massy-Greene to D. B. Copland, 2 September 1935, UMA FECC, Box 45).

\(^{119}\) W. Massy-Greene to D. B. Copland, 27 June 1934, UMA FECC, Box 34.

\(^{120}\) D. B. Copland to W. Massy-Greene, 28 June 1934, UMA FECC, Box 34.

\(^{121}\) D. B. Copland to W. Massy-Greene, 19 November 1934, and W. Massy-Greene to D. B. Copland, 17 November 1934, UMA FECC, Box 34.

\(^{122}\) Ibid.

\(^{123}\) E. Godward to G. Healy, 13 December 1934, D/O Correspondence, ANZ Archive.
Casey’s own view on pushing matters through Parliament showed a lack of combativeness (Hudson 1986:92–3); he told Bruce: ‘I never look for a fight in the house as I can find I can get business through much easier and quicker by a reasonable degree of courtesy and without bombast. This may or may not be the way to get on in the show.’

Casey was quite happy to placate Lyons’ wish to invite Bruce back and was even prepared, just days after becoming Federal Treasurer, to step aside and allow him to take his place (White 1987:175). Equally disarming was that while Casey always made a good early impression on his cabinet colleagues, the second impression of his knowledge and depth was never as flattering (Hasluck 1996:85; Spender 1972:32–3). Colleagues and opponents quickly sensed Casey’s irresolution behind the confident facade.

Economists, too, starting with Copland, would quickly appreciate W. S. Robinson’s observation that Casey ‘lacked understanding’ and was ‘timid’ when it came to confronting the bank board. Copland, for instance, had to remind Casey that there was no relationship between Australia’s level of imports and her level of exports. Rather, the level of spending determined imports. Casey had energetically marked his first year in the job by personally drafting a stream of memoranda on a whole series of economic policy issues. It met with a lukewarm response from a cabinet convinced that their orientation was too radical (Hudson 1986:93). Casey had already been unhappy with the nature of cabinet decision making, intimating to Bruce that

we amble along as a collection of individuals doing the obvious things that come to mind—but doing no forward thinking—and generally managing to avoid or sidestep the difficult problems until they are on our doorstep—then we make a snap, line-of-least-resistance decision which is usually costly, in which we merely always sacrifice principle. Heaven knows how we have kept out of real trouble.

By drawing up a series of informative briefs—partly for his own edification—Casey idealistically hoped it would improve policy deliberation.

One of Casey’s first memoranda addressed Giblin’s call for a more active attack on unemployment (Cain 1988a:13). While agreeing that it was the main social and political problem facing the country, Casey did not believe the problem could be resolved by government action. Rather the problem was attributable

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124 R. G. Casey to S. M. Bruce, 9 December 1934, AA, A 1421/2.
126 D. B. Copland to R. G. Casey, 19 August 1935, UMA FECC, Box 32.
127 By 1934, Casey was, in effect, Federal Treasurer with Lyons having not set foot inside the Treasury building in the past 18 months except once while dodging pressmen.
128 R. G. Casey to S. M. Bruce, 9 December 1934, AA, A 1421/1.
to the general economic ‘tone’ of the community and it would diminish only when ‘things improve’. After discussing the two main ways of increasing employment—that is, stimulating private enterprise and maintaining, if not increasing, loan-financed public works—Casey came to the conclusion that ‘no major line of attack upon unemployment had come to light’ (Cain 1988a:13–14). Even the last-ditch methods of ‘the most radical experimentalist’ approach of injecting a ‘shot’ of more public works expenditure into the economy, à la Giblin, would be inflationary and jeopardise the jobs of the majority. Casey also contended that more funds could not be found over the amount expended on public works. He concluded that the present ensemble of policies continue with cheap money enshrined by making the Commonwealth Bank go easy on funding. This position was, in retrospect, not much of an advance on the UAP’s earlier position on unemployment, as enunciated by Latham, who felt that the problem was best tackled by tax relief rather than commissioning more public works.129

