KEYNES AND AUSTRALIA

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Foreword

This paper concerns itself with the various interactions between John Maynard Keynes and Australia. An unlikely topic perhaps, but the result is a gem – a paper that provides a fascinating insight into that period of huge economic and social turmoil from the end of World War I to just after World War II, when Keynes died.

There is a broad sweep of topics here – from Keynes's dealings with the Australian Prime Minister, William Morris Hughes, over demands for reparations against Germany after World War I, to Keynes's opinions and influence on the handling of the Depression in Australia, to the early impact of Keynesian ideas in Australia, to Australia's approach to the creation of the International Monetary Fund and World Bank, of which Keynes was co-founder.

The paper was presented at a seminar at the Reserve Bank fifteen years ago. It is being released now as a Research Discussion Paper, after a rather longer delay than usual, to make it available to a wide readership.

Happy reading.

David Gruen
Head of Economic Research Department
May 2000

I am grateful to the Economic Research Department for their recovery of this paper, and for allowing it to see the light of day. Fifteen years on, it would be written in a different style – but I would not wish to alter any of its conclusions.

Donald J Markwell
May 2000

Acknowledgments

This paper was presented at a Seminar in the Research Department of the Reserve Bank of Australia on 18 September 1985. However, it should be regarded as in the nature of a draft.

I owe a very great debt of gratitude to the Bank for my Research Internship from July to September 1985, and especially to Peter Jonson and Austin Holmes for their great help and encouragement with this paper.

In the preparation of it, I have spoken with Professor HW Arndt, Dr DG Badger, TJ Bartley, Miss Judy Butlin, Dr HC Coombs, Professor WM Corden, Ernest Eyers, JM ('Pete') Garland, JB Kirkwood, Sir Leslie Melville, Sir John and Lady Phillips, and Sir Frederick Wheeler. I am very grateful to all of them.

The staff of the Reserve Bank Research Library have been extremely helpful (and tolerant), as were the Archives staff of the Bank. Miss Margery Kent very kindly typed the paper. To her, and to all others who have helped, I am most thankful.

The interview and archival research done for this paper would allow a more detailed account of Australian policy towards the Bretton Woods institutions in the years 1942 to 1947 than it is possible to give here; but this must await another day.

Needless to say, I alone am responsible for all opinions and any errors in this paper.

Donald J Markwell
18 September 1985

Abstract

JM Keynes was more important to Australia than Australia was to him. Yet the connections are many and varied, and worthy of some attention. As has been said, ‘a survey of the rise and fall of Keynesian economics in Australia’ is ‘an important story which still has to be written’; but it ‘is the subject for at least three years arduous research’ (Groenewegen 1983). This paper is less ambitious. An exercise in economic, personal and political history and in the history of economic thought, it briefly outlines:

1. Keynes’s dealings with the Australian Prime Minister, William Morris Hughes, over the reparations demands against Germany after World War I;

2. some incidental economic issues;

3. Keynes’s opinions and influence on the handling of the Depression in Australia;

4. the early impact of Keynesian economics in Australia; and

5. Australia’s approach to the creation of the International Monetary Fund and World Bank, of which Keynes was co-founder.

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1. JM Keynes, WM Hughes and Reparations

One of the first important (and least creditable) Australian forays into international diplomacy was the campaign of the Australian Prime Minister, William Morris Hughes, in 1918–1919, to have Germany forced to pay in reparations the full cost of the First World War. It was his burning, passionate condemnation of the magnitude of the reparations demands in *The Economic Consequences of the Peace* that first brought John Maynard Keynes to popular international prominence.

Keynes had worked in the British Treasury during the war. During the latter half of 1916, he and Professor Sir William Ashley prepared a 'Memorandum on the Effect of an Indemnity' at the request of the Board of Trade.[1] It was one of the earliest documents prepared for the British government relating to possible reparations demands. It has a special significance because in 1938, in *The Truth About the Peace Treaties*, Lloyd George, referring to the Ashley-Keynes memorandum, described Keynes as 'the sole patentee and promoter' of exactions from Germany 'over a long period of years'.[2] In fact, the memorandum made no recommendations, and was 'based throughout on the assumption that [Britain] would make *no* claim for reparation';[3] it was on the effect of an immediate post-war indemnity, paid by Germany to France and Belgiun, 'to make good damage in the territories overrun'.[4] Keynes stressed these points in defence against Lloyd George's 1938 attack on him - an attack Lloyd George had not made in, for example, his 1932 book, *The Truth About Reparations and War-Debts*.[5]

1. From *The Collected Writings of John Maynard Keynes* (hereafter JMK, with volume and page numbers in parenthesis). See JMK (16, p 311).
2. Lloyd George (1938), pp 445–446. See also JMK (16, pp 311–312, 334–336).
3. JMK (16, pp. 312, 334, 335).
4. JMK (16, p 333).
5. Lloyd George (1932). See reference to Keynes at pp 18, 105.

