9. Australia, 1936–1938: the nascent Keynesian state?

Introduction

The two grand themes of this monograph are, to repeat, the influence of economists’ ideas on Australian public policy in the 1930s and whether their assimilation of Keynesian economics made any imprint on official policy. In this, and the following chapter, these two themes coalesce as we inquire into whether there is any indication of what might be called a ‘Keynesian revolution’ in Australian economic policy before and just after the outbreak of World War II. It is not an unrealistic prospect since Australian economists had already assumed a position of considerable influence by the late 1930s. On the other hand, the growth of knowledge in economics, and its infiltration into the corridors of power, is rarely linear and orderly (Coats 1992:426).

In the history of economic ideas it was the case that most capitalist countries adopted—more by accident than design—Keynesianism in order to effectively wage war. Keynes had despaired of seeing the central policy contribution of the General Theory implemented except under dire emergency. Total war would allow the scale of public sector expenditure to give life to his ‘grand experiment’ in economic coordination (Winch 1969:266). The British historian Patrick Renshaw (1999:359), however, has suggested that war was hardly ‘a true test bed for Keynesian economics’. That is, mobilisation, conscription, rationing and planning might be the stuff of war but they do not intrinsically amount to a conversion to Keynesian economics per se. Cornish (1992) has argued along similar lines in examining the Australian experience. Other tests of a conversion to Keynesianism might include assimilating Keynes’s theoretical constructs, language and, of course, his policy precepts.

This and the following chapter will argue that the lack of a Keynesian consciousness at the higher levels of the Lyons government meant that, even with a prosperous economy, it still had to confront a daunting policy dilemma between financing civilian compared with war needs (Ross 1995). Resolving that dilemma not only jeopardised the government’s supply-side economic strategy of low interest rates and low taxes, it thrust it into political turbulence. The
federal government discovered to its dismay that the ‘recovery of prosperity’ seemed to be the signal for more, not less, controversy over monetary policy especially central bank credit.\(^1\)

While Gilbert (1973) has claimed that the Commonwealth Bank Board, in the late 1930s, exuded a Keynesian vision in its monetary policy settings, the conventional view was that official economic policy was still decidedly pre-Keynesian until the outbreak of war. In contrast with official policy, Melville has claimed that most of the Australian economists had, more or less, adopted a Keynesian outlook by 1939—a view shared by Downing (1972). This division in outlook between economists and policymakers will be examined against the backdrop of a number of episodes. While some, like Brigden and Melville, held positions of some influence, they could not penetrate through the philosophical mind-set gripping policymakers and office-holders in Canberra. To be fair, the constitutional constraints meant that the Commonwealth government was ill suited to undertake the scale of spending expansionists urged on it. By the same token, however, state governments could embark, with Loan Council approval, on some modest attempts at pump priming. In that regard, three state premiers continued to criticise the prevailing policy of restrictive expansion. Keynesian voices, therefore, were not confined to the cloisters. Moreover, the Arbitration Court, guided by academic expertise, issued a national wages decision seemingly imbued with Keynesian logic.

This period was not one therefore of repose but one punctuated by a difficult policy choice. Yet, remarkably, it is a period of Australia’s economic and political history often overlooked in the literature, with more attention given to the threatening international environment and the country’s response to it. While the threat of war, together with a leadership crisis, overshadowed domestic politics, there were still discernible controversies over the direction and bearing of Commonwealth economic policy. Of particular concern was the recurrent matter of managing the economic boom that gave Australia near full employment in 1937/38. Issues, too, such as the National Insurance Scheme, preparing legislation from the findings of the Royal Commission on Money and Banking and defence preparedness preoccupied policymakers. The period would end with the economists, as in 1931, being ‘called in’ to help with the war effort and imparting Keynes’s precepts into budgetary policy in late 1939. This was some time before Britain did likewise with Kingsley Wood’s wartime budget of 1941.

While the march of events swung in the economists’ favour, it was a struggle to have their services recognised by the federal government. There was also the

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1 This observation was made in a speech prepared for Casey by Treasury officials in November 1938 (Treasury Secretary Papers, AA, A11857/1).
problem of the public perception of economics. An *Age* editorial, for instance, had the temerity to lambast the profession for its opaqueness, stating that it had delivered a ‘singularly meagre service’ to the public good. It was ironic that three of Australia’s most powerful voices railing against the timid economic policies of the Lyons government would find their reputations and authority diminished by 1939. Davidson was undermined by a new manager who had the Wales’ board ‘clip his wings’ with his beloved kindergarten of economists ‘scattered to the winds’ (Randerson 1953:51). Premier Stevens, openly regarded as a Keynesian by at least one economist, was still pitching to become the next Federal Treasurer. He was soon, alas, to be toppled from power, ironically, on the grounds of being unable to balance New South Wales’ budget (McCarthy 1979:155). Copland, too, would suffer a humiliating rebuff in his aspirations to become Vice-Chancellor of Melbourne University. Yet it was these three figures who gave the Lyons government a hard time in 1936–37 over its monetary policy settings.

### Managing the boom

The remarkable thing about 1937 was how the internally generated upswing in economic activity showed little sign of abatement. Private capital expenditure, rather than government spending, led the recovery (Brigden 1938:1). It placed pressure on interest rates, with the local money market ‘being milked dry’. Since 1931, construction had increased sixfold and iron and steel production fourfold, while imports, mostly of capital goods, trebled. The last was matched by a corresponding rise in export revenue along with an infusion of foreign investment meaning that the London funds were augmented considerably. Unemployment fell below the pre-depression level of 10 per cent. Giblin wondered just how long the rate of expansion could continue. He noted how it was due more to internal factors than exports, though any economic expansion was ultimately circumscribed by the amount of London funds. Nonetheless, the recovery was almost in defiance of the policy maxim of ensuring that the primary producer was given the utmost assistance. While prices were now healthy, export production had not risen markedly in volume terms since 1932–33.

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2 ‘The importance of being intelligible’, *The Age*, 15 August 1936. The attack was redolent of a mock trial held at the London School of Economics in 1933, when the British politician Robert Boothby, representing ‘the state of the popular mind’, accused economists of ‘conspiring to spread the mental fog’ and declared that they ‘were unintelligible’, that they had been proved wrong and, lastly, that they were always disagreeing with each other (Davis 1975).

3 L. Bury, TRC 121, 121/70, NLA, p. 8.

4 R. G. Casey to S. M. Bruce, 2 February 1937, Casey–Bruce Correspondence, AA, A1421.

5 ‘Australia in 1937’, UMA FECC, Box 220.
In a pre-election speech before the Australian Chamber of Manufactures in August 1937, Lyons deemed the rise in the manufacturing sector and manifested by the establishment of new factories ‘unprecedented in the industrial history of the Commonwealth’. Unlike Britain, moreover, all of Australia’s manufacturing output was for consumption, not armaments.

In a commentary in 1937, Copland reminded his readership of how economists had been instrumental in laying the plans for the manufacturing sector to develop and prosper. He stressed how changed international economic circumstances had given those plans further ambit. Manufacturing helped, too, in absorbing the unemployed and gave Australia a defensive capacity in terms of self-sufficiency. Manufacturing, Copland informed Fisher, allowed Australia to achieve full employment without lower public investment than hitherto. Indeed by the end of 1937, public works had returned to its traditional role of promoting economic development rather than as a tool for stabilisation (Brigden 1938:1). Copland felt Australia had little choice but to expand manufacturing following the widespread restrictions on international trade. Besides employing 500 000 workers, manufacturing added to the expansion of national income just as effectively as exports.