In subsequent memoranda, Casey turned his attention to the matter of Australian governments’ finance. The deficits of the state governments and the bank board’s refusal to accommodate them were, together with the aggregate public works program, putting pressure on the local capital market. After considering the alternative of an open market for bills, which Casey initially favoured, he swung around to a position whereby if the states cut their deficits the bank board would relax its strictures about financing deficits.130 That way the bank board would get its way without seeming to dictate to the states about their spending levels. Rather, the limits of deficits and the public works programs would be ultimately determined by how willing the public was to lend. Casey feared that these loan requirements had a tendency to outstrip the means to supply them. In this he was proved right, since the Commonwealth Bank, after representations from the Loan Council, relented and allowed some Treasury bill financing of state deficits for 1934/35.131 Casey told cabinet that the government should place pressure on the states to trim their public work programs, which had soared from £6 million in 1931/32 to £22 million by 1934/35. Otherwise the total public sector borrowing would amount to £30 million for each of the next two years and this would be quite beyond the local market’s capacity to control. If it was unchecked, it would mean petitioning the Commonwealth Bank to allow further deficit finance with bills for 1936/37 and only a modicum of funding. Bruce praised Casey’s stance as ideally balanced between the ultra-expansionists and those who felt that all deficits and public works should be sourced from loan

129  J. Latham to E. A. Kemp, 18 February 1933, Latham Papers, NLA.
130  R. G. Casey Papers dealing with public finance, 15 November 1934, AA, CP503/1, Item 3.
finance. Casey was also not initially prepared to advocate the creation of an open market for bills, essentially because it would put the government offside with the trading banks.

In his November memorandum referred to earlier, Casey took the opportunity to reflect on the two schools of economic expansionism then in vogue. The Labor or Scullin line, which no economist supported, was critical of public works but in favour of the nationalisation of credit. The other school of expansionists followed the government line with its ensemble of policies including public works, cheap money and Treasury bills. This school believed it was ‘the proper function of governments’ to authorise public works until prices and private enterprise recovered. Casey, however, was not prepared to take up the cudgels in persuading the bank board to adopt an accommodating monetary policy, or even issuing more bills if the recovery faltered. He was grateful for what had already been achieved. When, in contrast, it came to considering restrictive monetary policy, Casey proved more amenable. Such was the prospect facing the country by the end of 1935.

A ‘sharp cleavage of economic opinion’: containing the economic expansion

After years of dealing with the economics of slump, by late 1935 Australian economists found themselves dealing with an economy in apparent semi-boom (Copland 1936:10). The delineation or ‘sharp cleavage of opinion’ between inside and outside economists over how to rectify the problem was informed by each camp’s theoretical premises (Copland and Janes 1936:xvi).

In March 1936, Casey wrote to Sir Maurice Hankey informing him of how he had been struggling for the past eight months with the Australian balance of payments and ‘at long last have come to some sort of conclusion in my own mind about it all’. The nub of the problem was that, in the absence of overseas borrowing, Australia had to generate an export surplus to pay for her imports and maintain debt payments to London. With her appetite for imports resurging, and export prices still 30 per cent below their pre-depression peak, Casey was hard pressed coming up with a solution other than the traditional respite of depreciation or tariffs, both of which he loathed. Buttressed by advice from Treasury, Casey told Hankey that ‘[y]ou can depreciate your currency as easily

as kiss your hand, but it is almost beyond mortal power to appreciate it again. If your exchange rate slips, it apparently slips for good.' Bruce added to Casey’s fears about devaluation, warning him how dimly London would see it.

The other alternative was to stage manage an economic slowdown. Put another way, the crux of Australia’s difficulty was that expansionary policy only applied internally; nothing could be done to lift the prices and volume of exports. Eventually Casey stumbled on a long-term structural solution to the perennial problem of the external account. It was an idea that Giblin and other economists had come to six years earlier—namely, that the country attract British industrial interests to manufacture locally behind a tariff wall. Casey said the benefit to Britain was that Australia, at last, would neither have to depreciate nor default on her debts (Ross 1995:190). In the meantime, however, some adjustment of macropolicy was imperative. The economic circumstances that brought Casey to this revelation are worth examining since it was, in a sense, redolent of the crisis of 1931.