Keynes did not make the point that his role in preparation of the memorandum was very much subsidiary to Ashley: he said in 1938 that ‘I remember a document of Ashley’s though not distinctly what part I played in it’.[6] Though the editor of Keynes’s *Collected Writings* says ‘there is no evidence in Keynes’s papers or in the Treasury files to show what was his particular share in writing this memorandum’,[7] the Ashley papers in the British Library contain correspondence between the co-authors and typed drafts by Ashley with hand-written suggestions by Keynes; these drafts make it possible to show with much clarity Keynes’s contribution to the paper. The Ashley papers also reveal an error in the *Collected Writings* and other accounts: though the memorandum bears the date 2 January 1916, it was actually signed by Ashley and Keynes on 2 January 1917; the typist put the wrong year by mistake, and no one corrected it.[8]

In October 1918, Keynes made a preliminary estimate of Germany’s capacity to pay reparations.[9] He suggested £1,000 million (half in securities, capital goods and the like; half in annual payments) could be obtained ‘without crushing Germany’.[10] In November–December 1918, Keynes ‘was occupied with the Treasury’s study of the whole question of reparations’.[11] The extent of Keynes’s authorship of the resulting memorandum[12] is uncertain.[13] It argued that the cost of the war to the Allies far exceeded Germany’s ability to pay;[14] that an annual payment would be *alternative* to taking the maximum amount of transferable property (put at £1,370 million),[15] because ‘if Germany is to be “milked” she must not first of all be ruined’;[16] and since Britain would be disadvantaged by promoting German exports (which would be necessary if she were to make annual payments), the

6 JMK (16, p 312).

7 JMK (16, p 313).

8 It is not obvious why Skidelsky (1983, p354) dates the Ashley-Keynes paper from ‘as early as 2 December 1916’.

9 JMK (16, p 338–343).

10 JMK (16, p 342).

11 JMK (16, p 311).

12 JMK (16, pp 344–383).

13 Keynes (1975, pp 156–157, 163). But see Skidelsky (1983, pp 354–355).

14 JMK (16, p 382).

15 JMK (16, p 369).

16 JMK (16, p 375). See also Keynes (1975, p 156).

taking of transferable property was preferable.[17] Combining both, 'the limit of what we can safely exact'[18] was closer to £2,000 than £3,000 million.[19]

But on 7 November 1918, Hughes, in England for the Imperial War Cabinet, 'publicly demanded that Germany be made to pay the costs of the war; his cry was taken up by leading newspapers'.[20] Hughes was apparently aware that the negotiations between the Allies and with Germany for an Armistice agreement were leading to a formula for reparations that would confine them to 'compensation ... by Germany for all damage done to the civilian population of the Allies and to their property by the aggression of Germany by land, sea, and from the air'.[21] This represented a broadening from the 'restoration of invaded territories' talked of in Wilson's Fourteen Points, which were the fundamental basis of the Armistice. Keynes wrote in *The Economic Consequences of the Peace*:[22]

> It must be said to Mr Hughes' honour that he apprehended from the first the bearing of the pre-armistice negotiations on our right to demand an indemnity covering the full costs of the war, protested against our ever having entered into such engagements, and maintained loudly that he had been no party to them and could not consider himself bound by them. His indignation may have been partly due to the fact that Australia not having been ravaged, would have no claims at all under the more limited interpretation of our rights.

It is not clear to me that it is 'to Mr Hughes' honour' that, the Allies having entered into an undertaking with Germany, he should urge them not to honour the commitment they had freely made.

On 26 November 1918, the day after the dissolution of Parliament for the December general election, and the date of the Treasury memorandum suggesting reparations of between £2,000 and £3,000 million, the Imperial War Cabinet appointed a committee of its own on reparations. Hughes was its Chairman; 'the

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17 JMK (16, p 383).
18 JMK (16, p 381).
19 JMK (16, p 378).
20 Skidelsky (1983, p 356).
21 Skidelsky (1983, p 354).
22 JMK (2, p 87n).

Committee was stuffed with Conservative Protectionists'; and Lord Cunliffe, an ex-governor of the Bank of England, gave an air of authority.[23] The Hughes Committee had before it both the Ashley-Keynes memorandum and a Board of Trade memorandum on 'Economic Considerations Affecting the Terms of Peace'.[24] Keynes attended the first few hearings, and gave evidence to it.[25] Keynes warned of the transfer problem – that Germany would have to earn the foreign exchange with which to pay the reparations, and this would require her to be fiercely competitive in all markets.[26] But in complete disregard of such expert evidence, the Committee reported on 10 December that Germany could and should pay the total cost of the war – £24,000 million in annual instalments of £l,200 million.[27] According to Elizabeth Johnson, 'Hughes agreed at the meeting of the War Cabinet that considered – and buried – the Committee's report that it would not be possible to get the sum of £24,000 million or anything like it';[28] but the Cabinet did not resolve the conflict between the Keynes and Hughes approaches,[29] and Hughes remained fiercely intent on getting as much as possible. He had declared his attitude: 'Everything is practicable to the man who has strength enough to enforce his views, and we have that strength'.[30]