The height of the boom was 1937/38, with Australia reaching, and then surpassing, the pre-depression level of output—the remaining unemployment being attributable solely to structural factors. There was a very strong rise in loan advances from June 1937 to June 1938, with the Bank of New South Wales leading the charge. Moreover, the federal government recorded another budgetary surplus, while the accounts of all the state governments, bar drought-ridden Queensland and Western Australia, also showed a net surplus for the first time. This economic largesse induced Casey in the 1937/38 Federal Budget to fully restore the pension and to embark on an ambitious scheme of national insurance. These developments were meant to answer criticism of the government’s lack of constructive legislation. The government also did not oppose the trade unions’ submission before the Arbitration Court for a wage rise premised on the gathering prosperity. Casey also had to increase the outlays on defence spending, some of which were financed by a loan from the Bank of England. The debate over Australian economic policy was reduced to the Labor Party trying to establish that it was it, not the UAP government, which had put the Premiers’ Plan in place. Not to be outdone, the UAP, in its 1937 federal election campaign, focused on what had been achieved in economic terms. Bruce

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6 ‘Bright times had come again’, SMH, 20 August 1937.
7 ‘Expansion of manufactures in Australia: how it helped recovery’, Smith’s Weekly, 1937, UMA FECC, Box 56.
8 D. B. Copland to A. G. B. Fisher, 27 January 1939, UMA FECC, Box 77.
9 ‘Commodity prices and Australian exports’, Smith’s Weekly, December 1937, UMA FECC, Box 56.
10 ‘Budgets for 1938/39’, Economic Notes, no. 4 (July 1938).
told Lyons to stress how Australia had become ‘the social laboratory for the rest of the world’. Copland, however, felt that Australia had, in recent years, been overtaken in progressive social legislation by other countries—a view shared by the politically ambitious Stevens, whom Copland advised. This was one reason why Casey set out, almost single-handedly, to introduce national insurance after the election (Richards 1975:1)

The Stevens controversy

As Casey had predicted, when Stevens returned from Britain there was renewed agitation over the direction of economic policy. Armed with more justification for hastening economic expansion, Stevens wanted, and indeed conspired, to have semi-governmental authorities sidestep Loan Council restraints by borrowing directly from abroad. Both the federal government and the Commonwealth Bank already had some difficulty in restraining New South Wales, Tasmania and Queensland from wanting to borrow locally or offshore. Casey had become ‘fed up with the shouting match’ over the matter between the bank board and the premiers serving on the Loan Council. According to Melville, dissidents were targeting the Commonwealth Bank for allegedly falling under the influence of London and exceeding its powers with respect to other authorities.

The controversy started when Stevens penned three widely publicised articles focusing on Britain’s supposedly innovative policy of cheap money and insinuated that Australia, in contrast, had abandoned its expansionist policies. When Copland had visited Cambridge—‘his second home’—in late 1936, he would have noted Britain’s cheap money policy and could have played some part here in encouraging Stevens. Davidson was the other antagonist—certainly in Casey’s eyes. Stevens and Casey clashed over the issue in the Sydney press. The former was annoyed that Australian interest rates were likely to rise against world trends and that action by the Commonwealth Bank could pre-empt this if it were not so timid. Casey responded by stating that this was the ‘argument of an inflationist’ and that ‘[y]ou cannot get a quart out of a pint pot’. Stevens correctly replied that it was central bank action on liquidity and credit that ultimately ‘decides the capacity of the pot’. It was an interesting metaphor that captured the debate between the Keynesians and the Hayekians.

11 S. M. Bruce to J. Lyons, 9 July 1937, Miscellaneous Correspondence, AA, M104/5/1.
12 ‘Immediate political policy-program for the Commonwealth’, 4 June 1937, UMA FECC, Box 55.
13 R. G. Casey to S. M. Bruce, 6 February 1937, Casey–Bruce Correspondence, AA, A 1421.
14 L. G. Melville to G. E. Jackson, 8 February 1937, BE, OV13/4.
15 SMH, 18 November 1936, 19 November 1936, 20 November 1936.
16 ‘Notes of discussions in England’, 12 November 1936, UMA FECC, Box 43.
17 SMH, 12 November 1936.
The Commonwealth Bank and Casey, were, as always, extremely sensitive to charges that the bank was following a deflationary policy. Casey went to the length of asking the former Treasury official, S. G. MacFarlane, now Official Secretary and Financial Adviser to Bruce at Australia House, to prepare a brief repudiating Stevens’ argument that Britain was practising a cheap money policy. He, in turn, approached the Bank of England to help repudiate Stevens’ claims.\(^{18}\) So seriously did Casey consider the matter that he prepared a cabinet memorandum on monetary policy repudiating the legitimacy of Stevens’ claims. Apart from stating that the cabinet was satisfied with the current arrangements with the Commonwealth Bank, there was a further decree opposing new borrowing in London for public works. Further, the federal government was to attempt to vacate the local loan market as soon as possible. It was, however, to continue to encourage the migration of capital to Australia. Stevens’ idea of pumping more credit into the economy would, in Casey’s eyes, see it ‘spill out in London’.\(^{19}\)

Reddaway also came to the Commonwealth Bank’s defence by a forceful rebuttal of Stevens’ argument for more credit-based finance.\(^{20}\) Stressing that he, too, was a ‘whole-hearted believer’ in economic expansion, Reddaway stated that the Australian economy did not need a stimulus, which, if it occurred, would certainly spell devaluation and, therefore, damage the continuance of capital flows. Much of the rise in manufacturing industry was underpinned by this investment. In his own three-article riposte to Stevens, Reddaway pointed out that comparing Australia’s monetary outcomes with Britain’s was wrong-headed since the latter was a creditor nation and could expand the money supply without fear of devaluation. Reddaway expressed bemusement that Stevens was upholding the timid economic policies of the Chamberlain government in stark contrast with the relatively enlightened economic policies instigated by Australia.\(^{21}\) Having, as we shall see, just played a part in altering Australian wage levels, one could see Reddaway’s point. The Englishman did concede that low interest rates had their place in maintaining economic momentum but the main lesson Australia could draw from Britain was its establishment of efficient labour exchanges.\(^{22}\)

Stevens also seemed quite unaware of just how dimly the Bank of England would regard his proposals. One of Stevens’ articles, for instance, pushed the case for more public expenditure with another article visualising overseas borrowing as the means to facilitate it. This idea would have horrified the Bank

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\(^{18}\) Memorandum by Kershaw, 30 November 1936, BE, G1/287.
\(^{19}\) ‘Monetary policy: cabinet memorandum’, by the Treasurer, 6 December 1936, AA, A6006, microfilm, p. 21.
\(^{20}\) SMH, 28 November 1936.
\(^{21}\) ‘A contrast: Australia’s monetary policy’, SMH, 27 November 1937.
\(^{22}\) ‘Australia’s monetary policy’, SMH, 30 November 1936.
of England, including R. N. Kershaw and G. E. Jackson, who, in their secret visit to Australia in 1936, briefed cabinet ministers over the matter of renewed borrowing from London. They also cautioned their hosts that renewed borrowing by Australia might undermine her credibility unless the loan was put to remunerative ends. Kershaw took the opportunity to pour cold water over Casey’s idea of establishing more manufacturing industries in Australia. He warned Casey that it was not a medium-term solution and that it was still ‘possible to become inflated even in a closed economy’. With the prospect of active deflation ‘politically impossible’ with a federal election due, Kershaw felt a better way to solve Australia’s recurrent external account problem was to develop better means of monetary control. That idea would not become part of the economic policy machinery for some time. As for Stevens, his crusade for more expansionism was far from over.