A cabinet submission, written by Casey in March 1936, detailed not just the economic policy dilemma facing Australia but the circumstances leading up to it. Since mid-1935, the economy had been recovering too fast and the key issue was whether economic activity should be checked to protect the external account (Copland and Janes 1936:i–vii). Merchandise imports had soared from £44 million in 1931 to almost £83 million by 1935/36. The level of London funds was comparatively low compared with previous years. Domestically, the rate of interest was tending to rise at a time when state governments were still intent on securing more central bank credit. The increase in public spending, especially by the states, provoked fears of a rerun of the 1920s. It left Casey horrified at the prospect of devaluation as the London funds dwindled due to imports and a speculative outflow of capital. Puzzled by the dilemma, Casey noted ‘[i]t is a queer thing that you cannot embrace a liberal domestic policy without having to accept the probability of unpleasant counter-reactions arising directly from that policy’. Countries with debts and a trade-dependent profile could also not expand the domestic level of activity without due regard for the exchange rate (Cain 1983).

The advice from the official economic advisers—Melville, Smithies and Wilson—was to curb domestic expenditure before disaster befell Australia. Systemically, investment was racing ahead of savings caused by monetary overextension;

135 Ibid. The advice came from a briefing from Smithies. He in fact added that there was also a tendency for the exchange rate to have recurring depreciations a la Niemeyer and Gregory (in 1930) (Cain 1988a:26).
136 S. M. Bruce to R. G. Casey, 14 September 1935, AA, A11857, The Treasury Secretary Papers 1934–37, Correspondence with S. M. Bruce.
137 R. G. Casey to M. Hankey, 30 March 1936, Hankey Papers, Churchill College.
138 R. G. Casey to S. M. Bruce, 2 September 1935, AA, CP503/1, Item Bundle 3.
if unchecked, this would result not just in devaluation but in a boom–bust. Against this lay the members of the expansionist camp, who felt that it would be premature to deflate the economy just because of pressures on the external account (Cain 1988a:20–1). They contended that the point had not yet been reached when public loan expenditure should be wound back. Besides Giblin and Copland and their Sydney counterparts, Mills and Walker, the expansionist school had political, even financial muscle, with the respective support of Stevens and Davidson. Against them ranged the trading banks, the Commonwealth Bank, the Federal Treasury and, of course, the federal government.

Lyons, who had been abroad for the past eight months, was aghast at the prospect of higher rates as it would signify not just the end of the recovery but a resort to deflation. One response was to place his old economic adviser, Giblin, on the Commonwealth Bank Board in a bid to defuse the problem. It would also raise the technical level of policy deliberation within the board with Giblin, a monetary specialist, peppering his colleagues with statistical data and a review of economic conditions—something Gibson would never have allowed in his heyday (Millmow 2000:61). Giblin was probably as surprised as anyone with his appointment since months earlier he had given another address at the Shillings Club warning of dire consequences if public spending contracted (Millmow 2000). He followed this up with a memorandum full of grim foreboding if the Commonwealth Bank fell craven ‘to the primitive deflationary instincts of the less intelligent sections of the business world’.139 With unemployment still at 18 per cent, Australia could fall into recession if deflationary policies were pursued. To forestall this, and having to undergo what he now considered the futility of cost cutting, Giblin proposed public works with some monetary accommodation to prevent interest rates rising.

Copland detected that Giblin’s appointment had to do with Lyons’ fear that the banks would—with Casey apparently seduced by the virtues of deflation—take the opportunity to increase their rates.140 Adverse publicity of that spectre came when the Melbourne Herald ran an editorial querying the wisdom of raising interest rates with unemployment still widespread. The same newspaper had warmly welcomed Giblin’s appointment to the bank board.141 Copland believed his contacts with Sir Keith Murdoch, and his editorial staff, had pre-empted—so far—the rise in interest rates. In this instance, he reminded Brigden: ‘There is no doubt that occasional statements from one or other of us…

139 ‘The progress of recovery’, 1935, UMA FECC, Box 214.
140 D. B. Copland to J. Burton, 21 October 1935, UMA FECC, Box 30. The trading bank community, still unrepentantly dismissive of the worth of economists, was delighted that Copland was not the appointee to the board since he was perceived as ‘thick’ with Davidson and a ‘credit expansion man’ (G. Healy to E. Godward, 27 November 1935, D/O Correspondence, Bank of Australasia, ANZ Archive).
has a considerable influence at critical times.’

Since coming to Melbourne, Copland had assiduously built up relations with newspaper editors, especially Murdoch (Younger 2003:140–2). An overlooked factor in the influence and ideas of economists in this whole period was having powerful players interested in what enlightened economic policy could achieve.