The situation in Britain in November–December 1918 was complicated by Lloyd George's decision to hold immediate elections to capitalize on the euphoria of victory. But Keynes wrote in *The Economic Consequences of the Peace*[31] that as the campaign developed, 'the Prime Minister's more neurotic advisers' felt a need for tough talk and impassioned anti-Hun slogans; Keynes put it this way:

> On the assumption that the return of the Prime Minister to power was the primary consideration, the rest followed naturally. At that juncture there was a clamour from certain quarters that the government had given by no means sufficiently clear undertakings that they were not going 'to let the Hun off'. Mr Hughes was evoking

23 Skidelsky (1983, pp 355–356).
24 JMK (16, p 311).
25 JMK (16, pp 336–337).
26 Harrod (1951, p 231); Keynes (1975, p 156).
27 Skidelsky (1983, p 356). See also Harrod (1951, p 230).
28 JMK (16, p 337).
29 Keynes (1975, p 165).
30 JMK (16, p 336).
31 JMK (2, p 87).

> a good deal of attention by his demands for a very large indemnity, and Lord Northcliffe was lending his powerful aid to the same cause. This pointed the Prime Minister to a stone for two birds. By himself adopting the policy of Mr Hughes and Lord Northcliffe, he could at the same time silence those powerful critics and provide his party managers with an effective platform cry to drown the increasing voices of criticism from other quarters.

So on 11 December 1918 Lloyd George promised in Bristol 'that if re-elected he would charge Germany the whole cost of the war, an "expert" Committee having told him Germany could pay it .... Furthermore, at the height of the election, Lloyd George accepted a recommendation by the Imperial War Cabinet that Hughes and Cunliffe, the chief authors of what he later called the "wild and fantastic report", should be the British representatives – together with a judge, Lord Sumner – on the Reparations Commission at the Paris Peace Conference'.[32] (The British Empire was represented and regarded as a single entity, with Dominion representatives – such as Hughes for Australia, and JC Smuts for South Africa – as part of that 'British' delegation.)

From January to June 1919, Keynes served as Principal Treasury Representative at the Paris Peace Conference. Harrod says that he held a 'passionate intellectual contempt for the trash of Hughes and Cunliffe'.[33] But he and the Treasury were excluded from the Reparations Committee of the Conference, and Keynes 'could only make his views known unofficially'.[34] He recorded in his 1922 book, *A Revision of the Treaty*, that there 'the British delegates ... namely, Mr Hughes, Lord Sumner and Lord Cunliffe, support[ed] the demand for complete war costs and not merely reparation for damage'; Keynes wrote:[35]

> They urged (1) that one of the principles enunciated by President Wilson was that each item of the Treaty should be just, and that it was in accordance with the general principles of justice to throw on Germany the whole costs of the war; and (2) that Great Britain's war costs had resulted from Germany's breach of the Treaty of Neutrality of Belgium, and that therefore Great Britain (but not necessarily, on

32 Skidelsky (1983, pp 356–357).

33 Harrod (1951, p 237).

34 Keynes (1975, pp 168–169, 173–174). See Harrod (1951, p 235).

35 JMK (3, pp 100–101).

> this argument, all the other Allies) was entitled to complete repayment in accordance with the general principles of international law. These general arguments were, I think, overwhelmed by the speeches made on behalf of the American delegates by Mr John Foster Dulles.

The central contention of the Americans, to which Keynes was strongly wedded, was that the Allies had committed themselves in the Armistice to terms that 'could not possibly include [the] pensions and separation allowances' that Hughes, Sumner and Cunliffe sought to have included.[36] They were concerned to increase the British, including the Australian, share in whatever reparations were obtained. Hughes argued 'that the tax burden imposed on the Allies by the German aggression should be regarded as damage to civilians'.[37] It is said that he 'insisted that every Australian who had placed a mortgage on his house to buy a war bond was as definitely entitled to reparation as was every Frenchman whose house had been burned by the Germans'.[38] When President Wilson insisted that this approach was incompatible with the Armistice undertakings, the British and French sought a means whereby their demands could be made to seem compatible with the Armistice terms. As always when an argument must be found, an argument *was* found, and President Wilson gave way.[39] Elcock suggests that the earlier 'obstinacy of Hughes, Cunliffe and Sumner' contributed to alienating the Americans from the idea of co-operating 'in assisting Europe to her feet' when Keynes proposed 'a grand scheme for the rehabilitation of Europe'.[40] The negotiations on this and other issues are too complex to be recounted in detail here.[41]

The inclusion of pensions and separation allowances trebled Germany's liability. At some point Lloyd George, apparently always conscious of it,[42] acknowledged the wildness of the demands. 'When [Hughes, Cunliffe and Sumner] drew up then our plan of payment from Germany rising to £600 million a year, to run until 1961,

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36 JMK (3, p 99). The pensions were 'for the dependants of those killed in the war and for those disabled, and the separation allowances paid to the families of servicemen on active service during the war' (Keynes 1975, p 169).