Copland and ‘the coming boom’

For the economists, a booming economy spelt just as much of a challenge as did depression. The preconception held by most economists at the time, even Keynes, was that a bust usually followed a boom. Giblin had already gathered notes in January 1937 ominously entitled ‘The next depression’, precisely because he and his colleagues were concerned by that prospect. Much of his note taking sprang from a lecture given by Keynes at the London School of Economics. Giblin deduced that, hitherto, there had been no ‘obvious, cut and dried’ technique of checking a boom without precipitating a slump. Keynes wanted to devise the means by which it might be possible to do so. For Britain, this would involve a ‘rightly distributed’ aggregate demand, increasing taxes and restricting credit. Britain’s unemployment rate at the time was 12 per cent. Keynes felt that using high interest rates to temper a boom was unnecessary (Keynes 1936:323). It also would not stamp out speculative behaviour. Credit rationing was preferable. Keynes, in fact, suggested that the remedy for a boom was to persist with low rates. Another lesson from Keynes was that the longer the life of the boom, the greater the time to prepare the economy for the bust. The trick of economic policy was to avoid this by keeping the economy in semi-boom.

In the Australian context, the problem was compounded, in Copland’s estimation, by the forecast that export prices would reach the heights they had attained in 1928. Fixated by the problem, Copland drew up a memorandum

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23 15 April 1936, BE, OV13/4.
25 RBA, GLG-43-1.
26 Telegram from D. B. Copland to B. S. B. Stevens, 11 November 1936, UMA FECC, Box 55.
discussing policy responses to it.  

He and fellow colleagues met in Melbourne over a few days in March 1937 to discuss expedients that might be adopted by the authorities. Interestingly, the unofficial meeting was held immediately after the Commonwealth Bank Board meeting. The timing was not accidental; Reading had specifically requested it. Melville believed the arrangement ‘would be a useful precedent’.  

The gathering of ‘concentrated wisdom’, as Copland put it, included Melville, Giblin, Coombs, Reddaway, Mills and Hytten. Melville, whose views on policy had usually been discordant with those of his colleagues, reported that ‘[t]here was a remarkable unanimity of opinion about practical measures although there were some differences of opinion on matters of theory’. The discussion was expressed not in terms of monetary aggregates but in wording almost akin to aggregate demand.  

One section of the memorandum, entitled ‘Mr Keynes and Australian policy’, envisaged what Keynes might recommend for Australia, which was at about the same stage of the economic cycle as Britain. The operative strategy agreed on was that the general aim of policy should be to conserve public works projects to help cushion the economy against the inevitable downturn. It entailed postponing public works with a firm promise to restart them when private investment spending turned down; in short, the tap of public works was now an essential part of stabilisation policy. The economists also favoured some funding of Treasury bills. Lastly, they aimed for a £70–80 million levelling of London funds to forestall any fears of devaluation. In contrast with Keynes, the Australian economists suggested that another way to moderate the boom was to increase award wages (Cain 1988a:14). This was to prove, as we shall see, very prescient.  

For the first time, even private bankers found the cautionary deliberations of the economists tolerable though Godward could not resist a jibe: ‘What an opportunity for a wholesale destruction of the pest! But…I agree with the conclusions arrived at.’ Bank of England officials, too, were ‘staggered’ at the unanimous nature of the economists’ meeting, as they ‘seemed rather impressed by the strength of the expansionist folk in Australia’.  

The economic situation was complicated by the fact that the government had shortly to go before the polls. Copland speculated that if the Lyons government

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27 D. B. Copland to C. Janes, 24 February 1937, UMA FECC, Box 53.  
28 L. G. Melville to L. F. Giblin, 4 February 1937, Giblin Collection, UMA FECC, 92/141, Box 2 K-T.  
29 D. B. Copland to C. Janes, 24 February 1937, UMA FECC, Box 53.  
30 L. G. Melville to A. H. Lewis, 9 March 1937, Melville Papers, NLA.  
31 ‘Confidential: a review of Australian economic conditions’, March 1937, Brigden Papers, NLA.  
32 E. Godward to G. Healy, 9 April 1937, Bank of Australasia, D/O Correspondence, ANZ Archive.  
33 A. H. Lewis to L. G. Melville, 2 April 1937, Melville Papers, NLA.
was returned ‘we may anticipate a rather interesting experiment on methods of controlling an expansionist movement’. On that prospect, Copland gave a lecture entitled ‘The coming boom’ before the annual meeting of the Victorian Branch of the Economic Society. Copland knew that what he would now have to say would be unfamiliar and invite hostility. He told Smithies that ‘after the lecture no one will be able to call me an inflationist’. In short, he was parting company with the militant expansionism of Stevens and Davidson and aligning himself with the official policy line. The switch in direction would have done him no harm in attracting University Council support in a bid to become the next Vice-Chancellor at Melbourne. It would also restore his reputation as one of Australia’s leading economists.

He sought solace in Keynes’s famous propensity to change his mind when things had changed; Copland asked Smithies, ‘Is it not said that a snake changes its skin seasonally? I think a good economist, not to be likened to a snake, should change his skin cyclically.’ Copland outlined the objectives of economic policy during boom conditions. They included maintaining cheap money and securing full employment at rising standards of living. To achieve this, the government had to reduce loan expenditure with the Commonwealth Bank mopping up excess liquidity by funding. Also there had to be some qualitative control over bank lending to control the rate of expansion in investment. In that context, Copland would welcome the Arbitration Court’s decision, a few months later, to increase the basic wage as consistent with the economists’ advice of moderating but not extinguishing expansion. The wage rise would distribute the prosperity and trigger more consumption. More importantly, it would dampen employers’ expectations of further profits. Copland felt that Australia now had only ‘residual unemployment’ and that the economy could have a boom with a higher rate of unemployment than it had in the 1920s.

In his lecture, Copland expressly wanted to expose ‘the folly of the argument that we prophesy a depression because we talk of a possible boom’. In this, he expressly failed. While he agreed with Janes that a boom need not necessarily be followed by a depression, Copland was pessimistic enough to think that ‘the avoidance of depression under modern conditions is about as far off as the settlement of international disputes’. He gamely predicted, therefore, a boom and depression within the next five years. His despair here sprang from economists being unable to convince bankers, businessmen and politicians about resolving the problem. Indeed by the end of 1937, with some slackening in

34 D. B. Copland to J. Sanderson, 1 June 1937, UMA FECC, Box 61.
35 D. B. Copland to A. Smithies, 22 April 1937, Economic Society of Australia Files, UMA FECC, Box 141.
36 Ibid.
38 D. B. Copland to C. Janes, 3 July 1937, UMA FECC, Box 53.
39 Ibid.
economic activity and export prices evident, Casey began speaking of a coming depression. To Melville, this was premature; his view was that ‘we should be ready for a depression without believing in its inevitability’.

Copland’s pessimism provoked a public reproach from Reddaway, who argued that a boom need not be followed by a depression. In the community, there was unwarranted pessimism because parallels were drawn with the situation in 1928–29 and what came after. Janes, too, informed Copland that his ‘John the Baptist’ sermonising was making people fearful of prosperity. This was hardly Copland’s intention; rather it was to control expansion so as to avoid the economy falling into a crisis. Davidson tried to counter the prosperous but unsettled business climate by asserting that Australia need not pass into another depression because of the ‘fear of prosperity’.