Perplexed by the issue of whether it was possible to keep the recovery going without jeopardising the current account, Casey turned to his personal economic adviser. Wilson penned a long, philosophical letter, poignantly written from Chicago, outlining the two contending schools of economic thought about the Depression. While relaxed about the short-term debt, Wilson echoed Melville’s advice that extensive resort to public works would indeed result in a boom–bust scenario together with incipient devaluation. In Hayekian tones, Wilson spoke of the economy’s ‘natural and recuperative tendency’ being hamstrung by an ‘unfortunate combination of circumstances’ coupled with the endemic feature of cyclical instability. Given this, Wilson settled for policies that would keep industry profitable including tariff reform, low interest rates and keeping public works to ‘a reasonable level’. Cain (1988a:26) finds Wilson’s letter bereft of any awareness of what Keynes and Kahn were saying about the economy’s ability to deliver supply and was focused purely on monetary, not expenditure, flows.

At the same time, Copland, in a conversation with Smithies, argued for continuing the expansion on the premise that the exchange rate be flexible (Cain 1988a:19). Deploying Giblin’s multiplier, Copland was prepared to go as far as having employment return to normal levels and budgets brought into balance. Smithies took issue with this view (Cain 1988a:25). If anything, public works, taken too far, would leave the economy distorted with rising costs, inappropriate real wage levels and a bloated public sector. The purgative would be depreciation and, ultimately, deflation—the result expansionist economists had all along wished to avoid. Moreover, real wages would have to be adjusted downwards. Smithies (1936 would also cross swords with Walker on the matter of wage cuts.

As the London funds fell, Melville hurriedly organised an informal committee involving Mills, Copland, Giblin and Smithies to discuss what to do. Melville dismissed the idea that the central bank stand ready to inject liquidity into the

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142 D. B. Copland to J. B. Brigden, 28 November 1935, UMA FECC, Box 31.
143 Copland gave letters of introduction to Murdoch to several influential economists including Keynes for his visit to England in 1936. He described Murdoch as someone who ‘has given quite valuable assistance to the economists in Australia in their public work during the last six years…and has taken a very active interest in the economic policy of Australia over the past six or seven years’ (D. B. Copland to Prof. Daniel, 14 April 1936, UMA FECC, Box 44).
145 D. B. Copland to W. S. Robinson, 14 September 1935, UMA FECC, Box 37.
The Power of Economic Ideas

economy to allow unemployment to return to normal levels; instead, the role of monetary policy was to allow ‘voluntary’ savings and investment to find balance (Cain 1988a:22). Initially, Copland was sceptical of the Melville line that private investment would take up the slack created by cutting back on public loan expenditure. Robinson kept Keynes informed of the debate and would have also recycled the latter’s views to Copland.146 While the three academic economists were ardent expansionists and came to the September meeting armed with memoranda, a compromise was reached whereby it was agreed that only a moderate expansion of public spending was now deemed desirable in order to safeguard the external account (Cain 1988a:15–20).147 Devaluation was apparently ruled out. Keynes was happy to hear of it.148 A week earlier, Keynes had told Robinson that after reading memoranda on the matter he remained unconvinced that devaluation was desirable. Keynes volunteered the view that the ‘relief’ from devaluation was exaggerated, but more importantly, frequent resort to this expedient, even discussion of it, would establish a precedent that capital movements could exploit, resulting, therefore, in ‘an indefinite progression of devaluation’.149

Besides this insight from afar, Cain (1988a:18–21) has adroitly covered the reasons why the expansionists did a remarkable volte-face in their position. Melville exploited a ‘hesitance’ within his opponents and persuaded, perhaps reminded, them of the immediate past. Probably apprised of Keynes’s disposition, Copland lost interest in devaluation. This was besides the fact that the Commonwealth Bank would do all in its powers to preserve the rate. In explaining Walker’s conversion to the official line, Cain (1988a:21) speculates that he was perhaps satisfied that public expenditure be tapered as unemployment drew closer to its pre-depression rate. Walker had not timidly fallen prey to the monetary overinvestment thesis that an unchecked boom will lead to bust. Rather he was confident that the tapering-off process could be proportionate to the recovery in employment in the private sector provided there was also no sharp contraction in public spending.150 Nonetheless, it had not dawned on Walker, or his opponents, that a rising level of investment would generate more savings via a higher income level (Cain 1988a:23). Lastly, Walker was well aware of the negative business sentiment being sown by an inappropriately high level of public works.