37 Skidelsky (1983, p 363).

38 Bernard Baruch, quoted from Skidelsky (1983, p 395).

39 JMK (3, pp 102–104).

40 Keynes (1975, p 172).

41 See, for example, Skidelsky (1983, ch 15).

42 See, for example, Harrod (1951, p 236) and JMK (16, pp 335–356).

Lloyd George asked Keynes for something more moderate'. But Keynes's proposal was not accepted.[43]

This and other attempts at moderating the terms of the Treaty having failed, Keynes resigned from the Treasury in early June 1919 in protest.[44] He distilled his frenzy in *The Economic Consequences of the Peace*, published in England in December 1919. Its sequel, *A Revision of the Treaty*, appeared in January 1922. *The Economic Consequences* argued:[45] First, the Treaty was unjust and dishonest in breaking the Allies' undertaking to the Germans, on which the Armistice was predicated, to base the peace on the principles enunciated by President Wilson. Secondly, the German economy was being so damaged, and the reparations demands were so great, that there was no way Germany could meet the demands. To the extent that she tried, her people would be long improverished and Britain would be hurt by her export competition. Thus, whether Germany tried to pay or not, political relations within Europe would be more and more envenomed and the door would be opened for revolution. Given 'the economic unity of Europe', a stable peace depended on the reconstruction of the European economic system, in which Germany was 'a central support'.

As Colin Clark wrote in 1958:[46]

> Hughes was probably as much responsible as anyone for the adoption of the fantastically high demands for German reparations, which led to five years of chaos in European affairs. Hughes had worked out a claim, on some peculiar economics of his own, for reparations for Australia, which had not suffered any physical damage in the war, of £64,000,000.

But 'in the end little of real economic value to Australia' was gained.[47]

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43 JMK (16, p 448).

44 JMK (16, pp 458–474).

45 See JMK (2). This encapsulation is from Markwell (1983, p 12).

46 Clark (1958, pp 199–200).

47 Booker (1980, p 262).

2. Incidental Economic Issues

Not all Australians were as mean-spirited as Hughes. It had been under the influence of Alfred Marshall that Keynes came to devote himself to economics. And, as Keynes himself recorded in his 1924 memoir of Marshall, it was through the generosity of a rich uncle from Australia that Marshall himself had gone to Cambridge as a student (and, later, visited the United States for some months). This uncle had sought and made his fortune as a wily pastoralist during the Australian gold-rushes of the 1850s. As JB Brigden wrote in 1928, ‘had there been no gold-rush in Australia it is conceivable that there might not have been the same Marshall’.[48] Not the same Marshall, not the same Keynes.

Marshall was largely responsible for Keynes’s return to Cambridge in 1908, after two years in the India Office, to lecture in economics. In his early lectures, before the First World War, Keynes made many references to the gold discoveries in Australia in the 1850s and 1890s. These, he said, were partly responsible for ‘the enormous increase in recent times’ in ‘the supply of gold’.[49] He said that ‘where gold is newly discovered ..., as in Australia or California during the ‘50’s [1850s], we have interesting examples of the direct action of new currency on prices’.[50] Keynes told his students that these ‘Californian and Australian discoveries gave rise to the second [great?] discussion amongst economists and even the public’ of monetary theory; he cited Chevalier, Cairnes, and Jevons.[51]

The Australian and South African gold mines contributed to what Keynes in June 1914 described as the emerging ‘supremacy of the British sovereign’.[52] Gold sovereigns and half-sovereigns were then minted by the Royal Mint in England and by branch mints in Sydney, Melbourne and Perth, and were legal tender in Australia; ‘in September 1931, Australian mints ceased to mint gold coins’.[53] In writings before World War I, Keynes made various references to the minting of British sovereigns in Australia;[54] the only reference to Australia in Keynes’s first

48 Brigden (1928, p 121). Keynes’s account of Marshall’s rich uncle is in JMK (10, pp 164–165).
49 JMK (12, pp 698–699); see also pp 704, 739–744.
50 JMK (12, p 781); see also pp 765–766.
51 JMK (12, p 772).
52 JMK (11, p 529).
53 *Report of the Royal Commission on Monetary and Banking Systems in Australia*, 1937, pp 25-26.
54 JMK (11, pp 382, 398).

book, *Indian Currency and Finance* (1913), is to the remittance of gold sovereign from Australia to India.[55]

While Keynes made later references – such as in 1924[56] – to Australia as an important producer and holder of gold, many of his other references to Australia relate to its role as a commodity producer and to economic aspects of the imperial (later, the Commonwealth), link. Keynes wrote in a 1933 article:[57]

> By virtue of our [i.e. Britain's] trade, our investments and our personal ties, our economic life is more closely linked with that of the other continents, and with our own Dominions in particular, than with the economic autarchies of Europe. London is the financial centre of Asia, Africa, Australia, and South America. Our investments, for example, in Australia alone are more than double our total investments in Europe.