Things were not helped when the Cambridge statistician and economist Colin Clark, who had arrived to take up Copland’s offer of a visiting lectureship at Melbourne, predicted in a public lecture that Australia had reached her economic peak and a slowdown was now inevitable. Melville was annoyed at this prediction, telling a colleague that Clark ‘was talking us into depression’. Clark did qualify his remarks by stating that the decline would be mild and that, in any case, the authorities were aware enough to increase expenditure when things turned sour. In a bank circular at the time, Clark said that public sector spending in times of boom was likely to be more damaging than an excess of private spending. The sentiment was echoed by the editorial in the same circular warning that Australia needed to wind back public expenditure. Casey rebuked Clark’s prophecy, declaring that it was not time to ‘batten down the hatches’ because the economic storm was not yet upon Australia and ‘might not be on us as soon as Mr Clark assumed’.

Clark’s public lecture, with its emphasis on the purposefulness of fiscal policy, would have been music to the ears of Queensland Premier, Forgan Smith (Higgins 1989). It did not, however, impress the ardent expansionist Gifford, who, in a remarkable outburst, accused some of his colleagues of being economic jeremiahs. Gifford was annoyed that a ‘boom control’ policy, elements of which were apparent in Australia and the United States, drove down share prices.

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40 L. G. Melville to A. H. Lewis, 15 December 1937, Melville Papers, NLA.
41 C. Janes to D. B. Copland, 23 June 1937, UMA FECC, Box 53.
42 ‘Fear of prosperity’, SMH, 4 June 1937.
43 Melbourne Sun, 29 July 1937.
44 L. G. Melville to A. H. Lewis, 1 December 1937, NLA. When Clark went to see Melville to inquire about the likely rise in unemployment, the latter replied, ‘Well, Colin, this is your recession’ (Interview with the author).
45 ‘Signs of decline’, SMH, 26 November 1937.
47 ‘Forestalling the slump’, The Age, 24 September 1937.
and made business confidence precarious. The motivation behind this form of economic ‘wowserism’, Gifford held, was the fear that some sectors of the economy would overdevelop if the boom persisted. Consequently, the boom had to be checked because of the inherent imbalances in the economy. Doing this, however, would throw the economy back into depression. Forestalling that bleak scenario was the fact that Australian workers had received an officially sanctioned real wage rise—a matter to which we briefly turn.

The ‘Reddawage’

There has been much folklore created about the wage decision reached by the Arbitration Court in June 1937. This section briefly recounts the circumstances behind that finding, highlighting the role of the ‘Melbourne school’ in telling how this historic wage decision came about. With Downing’s help, Reddaway was appointed as the assessor of the wage case, launched by the trade unions, because on the surface, at least, he appeared to be independent and less celebrated than either Copland or Giblin (Reddaway 1995:7; Arndt 1976:282). Copland, of course, had achieved infamy with the trade unions by giving expert evidence in late 1930 that helped the Arbitration Court justify its decision to implement the emergency clause and cut wages in January 1931. Copland was unrepentant about it six years later.49 Copland also held that the Arbitration Court’s refusal to restore the level of the basic wage until 1933/34 aided the process of recovery (Groenewegen and McFarlane 1990:128). Now Copland told Stevens that ‘the next step’ in economic policy was to increase wages and improve the provision of social services as a means of making the economic system more tolerable.50 Reddaway’s submission reflected the wishes of most economists, bar Walker, who, in his evidence before the Royal Commission on Money and Banking, subscribed to Keynes’s view that the level of money wages should not be tampered with.51 In an earlier incarnation, Walker had opposed rescinding the 1931 emergency adjustment to wages before the Arbitration Court in 1934 because business expectations and business psychology were still too fragile (Louis and Turner 1968:89).

By 1937, economic conditions were, by all accounts, much better. Copland and Giblin discussed the submission Reddaway would put before the Full Bench of the Arbitration Court. Copland advised Reddaway, in his draft submission, that there was no need to refer to the views of other economists. It was a strange remark given what Melville had elsewhere said about the purgative benefit

48 ‘Trade booms: control may bring depression’, SMH, 7 December 1937.
49 D. B. Copland to A. Smithies, 19 May 1937, Economic Society Files, UMA FECC, Box 141.
50 ‘State of the economy’, Memorandum from D. B. Copland to B. S. B. Stevens, 14 January 1937, UMA FECC, Box 60.
of high wages.\textsuperscript{52} Copland suggested that the economic argument, advanced in 1930—that costs be shifted away from the export sector—could be reversed.\textsuperscript{53} Copland agreed with Reddaway’s submission that real wages be restored to the 1929 level though he went on to suggest a form of words: ‘In view, however, of the desirability of checking investment and encouraging consumption so that the present level of prosperity may be long lived, the case for raising wages a little above the 1929 level is very strong.’\textsuperscript{54} The idea, then, of attaching an increment to the award to restrain investment optimism to temper the boom was not strictly Reddaway’s, even if the subsequent award was christened ‘the Reddawage’.

In brief, three arguments were put forward to justify a higher real wage. First, there was greater productivity per capita. Second, there had been an increase in efficiency since firms were working close to capacity, meaning that overheads were now spread over a larger output. Lastly, there had been an increase in export prices. In short, there had been an increase in real national income greater than in proportion to the numbers employed. Following Copland’s lead, Reddaway argued that the real wage increase was justified not just on social justice grounds but on economic ones. Increasing real wages meant that capitalists’ profits would not remain inflated and thereby stem the capacity of ‘entrepreneurs to start superfluous enterprises’ (cited in Brown 1997:248). Instead, consumption would rise and underpin the profitability of recent investment spending. The Australian economy would have, therefore, a self-sustaining growth path. While Reddaway subsequently went on national radio to explain his submission, certain employer groups seethed about his ‘prosperity loading’.\textsuperscript{55} Reddaway was in the witness box for a whole day facing cross-examination by employers’ advocates. Reddaway recalled not just being protected by Justice Dethridge from some of the employers’ more inane questions but how he found his submission useful in coming to a determination.\textsuperscript{56} It resulted in the Arbitration Court restoring its ‘living wage’ maxim and also giving a prosperity loading to award wages.

Contrary to Colin Clark’s statement that Reddaway was the only economist prepared to give evidence on the subject of wages, it seems clear that Giblin worked behind the scenes to ensure that the Englishman was called to provide

\textsuperscript{52} In writing a damning critique of the New Zealand Labour Government’s economic platform, Melville defended the role of high wages: ‘High wages may prevent profit from getting too large in the imminent boom and help to check the orgies of speculation and unwise investment that usually occur at this time.’

\textsuperscript{53} ‘Memo from Copland to Mr W. B. Reddaway’, 19 April 1937, UMA FECC, Box 55.

\textsuperscript{54} Ibid.

\textsuperscript{55} ‘Higher wages and higher prices’, ABC Radio Broadcast, 22 July 1937, Typescript courtesy of W. B. Reddaway.