Giblin’s view of things was only really revealed six months later when he issued a press statement or memorandum justifying the Commonwealth Bank Board’s decision to further dampen economic activity by raising interest rates in March

146 W. S. Robinson to J. M. Keynes, 8 October 1935, KPKC.
148 J. M. Keynes to W. S. Robinson, 22 October 1935, KPKC.
149 J. M. Keynes to W. S. Robinson, 16 October 1935, KPKC.
150 ‘Loan expenditure facilitates general recovery’, SMH, 12 February 1936.
1936.\textsuperscript{151} Australia, he said, was close to ‘normal’ unemployment and had to ‘mark time’ by slowing down the rate of expansion. This was the consequence, of course, of expanding faster than Australia’s trading partners and the need to protect her external account. Giblin’s statement, as we shall see, was a double-edged sword.

At the policy level, Casey invoked the authority of these ‘outside’ experts in warranting the cutback in public works that occurred in November. He went on to articulate his ideal of a ‘forward’ monetary policy holding that credit should not continue to the point where all the unemployed were absorbed but rather only until private investment picked up. Only when that process began was recovery assured. Pure expansionism, on the other hand, would merely end in an inflationary boom. This was a rebuttal of the Davidson–Stevens line. They had, with Copland’s help, been debating—later feuding—with Casey, alleging that the Commonwealth Bank had deliberately, and quite unnecessarily, engaged in monetary tightening to protect the London funds. This portended higher interest rates and renewed agitation to write down debts.\textsuperscript{152} Claude Janes told Smithies that the trading banks were restricting credit ‘to the point of curtailment’ and that they would soon be unable to accommodate overdraft requests unless relieving action was taken by the central bank.\textsuperscript{153} Davidson wrote to Casey warning him of an imminent rise in rates unless monetary stringency was eased.\textsuperscript{154} In an internal note to Sheehan, Casey, echoing the Reading interpretation of events, vented his anger at Davidson’s impertinence at blaming the Commonwealth Bank and ‘inferentially’ the government for the Wales’ liquidity problems. Casey blustered: ‘The business of the General Manager of a Bank is presumably to manage his Bank—not to direct the monetary policy of the country, nor to run the Commonwealth Bank.’\textsuperscript{155} Melville investigated the Wales’ liquidity problems and concluded that its embarrassment was due mostly to aggressive lending rather than monetary policy per se.\textsuperscript{156}

At first, Stevens contested Casey’s view that any check on imports, other than currency depreciation, would retard recovery. Should the need to curb imports be necessary it was best expedited by devaluation, not, as Casey favoured, by credit restriction.\textsuperscript{157} Consequently, when Casey’s memorandum was circulated, William Wentworth wrote an incisive critique of it. Apart from attacking Casey’s ‘childish view of the processes of savings and investment’, Wentworth argued that credit restriction inevitably raised the prospect of Australia defaulting on

\textsuperscript{151} Giblin sent Keynes a copy of the untitled memorandum dated 6 March 1936 (KPKC, L36-46).
\textsuperscript{152} A. C. Davidson to R. G. Casey, 14 August 1935, BNSW, GM 302.
\textsuperscript{153} C. Janes to A. Smithies, 16 September 1935, Janes Correspondence, BNSW, A53/451.
\textsuperscript{154} A. C. Davidson to R. G. Casey, 26 September 1935, AA, A11857.
\textsuperscript{156} C. Reading to R. G. Casey, 17 September 1935, AA, A 11857.
\textsuperscript{157} B. S. B. Stevens to R. G. Casey, 1 October 1935, UMA FECC, Box 37.
its foreign debts. The key criticism of the Casey memorandum was its failure to recognise the link between the London funds and the liquid resources of the trading banks.