In his *Treatise on Money*, Keynes gave as a factor in Britain's 'famous and curious depression of the eighteen-nineties' the fact that 'Australia was overwhelmed by her great banking crisis in 1893'.[58] This bank crash, through disturbing the British investor, had contributed to the decline in British overseas investment in the 1890s.[59] He had earlier written that the drying-up in the Australian market (among others) was a major cause of the British slump of 1920–1921.[60]

Keynes served in the British Treasury during both world wars, and dealt with such issues as Australia's role as a commodity supplier (e.g. of wheat), the currency link (such as the implications of Britain's going off the gold standard in World War I, and the problem of sterling balances during and after World War II), the American determination during World War II to end Imperial preference in trade, and Lend-Lease and the Dominions.[61] In his *Tract on Monetary Reform* (1923),

55 JMK (1, pp 80–81).
56 JMK (19, p 165).
57 JMK (21, p 279).
58 JMK (6, pp 146–150).
59 JMK (20, p 56).
60 JMK (11, pp 356–357; 17, p 260).
61 See especially the many references in JMK (16, 23).

Keynes urged both the UK and the US to stabilize the commodity value of their currencies (rather than its gold value), and concluded the book:[62]

> Perhaps the British Empire (apart from Canada) and the countries of Europe would adopt the sterling standard; whilst Canada and the other countries of North and South America would adopt the dollar standard. But each could choose freely, until, with the progress of knowledge and understanding, so perfect a harmony had been established between the two that the choice was a matter of indifference.

Every year from 1923 to 1930, except 1928, Keynes prepared a memorandum, published by the London and Cambridge Economic Service, detailing *Stocks of Staple Commodities*.[63] These showed Australia as an important supplier of wool, lead, spelter (zinc), tin and wheat. These surveys also showed that Australian producers of, for example, tin were badly hit by a drop in prices in 1930.[64] Keynes wrote favourably of a wool price stabilisation scheme, BAWRA (British-Australian Wool Realisation Association), developed during World War I when the British Governrent purchased the whole available Australian wool supply, and continued after the war with the gradual sale of the large unsold stocks accumulated during the war.[65] In the *Treatise on Money* (1930), Keynes cited BAWRA as a 'valorisation scheme' that 'was of inestimable benefit to the producers, and indeed to the world at large, by preventing a debacle in the industry which would have caused a famine in wool later on'.[66] This instance may have contributed to Keynes's later advocacy of buffer stocks for stablisation of commodity prices.[67]

British investment in Australia attracted Keynes's attention both as economist and investor. Before World War I, Keynes saw British investment abroad as benefiting both Britain and the recipient.[68] However, from at least 1924 he favoured less investment abroad and more at home to promote employment,[69] and amendment of

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62 JMK (4, p 160).
63 JMK (12, pp 267–647).
64 JMK (12, p 606).
65 JMK (12, pp 275–280, 325–328).
66 JMK (6, p126).
67 For example, JMK (21, pp 456–470).
68 See, for example, JMK (15, p 55).
69 See, for example, Harrod (1951, pp 346–357).

Trustee Acts (regulating the securities in which trustees could invest) which, he said, ‘provide an artificial stimulus on a great scale to foreign investment within the Empire’.[70] In a 1924 article, he cited the previous week’s borrowing by New South Wales of £5.5 million in the London market for public works as an instance of foreign investments not leading ‘to the placing of orders in’ Britain.[71] In 1925, he said that ‘British investors ... who are prepared to lend to the Commonwealth of Australia at a lower rate of interest that will content the people of Australia for similar loans are surely in an unsatisfactory situation’.[72] In the *Treatise*, Keynes used an ‘imaginary Australia’ to illustrate the pitfalls to the lending country of excessive lending overseas under the gold standard.[73]

More particularly, Keynes was concerned at what in 1923 he called ‘the great weight of foreign debt accumulating in Australia in proportion to population’.[74] Early in 1929 he wrote of ‘undue complaisance towards excessive Australian loans, and the like, in the shape of new overseas issues in London’.[75] Schedvin describes Australia as a ‘voracious borrower’ in the London (and New York) capital market in the 1920s, and cites Keynes and others to show ‘the increasing suspicion and uncertainty surrounding Australian issues’ as the 1920s wore on.[76] Schedvin insists that, despite some faulty practices, Australian stock remained ‘a secure and attractive investment’, and that ‘the basic reasons for Australian loans being marked out for special attention’ were, first, ‘the growing feeling that British capital exports were being made at the expense of domestic employment’, and, secondly, ‘the dramatic post-war rise in the *relative* importance of Australian borrowing’ to a point where ‘Australia was easily the largest government borrower’.[77] As Schedvin puts it, ‘As in so many other matters, Keynes gave expression and intellectual content to a feeling that was only dimly appreciated’.[78]

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70 JMK (19, p 279). See Schedvin (1970, p 98).
71 JMK (19, p 227).
72 JMK (19, p 331).
73 JMK (5, pp 312–313).
74 JMK (19, p 94).
75 JMK (19, p 797).
76 Schedvin (1970, p 99).
77 Schedvin (1970, p 99).
78 Schedvin (1970, p 99).