\textsuperscript{56} Author’s interview with Reddaway, 21 January 1997. The other justice in the case, Justice Beeby, asked Reddaway to come to see him in his rooms. Beeby had in mind a dual wage structure in which the eastern states would get a bigger wage rise than Western Australia, which was ravaged by drought at the time (Reddaway interview, 21 January 1997).
expert opinion. Reddaway appeared as an expert witness who ‘identified with neither side’ (Hancock 1984:77). Copland would, however, have been annoyed when Vice-Chancellor Priestley informed him that some Melbourne business houses were revising their donations to the university because they had been ‘incensed’ and were ‘hurt and sore’ at Reddaway’s evidence before the Arbitration Court (Priestley 2002:332, 353). Relations between Copland and Reddaway became more strained after the Englishman ridiculed Copland’s predictions of a boom–bust. Copland felt that the younger man needed some criticism from the likes of Davidson because ‘[j]ust at this stage of his career, he requires deflation more than anything else. Whether I shall have to do the sticky business again or not I cannot say, but it is a pity to see an able man have his head turned so early in his life.’ Copland did not follow up on the threat. Reddaway was, in any case, soon to be heading back to Cambridge.

The wages decision proved a safety valve not just in terms of redistributing aggregate demand; it also pre-empted Labor orchestrating a campaign to lift wages beyond the rise in the cost of living. Copland sang the Arbitration Court’s praises to W. A. Robson, a LSE academic, and also to Rupert MacLaurin for bringing down a judgment that not only reflected the economic situation, it gave a valuable lead in economic policy. Just as in 1931, when the Arbitration Court took the lead in making the adjustments that Australia had to take, so, too, in 1937 was the court vigilant in noting underlying economic conditions—and the evidence of economists—before bringing down a judgment. Moreover, the decision by the court was congruent with the decision of the Loan Council to moderate the amount of public borrowing, meaning that economic policy was now pulling in the same direction.

While the economic recovery had another year to run, the wage rise was the crowning glory in Australia’s economic rehabilitation. In a land said to despise scientific economists all these good tidings might have led to some acclaim for the profession (Hancock 1930). Certainly those in the Labor movement undertook some revision in their views about the worth of economists (Kuhn 1988). In the wider community, too, there might have been little affirmation, but within policymaking circles economists continued to make some inroads. The public-minded businessman Sir Herbert Gepp again called for the creation of a

57 Ibid.
58 D. B. Copland to C. Janes, 23 June 1937, UMA FECC, Box 51. Much later, when reflecting on his two-year stint in Australia, Reddaway recalled that the level of economics teaching at Copland’s beloved faculty was fairly ‘low level’. As for Copland, Reddaway felt that ‘he was not a great economist’ (Tribe 1997).
59 D. B. Copland to W. A. Robson, 3 December 1937, UMA FECC, Box 55.
60 D. B. Copland to R. MacLaurin, 1 October 1937, UMA FECC, Box 55.
specialist economic research staff to advise the federal government on economic problems—an idea, of course, first mooted by Bruce and Casey. It was an idea slowly, but surely becoming accepted by both tiers of government.

The yellow-brick road to utopia

There is now an army of economists confident that, given sufficient bricks of the right type and quality, a way can be cleared to heaven. It is the Statistician’s job to provide the bricks.

— E. T. McPhee, Commonwealth Statistician, 1937

True to Commonwealth Statistician McPhee’s boast, economists had by their advice helped get Australia’s unemployment rate down to 9 per cent by the end of 1937; it was even lower in New South Wales and Queensland. Having just spent an instructive six-month sabbatical with Keynes and other economists at Cambridge researching monetary policy, Giblin would later deem that, by 1937/38, Australia was at ‘normal full employment’. That is, any additional spending would raise prices and incomes leaving real income unchanged. Giblin told a leading businessman that full employment could range between 4 per cent and 10 per cent and was, therefore, a ‘matter of practical judgement on a mass of relevant data’. Quoting Colin Clark, Giblin went on to say that, symmetrically, when not at normal full employment, there was justification for ‘unprofitable’ public works that would prevent the secondary effects of unemployment from unfolding.

As discussed, Australian economists were already held in some renown in government circles for their anti-depression policies but the later 1930s brought a burst of renewed praise from several quarters. It also brought, as this section will show, an increase in the demand for their services. The Indian economist B. P. Adarkar unwittingly validated Brigden’s earlier wish by nominating Australia as ‘the practical utopia of economists’ (cited in Goodwin 1974:236). When the British Labour politician Hugh Dalton visited Australia in 1938, he expressed a desire to meet some of the economists whom he had once criticised for being behind the Premiers’ Plan. More reserved in his praise, Montagu Norman felt his peers at the Commonwealth Bank Board were coming too much

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62 Transcript of speech given at the Conference of Economists 1996 by Dennis Trewin, Deputy Australian Statistician.
63 L. F. Giblin to Haynes, President, Victorian Chamber of Commerce, 9 February 1939, Giblin Collection, UMA FECC, 92/141, Box 1 A-J.
64 F. L. McDougall to D. B. Copland, 3 December 1937, UMA FECC, Box 54.
under the ‘economistical’ influence of Melville and Giblin.\(^{65}\) Walker, meanwhile, was tutoring a coterie of NSW government UAP politicians on the nuances of economics.\(^{66}\) Copland could rightfully claim to a colleague that ‘[t]he economist is going to be more important rather than less important in public affairs during the next 10 to 15 years’.\(^ {67}\) Concurrent with his work for Stevens, Copland was appointed Chairman of the Victorian State Economic Committee. It prompted him to comment that ‘at long last the Victorian Government has noted and recognised the official work of economists’.\(^ {68}\) Copland’s job was to advise the Victorian government on long-term patterns of public finance with a view to avoiding economic fluctuations.

‘The white light of publicity’, as Mills called it, continued to fall on the economist and no more so than on Copland (cited in Brown 2001:80). In 1938, he used his public profile, somewhat controversially, in a bid to become the next Vice-Chancellor at Melbourne. He failed in this quest though in quite remarkable circumstances. Unbeknown to him, perhaps, was the fact that Mills and Brigden were among those on the list of early contenders sounded out by the University Council. Both names came with flattering references. In Mills’ case, the referee was Justice Napier, who had, of course, worked alongside him with the Royal Commission on Money and Banking.\(^ {69}\) A university colleague reported that Copland’s unpopularity with the Melbourne business establishment—some of whom served on the University Council—was ‘cruelly damaging’ his candidature (Selleck 2003:694).\(^ {70}\) Copland was too ‘commercially minded’ and ‘lacked the cultural background’ to become Vice-Chancellor (cited in Selleck 2003:694). Herbert Brookes suggested that it was this, together with the ‘rough angles’ of Copland’s personality, that led him to being overlooked for the position.\(^ {71}\) Bailey told Giblin that the University Council did not favour Copland because he did not have the ‘culture’ and might be liable to ‘phobias’.\(^ {72}\) The popularity of Copland’s faculty with students and the fact that he was an internationally renowned economist were more hindrances than help given the conservative nature of the University Council, which shared views with the Melbourne Club (Selleck 2003:693–7).