Copland informed Stevens of the economists’ findings, advising that the premier be sympathetic to a general plan of ‘tapering off’ in expenditure, provided recovery and cheap money continued. The agreement also promised no funding operations together with the acceptance of an open market for bills. In a letter to Casey, Stevens flagged his qualified acceptance of the economists’ findings. The letter was accompanied by a lengthy dissection of the memorandum that he, in concert with Wentworth, had written. Its main concern was that ‘because recovery is rapid, it therefore has elements of instability in it’. Stevens traced this sentiment to the economists’ supposition that ‘[i]t was boom times which precipitated the depression, and that, if we are to avoid a future depression, we must avoid boom times’. Instead of extrapolating from past experience, Stevens suggested that perhaps a rapid recovery might just be as ‘sounder’ as a slow one. Nonetheless, despite the tensions between the camps, Stevens was happy to fall into line with Lyons, Reading and Casey that recovery continue, albeit at a slower tempo.

Copland felt confident that the Commonwealth Bank would be committed to a more sane policy than hitherto. He told the Cambridge economist Austin Robinson that getting state governments to take a more moderate view of their position would be ‘the chief difficulty’ in tapering off expenditure. The odd man out was Davidson. On hearing of Copland’s U-turn on monetary policy, Davidson felt that Copland had again compromised his integrity. In truth, Copland was, as he put it, carrying out a ‘Dr Jekyll and Mr Hyde trick of establishing a _via media_ between the Commonwealth Bank and Stevens’. Davidson’s idea of a ‘forward’ policy was one that allowed more monetary liquidity even if that spelt depreciation (Cain 1988a:31). A sense of animus between the Treasurer and Davidson had already set in since the former had, in his memorandum and elsewhere, basically accused the Wales of being the _force majeure_ behind the upward pressure on rates. The Wales’ bond selling had also frustrated the Commonwealth Bank’s ability to curb liquidity. The fact that Casey saw Stevens as a mooted challenger to his position only added to the animosity since Davidson had been in cahoots with the premier. As Casey intimated to Bruce, with Stevens ‘breaking his neck’ to get into federal politics,

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158 ‘First criticisms of memorandum’, n.d., UMA FECC, Box 32.
159 D. B. Copland to B. S. B. Stevens, 10 October 1935, UMA FECC, Box 37.
160 B. S. B. Stevens to R. G. Casey, 12 October 1935, AA, CP503/1, Item Bundle 3.
161 Comments by B. S. B. Stevens on memorandum, 12 October 1935, AA, CP 503/1, Item Bundle 3, 29A.
162 D. B. Copland to W. S. Robinson, 21 October 1935, UMA FECC, Box 37.
163 D. B. Copland to E. A. G. Robinson, 8 October 1935, UMA FECC, Box 37.
164 A. C. Davidson to D. B. Copland, 8 October 1935, UMA FECC, Box 33.
165 D. B. Copland to W. S. Robinson, 7 October 1935, UMA FECC, Box 37.
it would be a ‘national calamity’ if he succeeded since his mind ‘does not work as yours and mine does’. As for Davidson, Casey felt that he palpably suffered from an ‘aggressive form of personal megalomania’.

A reluctant Bank of England was brought into the problem of Australia’s overexpansion because Casey and Reading wanted to shore up Australia’s foreign reserves to pre-empt a capital flight problem. In couching his argument, Reading told Norman that ‘active deflation’ as distinct from funding was ‘politically impossible’. A brief, written by Melville, put the view that a loan, in tandem with comprehensive credit restriction at home, would be the best means of addressing the problem rather than resorting to devaluation or trade restrictions. Only that resort would stamp out the ‘strong inflationary sentiment’ in Australia. A memorandum written by Bank of England officers concluded that, ultimately, the remedy lay with Australia. If she adhered to restraint at home she would probably not need the assistance being sought. Liquidity was mopped up by selling Treasury bills at a higher interest rate. Casey warned Bruce that if the representations to London failed trade restrictions were in the offing. A loan would, moreover, facilitate a more sophisticated method of credit restraint to be put in place with trading banks’ cooperation.