In January 1931, Keynes told the annual meeting of the National Mutual Life Assurance Society (of which he was chairman) that 'we have taken particular precautions to avoid risk on foreign government securities', and said that 'for many years past we have held no securities of the Australian Government or States'.[79] Keynes went on to speak of the collapse of commodity prices [80] and continued :[81]

> I told you a few minutes ago about the ultra-cautious attitude of your own board towards foreign bonds, and from our own individual standpoint it is a wise and necessary precaution. Yet, from another point of view, it is absolutely the opposite of what is needed to put things right. For *someone* must lend to these countries if a catastrophe is to be avoided.

3. Keynes and the Depression in Australia

For many in Australia, the catastrophe had already come. To the annual meeting of National Mutual a year before – in January 1930 – Keynes had said:[82]

> For significant signs of recovery or of further deterioration it may not be so important today to consider London or New York as to watch Australia, South America, and Asia, and also Central Europe, for these areas are being reduced to very grievous distress by the combined circumstances of the fall in the prices of their chief products and the difficulty of obtaining funds on the international loan market.

In January 1931, Keynes said of this speech, 'I am sorry that my gloomy prognostications of a year ago have been more than fulfilled'.[83]

Faced in 1929–1930 with 'a sudden termination of overseas lending and [a] catastrophic fall in [export] commodity prices',[84] Australia embarked on her

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79 JMK (12, p 181).
80 JMK (12, p 183).
81 JMK (12, p 184).
82 JMK (12, p 177).
83 JMK (12, p 183).
84 Book review by EC Dyason, *Economic Record,* Nov 1931, p 233.

'struggle to avoid default on public interest obligations abroad'.[85] Australia sought assistance from the Bank of England, which sent to Australia a delegation led by Sir Otto Neimeyer. *Inter alia*, Niemeyer advised, and an August 1930 conference of Commonwealth and State Ministers agreed upon, the balancing of budgets; unsuccessful efforts towards this involved cuts in public service salaries averaging 10 per cent.[86] This was a heavily deflationary prescription at a time when national income had fallen dramatically, unemployment was very high and rising, and budgets had been substantially unbalanced by a major drop in tax receipts. Neimeyer was the subject of savage attack, especially from the left wing; the bitter recollection of this representative of international finance dictating deflation to Australia (as many on the left saw it) was an important element in Australia's delay in entering the International Monetary Fund at the end of World War II.[87]

As is well known, Keynes had come second to Niemeyer in the 1906 British Civil Service exams,[88] Niemeyer had 'a long lead'.[89] He took the Treasury job Keynes would otherwise have had, and Keynes entered the India Office. It has sometimes been wondered what the difference would have been had Keynes beaten Niemeyer, and entered the Treasury.[90]

It is, of course, an impossible, if tantalizing, 'if'; it is made especially difficult for Australia because Niemeyer, having transferred from the Treasury in 1927, came to Australia in 1930 for the Bank of England.[91]

But there is some indication of Keynes's attitude to Australia at the time of the Niemeyer mission: In an answer (dated 21 July 1930) to questions from the British Prime Minister, Ramsay MacDonald, Keynes had suggested 'means to increase our [i.e. Britain's] favourable foreign balance'. He suggested steps to increase 'world trade as a whole, in the hope of thereby increasing the absolute

85 Schedvin (1970, p 3).
86 See Schedvin (1970, pp 183–184).
87 See penultimate paragraph, p 64.
88 See JMK (15, p 3).
89 Harrod (1951, p 120).
90 See, for example, Harrod (1951, pp, 120–121) and Skidelsky (1983, p 175).
91 Schedvin (1970, p 135).

amount of our share of it', and said that 'there are certain special loans which I should favour as a means of developing trade'. Under this, he wrote:[92]

> I hope that we shall stretch a point if necessary to help Australia out of her difficulties, when Sir O Niemeyer is ready with his report. She has perhaps learnt her lesson. In any case a time when wool and her exports generally are at these disastrous prices is not a time to choose for pressing her too hard. She ought to send us some more gold – say £10,000,000 to £15,000,000 – to help with *our* problems. Subject to that we ought to meet her necessities.

In a September 1930 article, Keynes mentioned Australia as 'an outstanding instance' of governments 'gravely embarrassed by the fall in the prices of their staple exports' waiting to borrow at 'whatever rate lenders demand of them'.[93] (In September 1931 Keynes suggested as a possible partial solution to the international debt problem that Britain 'might take shipments of goods, reckoned at more reasonable prices (say 25 per cent higher) than present world prices, from such countries as India, Australia, Canada, Argentina, Germany, etc., the proceeds to be credited against the interest dues of these countries in London').[94]

In January 1931, the Australian pound depreciated, and the Commonwealth Arbitration Court cut the basic wage by 10 per cent. The choice of policy response to the slump was clear: (i) the 'repudiation' of overseas debt obligations, favoured by the radical left and associated with JT Lang, the Premier of New South Wales, but with no chance of adoption by the Commonwealth; (ii) deflation, with reduction of budget deficits, wage cuts and the like, advocated in conservative political circles, by business, and by most economists; and (iii) moderate expansion, often associated with the Federal Labor Treasurer, EG Theodore.[95]