While it was to Australian economics’ gain that he failed to win the post, it was not to Melbourne’s. An aggrieved Copland solicited for jobs elsewhere. He

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65 A. H. Lewis to L. G. Melville, 27 March 1937, Melville Papers, NLA.
66 ‘MPs at university: improving knowledge of economics’, SMH, 17 August 1936.
67 D. B. Copland to K. Isles, 6 June 1937, UMA FECC, Box 53.
68 D. B. Copland to H. Brookes, 3 October 1938, Brookes Papers, NLA.
70 K. H. Bailey to L. F. Giblin, 4 June 1938, UMA FECC, Box 220.
71 H. Brookes, Notes on vice-chancellorship, Ms 1924/27/1341, NLA.
72 K. H. Bailey to L. F. Giblin, 4 June 1938, UMA FECC, Box 220.
asked Giblin, in residence at King's College, whether Cambridge might offer him an academic post in 'statistical economics' with a college fellowship.73 This request apparently came after Copland had declined an offer, for family reasons, to become a full-time economic adviser to the Stevens' government. Copland also wrote to Menzies asking if he could be made chairman of the Interstate Commission, an economic agency yet to become established in Canberra.74 Only a position like that, Giblin believed, would keep Copland's talents within Australia.75 After regaining his composure, Copland told his friend Brookes 'that I am finding my real interest in the work of the School. It is astonishing how much has to be done in advanced economic theory.'76 Copland wanted to establish a study of business fluctuations and the control of economic activity.77 Giblin and Jean Polglaze, along with Melville, were the personnel Copland had in mind for the project. The political bickering at Melbourne University still unsettled Copland, leading him to apply for his old job back in Hobart.78 Walker beat him to the post but there was no acrimony from Copland.79 Indeed Copland felt the move would do Walker good as it also involved giving detailed economic advice to the Tasmanian government. 'Economists, like doctors should be GPs for a while,' he told a young colleague.80

There was still a paucity of economists within Australia. Despite healthy numbers at undergraduate level, there were still few research scholars coming forward in economics. Copland would have agreed with Keynes's lament: 'If only we could produce competent economists in greater number!'81 Interestingly, too, membership in all 11 branches of the Economic Society within Australia and New Zealand had, with the passing of the crisis, fallen from 846 in 1932 to 737 in 1938. The Melbourne Branch remained, by far, the largest.82

Given the fact that professorships and public service positions in Australia frequently fell vacant, any economist likely to settle in this country from overseas would have had an assured future. To that end, universities such as Melbourne, and even the Bank of New South Wales, tried to entice English economists to come to Australia and redress the shortage. Gerald Firth, for

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73 D. B. Copland to L. F. Giblin, 7 April 1938, UMA FECC, Box 220.
74 D. B. Copland to R. G. Menzies, 17 May 1938, UMA FECC, Box 60.
76 D. B. Copland to H. Brookes, 23 June 1938, Brookes Papers, NLA.
77 D. B. Copland to H. Brookes, 20 April 1938, Brookes Papers, NLA.
78 D. B. Copland to E. M. Miller, Vice-Chancellor, University of Tasmania, 16 January 1939, UMA FECC, Box 66.
79 Walker’s referees were probably D. H. Robertson and A. C. Pigou, who wrote flattering references for him in 1935. Robertson had a high opinion of his ‘power of analysis…and mature judgement’ and predicted that Walker would ‘occupy a position of authority with wisdom and success’ (D. H. Robertson, Statement, 3 July 1935, E. R. Walker Papers, Canberra).
80 D. B. Copland to J. Crawford, 12 April 1939, Economic Society Files, UMA FECC, Box 143.
81 J. M. Keynes to D. B. Copland, 24 July 1937, UMA FECC, Box 53.
82 Economic Society of Australia and New Zealand Files, UMA FECC, Box 141.
example, who came out to replace Reddaway as a Ritchie Research Fellow in 1938, did not return home. Another English economist, W. A. Prest, was appointed to fill the senior lectureship at Melbourne after Mauldon took the chair at Tasmania. Prest’s appointment came about only after Copland wrote to several English universities telling them of the desirability of getting ‘a new overseas man’ to fill the post.83 Copland soon discovered that he had chosen ‘the right man for Melbourne’ (Polglaze and Soper 1977:xiv). Hytten recruited Leslie Bury, a Cambridge graduate, for the Wales’ economic section while attending a conference in Europe. Hytten’s brief while abroad was to recruit young economists of ‘open, liberal thought’.84 Janes went to England in 1938 and visited Cambridge in August 1938 to attend an economics conference. He came away a little ‘disappointed’ because the economists and the papers presented were of no higher quality than he had been exposed to in Australia.85 Janes apparently criticised ‘with some nervousness’ a paper written, but not presented, by Keynes on buffer stocks.

Meanwhile, Colin Clark was offered the chair at Adelaide but declined it.86 Like Keynes, Copland quickly appreciated the worth of Clark: ‘He is a rare find in that he has an unerring instinct for the right figure. Apart from his knowledge of economic theory, he is one of the most ingenious persons with statistics I have ever come across.’87 Giblin equated Clark’s statistical genius with turning ‘straws into bricks’ (cited in Groenewegen 1994:9). In collaboration with another Australian economist, J. G. Crawford, Clark had made early attempts to estimate the size of Australia’s national income, and also to quantify the size of the expenditure multiplier.

Keynes feared that the Australians would wrest Clark away from Cambridge: ‘I hope very much you will fail in taking away Colin Clark from us. He is much too needed here.’88 It is worth recalling that, as late as 1939, Britain did not have official national income statistics (Moggridge 1992:631). Keynes’s hope that Clark would return to help establish ‘a proper department of statistical realistic economics at Cambridge’, implying that Clark would head it, was to be dashed (Castles 1997 cited in Markwell 1985:36). When Casey recruited Brigden in 1938 to spearhead the National Insurance Commission, a suitable replacement had to be found for his post at Queensland’s Bureau of Industry. While Hugh Dalton suggested Clark as its next director, Premier Forgan Smith,

83 D. B. Copland to E. A. G. Robinson, 29 April 1937, UMA FECC, Box 53.
84 A. C. Davidson to T. Hytten, 27 May 1935, BNSW, A53/446.
85 C. Janes to A. C. Davidson, 26 August 1938, BNSW, GM 302/412.
86 D. B. Copland to J. M. Keynes, 14 September 1937, UMA FECC, Box 53. Walker and Smithies, probably the two most gifted theoreticians in Australia at the time, applied for the position but it fell to Keith Isles, another Tasmanian-born economist (H. C. Coombs to J. La Nauze, 14 December 1937, La Nauze Papers, NLA).
87 D. B. Copland to T. Waites, Government Statistician for New South Wales, 13 October 1937, UMA FECC, Box 56.
88 J. M. Keynes to D. B. Copland, 28 October 1937, UMA FECC, Box 53.
already had him in mind (Higgins 1989:300–1). While Dalton wanted Clark to start ‘making things happen’, Clark found that Dalton and the premier had discussed Keynesian economic approaches ‘even if they did not call it that by that time’. The Queensland Premier wanted Clark’s services to prepare the state’s case for increased public borrowing allocations from the Loan Council. Clark used his statistical prowess to support the Keynesian case for more funds (Kenwood 1988:108). The post came with positions of Government Statistician and advisor to the Treasury. Later Clark dedicated his book *The Conditions of Economic Progress* (1940) to Forgan Smith, citing him as ‘[a] far seeing patron of economic science’. Clark told Keynes why he found life in Australia increasingly attractive:

> Economics ranks after cricket as a topic of public interest...People have minds which are not closed to new truths, as the minds of so many Englishmen are and with all the mistakes Australia has made in the past, I still think she may show the world, in economics...in the next twenty years. (Cited in Castles 1998:146)

While those telling words dismayed Keynes, he was not altogether surprised by them; Australia was the place for economists to put their science into practice. Australian economists would find the demand for their services increasing as the re-elected Lyons government introduced unemployment insurance and other social reforms. There was, however, an even greater challenge about to confront Australian economists: the spectre of another depression.