Norman lectured Bruce that a debtor nation must always ensure a trade surplus to meet its external obligations before assuring him that ‘[y]ou can rely upon me that I will not let the Commonwealth Bank down’. Meanwhile Giblin, in the memorandum explaining the Commonwealth Bank’s decision to raise rates, refloated the devaluation option, not just to shore up the London funds, but to allow more domestic expansion. He pursued the matter with Keynes and Bruce. Until now, Giblin reflected, Australian economic policy had rejected the ‘suicide club of competitive devaluation or sadistic deflation’, settling for something more moderate. Devaluation should be undertaken only when the business sector was resigned to some check on the rate of domestic expansion. This was necessary because of the absence of an effective apparatus to control trading banks’ lending, together with the Commonwealth Bank’s ineffective control over the London funds. Like other economists, Giblin wanted a more effective mechanism that would insulate the lending activity of the banks when

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166 R. G. Casey to S. M. Bruce, 17 February 1936, AA, A 1421/3.
167 R. G. Casey to S. M. Bruce, 30 September 1935, AA, A1421/2.
168 C. Reading to Sir M. Norman, 2 December 1935, Cablegram, BE, OV181/7.
171 R. G. Casey to S. M. Bruce, 22 February 1936, Cablegram, AA, A 1421/3.
172 S. M. Bruce to R. G. Casey, 12 March 1936, AA, A1421/3.
173 RBA, GLG-43-1.
174 L. F. Giblin to S. M. Bruce, 30 March 1936, AA, M104/4; L. F. Giblin to J. M. Keynes, 10 March 1936, KPKC.
the London funds fell. Keynes replied that with Australia’s London balances falling away she did indeed face pressures for devaluation though he was ‘sceptical’ there were adequate grounds. He suggested Australia consider capital controls to protect the pegged rate.\(^{175}\)

Given a copy of Giblin’s memorandum, Melville rejected this advice arguing that funding, or passive deflation, was still the best means to check the boom. Devaluation, moreover, would not work because of international retaliation and the likelihood of rising wages and prices at home.\(^{176}\) In his reply to Giblin, Bruce, reflecting London opinion, warned that were Australia to ‘break the truce’ on exchange rate pegs it would result in a loss of international goodwill. It would, moreover, make difficult his task of loan conversions.\(^{177}\) Bruce also reminded Giblin that devaluation would impede the flow of British investment capital into Australia. In any case, all such deliberations were unnecessary since, first, the Bank of England agreed to make a loan to Australia to buttress its London funds. And second, revised figures for the balance of payments showed that the feared deterioration in Australia’s trading performance did not materialise.\(^{178}\) Meanwhile, concern about the level of London funds abated a little with export prices improving amid new forecasts that the external account would now balance for 1935/36 (Copland 1936:18). Giblin was thereupon content to settle for a stable rate unless there was a change in economic fundamentals.\(^{179}\)

The delicate negotiations with London had little impact on Stevens, who gave Lyons a copy of his economic plan for ‘militant expansionism’. He asked the Prime Minister, who had been warmly received in London as Australia’s saviour, to petition Norman to double the level of loan assistance so that domestic economic activity would not have to be checked. Further adding to Casey’s consternation was the rise in interest rates in March 1936 that signified not just the end of cheap money, but a political controversy. There was a witch-hunt to find the party responsible. Davidson’s bank, hitherto the champion of low interest rates, had pushed up deposit interest rates by 0.5 per cent in response to, and in conformity with, the Commonwealth Bank’s experimental selling of Treasury bills in the open market. While Stevens publicly labelled the Commonwealth Bank’s action ‘extraordinary’, Davidson sheeted the blame for the rise in rates squarely to the Commonwealth Bank Board.\(^{180}\) The matter embroiled Lyons and Casey in a controversy about who ran monetary policy, with the government uninformed about the bank board’s initiative.\(^{181}\) Lyons lamely issued a statement

\(^{175}\) J. M. Keynes to L. F. Giblin, 22 April 1936, KPKC, L/36/46-7.
\(^{176}\) L. G. Melville to L. F. Giblin, 3 April 1936, AA, M104/3.
\(^{177}\) S. M. Bruce to R. G. Casey, 14 September 1935, AA, AA1968/391, Item 50.
\(^{178}\) R. G. Casey to S. M. Bruce, 8 April 1936, AA, A1421/1.
\(^{179}\) L. F. Giblin to S. M. Bruce, 4 August 1936, RBA, GLG 43-1.
\(^{180}\) ‘Interest rates and Treasury bills: Mr Stevens’ comment’, SMH, 19 March 1936.
\(^{181}\) ‘Monetary policy: bank board’s action’, SMH, 7 March 1936.
saying that his government was not responsible for the rise in interest rates.\textsuperscript{182} Apart from patently demonstrating the independence of the bank board, it also showed a manifest lack of coordination between it, the Loan Council and Treasury.