In March 1931, Theodore introduced the Fiduciary Notes Bil1 to authorize 'the printing of up to £18m of Treasury Notes, of which £12m were to be used for public works expenditure for the relief of unemployment and £6m for assistance to

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92 JMK (20, pp 381–382).
93 JMK (20, p 398).
94 JMK (20, p 615).
95 Schedvin (1970, p 9).

the wheat industry'.[96] In his Second Reading speech, Theodore quoted Keynes. First, to repel calls for further wage cuts, he quoted a 1930 article by Keynes arguing that 'if wages are cut all round, the purchasing power of the community as a whole is reduced by the same amount as the reduction of costs; and ... no one is further forward'.[97] Secondly, Theodore quoted Keynes to support his claim that 'the international bankers of the world are largely responsible for what has happened to the monetary policy of the world in the last two years ... They were the originating cause of the depression and the economic disaster that has overtaken the world'.[98] Theodore said:[99]

> Mr JM Keynes' book *The Economic Consequences of Mr Churchill*, published in 1929, contains what I regard as an extraordinarily prophetic remark. It is as follows:–
>
> > The Bank of England has manoeuvred its assets and liabilities in such a way as to reduce the amount of cash available to the clearing banks as a basis for credit. This last is the essential instrument of credit restriction. ... Credit restriction is an incredibly powerful instrument ... especially in circumstances where the opposite course is called for. The policy of deliberately intensifying unemployment with a view to forcing wage reductions is already partly in force.
>
> It was, therefore, already partly in force in England in 1929, and I ask whether that fact does not furnish an explanation of the policy and stand adopted by the Australian banks in Australia last year and this year.

However, *The Economic Consequences of Mr Churchill* was published in July 1925, not 1929.[100] This pamphlet argued that, in restoring sterling to gold at its pre-war parity, the Chancellor of the Exchequer, Winston Churchill, had effectively revalued it by 10 per cent, with necessarily adverse consequences. Keynes argued that, though temporary measures gave 'a breathing space', the Bank

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96 Schedvin (1970, p 240).

97 *Commonwealth Parliamentary Debates*, 17 March 1931, pp 315–316.

98 *Commonwealth Parliamentary Debates,* 17 March 1931, p 317.

99 *Commonwealth Parliamentary Debates*, 17 March 1931, pp 317–318.

100 JMK (9, pp 207–230).

of England would seek ‘to effect what are euphemistically called “the fundamental adjustments”’. This meant credit restriction, which meant deliberately ‘intensifying unemployment without limit, until the workers are ready to accept the necessary reduction of money wages under the pressure of hard facts.’[101]

Even as a comment on the 1925, not 1929, policies of the Bank of England, Keynes’s comments were somewhat milder than Theodore’s excerpts might suggest. Besides deleting Keynes’s references to three other, though lesser, credit restriction measures already taken, Theodore deleted Keynes’s discussion of the extent of the credit restriction in force; it was this:[102]

> Failing direct information, the best reflection of the amount of this restriction is to be found in the deposits of the clearing banks. The tendency of these to fall indicates some significant degree of restriction. Owing, however, to seasonal fluctuations and to the artificial character of the end-June returns, it is not yet possible to estimate with accuracy how much restriction has taken place in the last three months. So far as one can judge, the amount of direct restriction is not yet considerable. But no one can say how much more restriction may become necessary if we continue on our present lines.
>
> Nevertheless, even these limited measures are responsible, in my opinion, for an important part of the recent intensification of unemployment.

From Keynes’s next sentence – ‘Credit restriction is an incredibly powerful instrument, and even a little of it goes a long way – especially in circumstances where the opposite course is called for.’ – Theodore removed Keynes’s somewhat softening words ‘and even a little of it goes a long way’.

It is certainly true that, for example, in 1930 Keynes wrote that ‘an important cause of existing unemployment is to be found in the fact that world conditions in combination with the requirements of the gold standard have enforced on the Bank of England in recent years a credit policy which has kept the volume of domestic investment below what it would otherwise have been’.[103] But Keynes did

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101 JMK (9, p 218).
102 JMK (9, p 219).
103 JMK (20, p 445).

not *blame* the Bank of England for this. He believed Britain should stay on the gold standard because this was necessary for that 'full confidence in London' needed if Britain were to provide leadership in 'an international cure' to the 'international slump'.[104] But, as Keynes put it, 'the difficulty is, of course, that the Bank of England cannot, under gold-standard limitations, move far in [the] direction [of cheaper credit], unless other central banks are doing the same';[105] 'the maintenance of the gold standard keeps a country's investment policy and its current rates of interest somewhat rigidly linked to those prevailing in the other gold standard countries, since any considerable departure from the policies pursued elsewhere will lead to a loss of gold'.[106] It was for this reason that Keynes advocated 'a concerted policy between the leading central banks of the world'[107] and, in March 1931, 'the introduction of a substantial revenue tariff' to neutralise the dangers of expansionary policies within Britain itself.[108]