**The coming recession**

We, out here, read of these great doings with anxious eyes. We can’t affect these major movements—and we get swung along at the tail of the world cart. Depressions don’t start in Australia (except temporary ones arising from bad seasons)—they come to us from overseas—and we are quite unable to make financial provision from the effects of important depressions or recessions.90

While Casey’s concerns to Montagu Norman reflected those of economists, the intriguing thing about the international recession of 1937/38 was that, for the most part, the Australian economy had, ‘in some miraculous fashion’, withstood any adverse affects from it until 1939.91 In the United States, the recession had rekindled fears of another depression. The impact from the recession in

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89 C. Clark to B. Pimlott, 18 February 1980, UQRE, 87.
90 R. G. Casey to S. M. Bruce, 3 May 1938, Casey Correspondence, AA, A1421.
91 R. G. Casey to Sir M. Norman, 7 March 1938, Casey Correspondence, AA, A1421.
Australia took some time to register on domestic economic activity. Amazed that the severe recession in the United States had not affected Australia in any way, Casey believed that it would once the slowdown reached Britain.92 For the moment, then, Australia was riding her luck. Casey repeated his mantra that depressions did not start in Australia and ‘we get swung along at the tail of the world cart’.93 Australia was relying on what Melville called the ‘natural optimism of Australians’, which outweighed the pessimism abroad.94 Copland conveyed to a Victorian Treasury official that what kept the local business climate buoyant was that few opinion-makers dared speak of depression lest it induce the very conditions everyone wished to avoid.95 In that vein, Melville, too, recorded that the ‘[p]essimism of our Colin Clarks seems to have singularly little effect upon business activity’.96 Melville felt that as long as Australian export prices did not continue to fall there was no reason why the recession abroad would check domestic economic activity, particularly when businessmen chose to ignore it. In that regard, Melville speculated that what would bring the boom to an end was the construction of factories on the assumption that the rate of economic expansion would continue.

Until August 1938, the international or Roosevelt recession registered little impact on domestic activity. The economists, however, were clearly worried by the portents. Four months earlier, Copland undertook an audit of the economy for a corporate client. Australia, Copland found, was in a condition of full employment with real income per capita having risen by 10 per cent since 1936/37. He attributed this resounding process to six factors: an increase in primary production, gold production, a favourable terms-of-trade, the greater level of defence spending, the continuing revival of business investment and, lastly, a greater amount of import replacement in manufacturing capacity. With the last aspect, Copland cited work by Melville showing that, between 1927/28 and 1935/36, there had been an expansion of import-replacing manufacturing of some £30 million per annum. This meant considerable relief for the external account, which benefited further from lower servicing costs on Australia’s foreign debt. Despite the rise in manufacturing industry, Australia was still, however, at the mercy of the global economy. Copland felt that any further fall in export prices would have Australia ‘skating on thin ice’.97

Besides that prospect directly reducing national income, it would cause stringency in the money market. Montagu Norman laid down the challenge squarely facing Casey:

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92 Ibid.
93 Ibid.
94 L. G. Melville to A. H. Lewis, 19 November 1937, Melville Papers, NLA.
95 D. B. Copland to A. T. Smithers, 17 August 1938, UMA FECC, Box 61.
96 L. G. Melville to A. H. Lewis, 29 December 1937, Melville Papers, Mss 8671, NLA.
97 ‘The economic situation in Australia’, April 1938, UMA FECC, Box 63, p. 4.
If you can make it possible to build up a volume of London Funds, adequate to the needs of Australia, without at the same time permitting an over expansion of domestic credit (and hence at the same time a dangerous increase of imports) you will have solved one of the most thorny problems and rendered a great service to the Commonwealth.98

With that in mind, Casey and Reading ensured that central banking techniques were improved such that the Commonwealth Bank would, even in the face of falling export prices, start purchasing securities and bills to sustain the reserves of the trading banks.99 Copland called this new policy one of ‘insulation’.100 He reminded his business associates that the policy did not, however, offer much relief for the export sector, which also had to contend with rising domestic costs. The bank board, briefed on the 1937 Roosevelt recession in the United States, now appreciated the ephemeral aspect of the decline in export prices. With the adverse external account, the central bank engaged in monetary operations to prevent a credit squeeze unfolding (Copland 1946:116–17). There was, furthermore, a defence program and a conversion loan to be financed. The board, still smarting after the criticism aired in the Royal Commission on Monetary Systems, was prepared, therefore, to take remedial monetary action at the first sign of international-borne recession. Indeed, Reading put out a public statement to that effect. This was an assurance to the trading banks that the Commonwealth Bank would no longer allow a fall in the London funds to axiomatically trigger a credit crisis. There was also a political motive behind this preparation. Curtin, the new Leader of the Opposition, predicted that depression would soon engulf Australia. Casey challenged Curtin to nominate his sources before admonishing him about how economic depression could in fact ensue from ‘a state of mind’.101

Gilbert perceived the readiness to take proactive policy action as a sign that the bank had adopted a Keynesian perspective. It went hand-in-hand with the appointment of the Secretary of the Treasury, Harry Sheehan, as the new Governor of the bank and, in turn, the board’s apparent willingness to integrate monetary policy with that of the Treasury (Gilbert, 1973:208–9).102 This is congruent with Gilbert’s more encompassing thesis showing how the steady rise of the Loan Council gave the Commonwealth a greater voice in economic policy formation. It came at the expense of the Commonwealth Bank’s independence. Politically, this development was matched by a greater show of resolution from the federal government in its dealings with the trading banks.

100 ‘Australian economic conditions: report no. 2’, 27 March 1939, UMA FECC, Box 64.
102 There was criticism of Sheehan’s appointment since it meant the Commonwealth Bank Board had no members with banking experience on it (‘Bank appointment criticised’, The Sydney Sun, 18 May 1938).
Lyons, for instance, informed Davidson that if the trading banks did not curtail their campaign against ‘government control of banking’ his government would consider legislative action to bring that prospect to bear (Gilbert 1973:208). Casey, too, in October 1938 reportedly dismissed the notion that the Commonwealth Bank would oppose the financing of greater defence spending. It would, he is alleged to have said, be ‘swept out of the way’ if it did.103 He later disowned such remarks. In the next year, the central bank subscribed to a loan issue from the federal government, ensuring that the cash reserves of the trading banks were maintained and rates did not have to rise (Copland 1946:119).

Despite these developments, Gilbert draws a long bow in arguing that the bank’s proactive monetary stance in 1938 was a Keynesian one. It was more a case of improvisation and pragmatism than any act of revelatory Keynesianism. Reddaway (1960:192) is probably more correct in stating that, after 1936, the Commonwealth Bank Board was more prepared to address economic stabilisation issues rather than just uphold external balance and debt repayment. Apart from smoothing the loan-conversion process, the defence program required an expansion in public investment. Given Australia’s good record in not defaulting on her debts, London was favourably disposed towards giving the Commonwealth short-term finance to bolster the level of London funds. The trading banks, meanwhile, were mischievously circulating literature against the proposed system of minimum deposits, which when operational would result in a credit squeeze (Sutherlin 1980:227–9). This fear had particular resonance in 1938 with trading banks’ liquidity suffering due to the combined effects of drought and falling export prices (Sutherlin 1980:209). Even if the Federal Treasury had more input in determining economic policy, its new Secretary, S. G. MacFarlane, did not comprehend the new doctrines of Keynes (Cornish 2000:211). Indeed MacFarlane’s almost arithmetical approach in preparing the Federal Budget astounded one Federal Treasurer for the lack of any doctrine other than merely balancing the ‘sums’ (Whitwell 1986:54). This was also apparently Casey’s approach towards preparing budgets (Spender 1972).