Casey, invoking Copland, admitted that the rise in rates was not due to selling Treasury bills per se, but rather the increasing tempo of economic activity.\textsuperscript{183} Behind the scenes, a flustered Casey confessed to Bruce that ‘[i]f there was more than one A. C. Davidson in the banking system’ he would come close to being an advocate for bank nationalisation.\textsuperscript{184} Casey had, in fact, already come to that conclusion, following the Wales’ precipitate actions in 1935 of selling its bills on the market to achieve more liquidity, which put pressure on interest rates. Davidson’s encore actions in March 1936, with the Royal Commission on Banking and Monetary Systems in session, could not, therefore, have been more ill timed. As the General Manager of the National Bank, L. J. McConnan, put it: ‘The action of the Wales has done more in a month to bring about some form of control of the trading banks than the yelping of the Socialistic Douglas Creditites and the like over the past years.’\textsuperscript{185}

McConnan’s gumption was correct: Casey intimated to a banker that Davidson’s precipitate actions meant that the banks would have to be ‘fettered’ in the near future.\textsuperscript{186} Moreover, the government’s visibly limp response to the Commonwealth Bank’s actions meant that the issue of ultimate control over monetary policy would have to be reconsidered.

The political debate over monetary policy, especially interest rates, would flare again and involve the same combatants. Casey was apprehensive about what mischief Stevens would get up to once he reached London on official business.\textsuperscript{187} One appointment was with Keynes, which Copland had helped to arrange (Clark 1983:38).\textsuperscript{188} Copland, in fact, felt that Stevens was capable enough to give a paper before the Political Economy Club. He told Keynes that no other Australian politician had practised expansionist economics so consistently or ‘taken economists so much to his heart’ as Stevens had.\textsuperscript{189} Keynes did not accede

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\item[182] ‘Treasury bills: Mr Lyons’ statement’, SMH, 5 May 1936.
\item[183] "Treasury bills: Mr Lyons' statement", SMH, 5 May 1936.
\item[184] R. G. Casey to S. M. Bruce, 30 March 1936, AA, A1421/3.
\item[185] L. J. McConnan to Lord Inverforth, 1 April 1936, Mc Connan Papers, National Bank Archive.
\item[186] R. G. Casey to S. M. Bruce, 30 March 1936, AA, A1421/3.
\item[188] P. Liesching to Sir H. Bantiebee, 14 April 1936, BE, OV13/4.
\item[189] D. B. Copland to B. S. B. Stevens, 29 February 1936, UMA FECC, Box 47.
\end{itemize}
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to this request but he did meet Stevens in Cambridge and found him ‘a very sound man’.\(^{190}\) Colin Clark, who attended the meeting, recalled that Keynes was ‘interested in this very earthy politician’ (McFarlane and Healey 1990:7).

In a confidential memorandum drawn up for Stevens, Copland, using themes from an important address, outlined a program of progressive social legislation that the premier could use for his possible entry into federal politics.\(^{191}\) Copland kept Stevens informed about political developments and the agenda facing Lyons and his cabinet:

> Nothing ambitious is being done or contemplated in making policy, and the Government is sure to lose ground because it is not tackling problems with any imagination. More and more it becomes clear that the real problems that will confront us during the next five years are national insurance, the 40-hour week, increased provision for social services, the adjustment of Commonwealth and State financial relations, and the improvement of money wages.\(^{192}\)

Contrary to the prevailing views, Australian economists were engaged in considerable rethinking of their theoretical positions about macroeconomic matters during the mid-1930s. They recorded some success in the funding debate but bold and radical policy initiatives such as the proto-Keynesian ‘Sydney plan’ were stillborn, partly because economic recovery made the federal government complacent. Events were turning, however, in the economists’ favour especially the forthcoming inquiry into banking and monetary policy.

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190 J. M. Keynes to L. Lopokova, 18 May 1936, KPKC, PP/45/190/7/126.
192 D. B. Copland to B. S. B. Stevens, 11 June 1936, UMA FECC, Box 47.