Moreover, Copland still expressed concern that a recession could arise if investor sentiment turned negative, if there was timidity on the part of the central bank or a drastic scaling down in public works.104 Countering that last contingency was the fact that economists were now agreed on the principle of contra-cyclical spending. In that vein, Colin Clark, in a lecture before the Economic Society in Melbourne in August 1938, warned that internal loan expenditure should be expanded at the same rate as the decline in export income. Clark told his

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104 ‘The economic situation in Australia’, April 1938, UMA FECC, Box 63, p. 11.
audience that while the prospect of deficit budgets might be ‘repugnant’ to those with ‘preconceived ideas’, there was no other expedient to prevent unemployment and falling wages.105

Davidson was also fearful that the forces behind the slowdown could, if left unchecked, leave the economy in a weakened position, from which it would take years to recover. In a memorandum shown to Hytten and apparently requested by a NSW Treasury official, Davidson advised that governments should not increase taxation but instead have the Loan Council authorise more public works financed by Treasury bills. While acknowledging that budgets must be balanced, he said this could be achieved over a number of years. He confidently referred to how the economic and financial knowledge now available would allow ‘an intelligent handling of the variations of the trade cycle…to iron out many problems of the past’.106 The trick was to act now to avert a worsening situation.

Copland’s forecast for the 1938/39 balance of payments warned of a net loss in London funds if export prices remained subdued and the volume of imports did not abate. Giblin, in a speech to the Carlton Club in London, which Claude Janes attended, expressed an extremely pessimistic long-term prognosis for Australia’s future export prices.107 Clark could have had a hand in the projections. Janes was sceptical about whether one could, in fact, make such long-term forecasts. As Chairman of the State Economic Committee, Copland advised a Victorian Treasury official, as Davidson had, of the importance of bringing these grim tidings to the attention of the Loan Council.108 With recession and now war imminent, the economists reconvened to discuss matters.

## The economists reconvene

An unofficial two-day meeting of economists was held in Sydney in December 1938 to discuss the state of the Australian economy and propose measures to prepare for the onset of an internationally transmitted recession. They would have noted the success of the Roosevelt administration’s large-scale spending program in dragging the US economy out of recession. Certainly, Butlin noticed it.109 Janes informed Davidson of a similar tale in Britain, where the government was assuming a larger responsibility within the economy.110 In Australia it was common knowledge that economic activity was slackening and it would

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106 A. C. Davidson to T. Hytten, 12 September 1938, BNSW, GM 302/412.
107 C. Janes to A. C. Davidson, 14 April 1938, BNSW, GM 302/412.
108 D. B. Copland to A. T. Smithers, Director of Treasury, 17 August 1938, UMA FECC, Box 61.
110 C. Janes to A. C. Davidson, 25 August 1938, BNSW, GM 302/412.
be only a matter of time before unemployment rose. There was, in truth, still a hard core of structurally unemployed, which could be overcome only by training programs.\textsuperscript{111} There was, moreover, a rise in the price level, which Butlin attributed to the interaction between resource bottlenecks and monopolistic competition.\textsuperscript{112}

Mills, Hytten, Copland, Walker, Clark, Melville and Wilson attended the meeting, all in a private capacity. The participants were each given an aspect of the economy to report on so that an accurate audit could be formed. Each came armed with memoranda on their assigned brief. Colin Clark’s submission, which Giblin had suggested Clark contribute, warned of a sustained fall in Australian export prices with the world recession and the possibility of British trade controls.\textsuperscript{113} Countering this were domestic sources of expenditure—namely, investment, public spending and consumption. Clark displayed a familiarity with the Keynesian multiplier. Economic activity could be kept buoyant by resorting to devaluation, import restrictions, easy credit, budget deficits and public works. Clark preferred easy money as the more palatable expedient. It was a stance shared by his colleagues. Not only would an expansionist monetary policy keep trading banks liquid, it would forestall a rise in interest rates. This view found its way into a summary of policy conclusions prepared by Copland.\textsuperscript{114} When it came to public expenditure, the economists, while admitting that unemployment would probably rise, considered fiscal prudence the safest course. This stance was explicable in the sense that existing public works were already putting a strain on the money market. As it was, the increased expenditure on defence, together with borrowing by state and local authorities, would offset some of the decline in export income. On that matter, Copland felt the mooted rise in defence spending required a huge effort in coordination. It also spelt diverting resources from peacetime ends and it was doubtful whether state and local works could now be undertaken at the same time. Copland had, in fact, reached this position in April 1938, arguing that with full employment, public works expenditure by the states had to give way to the priority of defence spending.\textsuperscript{115} There were other concerns articulated at the congress: issues such as high domestic costs, especially wages, affecting exports, the psychological fears engendered by monetary expansion and budget deficits and, finally, whether standards of living could be maintained in the face of a fall in export income and additional defence spending.\textsuperscript{116}

\textsuperscript{111} ‘Extending employment: training plan in Australia’, SMH, 13 September 1938.
\textsuperscript{112} ‘Rising retail prices’, SMH, 21 September 1938.
\textsuperscript{113} C. Clark to D. B. Copland, 25 November 1938, UMA FECC, Box 200.
\textsuperscript{114} ‘Notes on economic position of Australia’, 5 December 1938, UMA FECC, Box 200, pp. 3–4.
\textsuperscript{115} ‘Finance and defence; states part scaling down of public works’, [by D. B. Copland], SMH, 1 April 1938.
\textsuperscript{116} ‘Notes on economic position of Australia’, 5 December 1938, UMA FECC, Box 200, p. 6.
When it came to reviewing 1938/39, Copland was relieved to report that his prophecy of a recession had not materialised. It was, he found, ‘something of a triumph that we lost so little ground’ when other economies had fallen by the wayside. Normally Australia would have suffered the same fate, especially with export prices falling, but extenuating factors, including proactive monetary policy, had averted it. Indeed the expansion in loan advances when export prices were falling was unprecedented in Australia’s history. It would be a ‘mistake’, Copland added, to ascribe too much to credit policy. There had been other factors at play. Among these were an outstanding level of import replacement and a high level of export production. These two factors, in tandem, promised to improve Australia’s balance-of-payments problem. The outlook was favourable, too, for the pursuit of a liberal credit policy and, equally, for the raising of funds for defence and public works. These expenditures came at a time when private capital spending was lagging, so Copland predicted that employment would hold steady, if not rise slightly.

Conclusion

There seemed little doubt that Australian economists from 1937 onwards exhibited a growing understanding of Keynes’s new theoretical outlook. It allowed them to engage in policy advice that allowed Australia in 1938 to enjoy, a little fortuitously perhaps, normal full employment. Moreover, the Commonwealth Bank policy of ‘insulation’ or modest monetary stimulus, whether informed by Keynes or not, kept the Australian economy immune from the Roosevelt recession. The fact that it did must have caught the attention of the senior bank officials. They, and even some of the economists, still laboured under the notion that a boom–bust phenomenon was the lot of a market economy. Practice at keeping the economy buoyant, despite falling export prices, engendered confidence in monetary management. The real test of an authentic Keynesian approach to demand management, however, using the monetary and fiscal taps, lay just around the corner.

117 ‘The economic outlook strength of the Australian economy; prospects of expansion’, UMA FECC, Box 65.
118 ‘The economic outlook’, UMA FECC, Box 65.
119 Ibid., p. 8.