Presumably because Keynes's bombshell support for tariffs had just become public, an opposition Member interjected during Theodore's speech: 'Mr Keynes has changed his fiscal ideas'.[109] This exchange ensued:[110]

> Mr Theodore. – Mr. Keynes is regarded by everyone who has any knowedge of this subject as an authority in the banking and financial circles of England and the Continent, and as one of the best guides upon economic doctrine, economic necessities and the consequences of economic policies.
>
> Mr White. – But the honourable members knows that he has changed his fiscal ideas.
>
> Mr Theodore. – If he has, he has not changed his ideas upon economic problems. His most recent work – *A Treatise on Money* – is accepted as a text book that will stand for fifty years as a guide to the intellects of the nation on this subject.

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104 JMK (9, pp 235–236).
105 JMK (20, p 445).
106 JMK (21, p 286).
107 JMK (20, p 151).
108 JMK (9, p 236).
109 *Commonwealth Parliamentary Debates*, 17 March 1931, p 318.
110 Note the misquotation of Theodore in Young (1971, p.xi).

Of course, over fifty years later, the *Treatise* stands and is studied as an important stepping-stone from 'classical' economics to the 'Keynesian' *General Theory*. Theodore suggested that it (and other authorities he cited) represented 'an endorsement of the ideas that have actuated this Government in bringing forward its [fiduciary issue] proposal'[111] (which was defeated in the Senate.)

In reviewing the *Treatise* in the *Economic Record* in November 1931, EC Dyason ('a leading exponent of note issue expansion')[112] said it was 'destined ... to influence political and economic thought as powerfully in our own times as did the *Wealth of Nations* that of an earlier day', and that Keynes was 'likely to become an oracle'.[113] Dyason said that Keynes's analysis, applied to Australia, showed that 'our money, for long enough, has been predominantly fiduciary', and would eliminate 'the crude idea that the stability of the note issue is in some mysterious manner preserved by a minimum gold ratio of 25 per cent, but not by one of 10 per cent';[114] a table in the *Treatise* showed that there were gold reserves against 25 per cent of the Australian note issue.[115] Dyason's review stressed the relevance of the *Treatise* to Australia.

Theodore's expansionist approach gave way to the 'sound finance' orthodoxy of the Premiers' Plan of June 1931. The plan comprised major cuts in government spending, income and sales tax increases, and, to 'spread the loss', the reduction of interest rates.[116] As E Ronald Walker wrote in 1933 of early 1931 federal-state financial deliberations aimed at balancing budgets:[117]

> While, by balancing Budgets, unemployment would not automatically or quickly diminish, it was necessary to restore confidence in the public finances before reduction of costs could be expected to produce any improvement. Mr. Keynes has not yet gained wide acceptance of the opposite view – namely, that Government deficits are a useful method of absorbing the excess of private savings over investment: the Australian experts feared that these deficits could only be financed

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111 *Commonwealth Parliamentary Debates*, 17 March 1931, p 318.
112 Schedvin (1970, p 219).
113 *Economic Record*, Nov, 1931, p 227.
114 *Economic Record*, Nov, 1931, p 229.
115 JMK (6, p 239).
116 See Schedvin (1970, ch 10).
117 Walker (1933, pp 136–137).

> by such an expansion of bank credit as might lead to uncontrolled currency inflation.

Despite a flirtation by the Melbourne economists, Copland, Dyason and Giblin, with an expansionist plan in September 1930,[118] a joint statement by economists at the Australian Association for the Advancement of Science Conference in January 1931 urged government expenditure cuts and balanced budgets.[119] Subsequently, the small agroup of Australian economists jointly supported what they regarded as 'spreading the burden' through deflationary policies;[120] indeed, a report by a committee of Professors Copland, Giblin, Shann and Melville in May 1931 helped lay the basis for the Premiers' Plan.[121] In 1950, Copland described the Premiers' Plan as 'a middle course between deflation and inflation', the alternative being the 'purely deflationary orthodoxy of Sir Otto Niemeyer, and stressed that the economists supported depreciation of the currency, 'spreading the loss' of national income through cuts in interest and rent, and some monetary expansion. But Copland went on:[122]

> The principal mistake we made was perhaps in not deviating enough from the deflationist line, though in this matter it is easy to be wise after the event and to ignore the very powerful psychological forces working in favour of deflation at the time.... [T]he mistake was made of not recognizing clearly enough that government activities need[ed] to expand tremendously to offset the fall in private spending.

Condemnation of the Premiers' Plan as inappropriate because it was contractionary appears to be the 'conventional wisdom'.[123] This 'conventional wisdom'may be Keynesian, but it was not the view of Keynes himself at the time.[124]

In March 1932, Prime Minister Lyons asked a committee of economists under the Adelaide businessman, Sir Wallace Bruce, to prepare 'a preliminary survey of the

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118 Schedvin (1970, p 222).

119 Schedvin (1970, p 223).

120 See Schedvin (1970, p 224).

121 See Schedvin (1970, pp 244, 252).

122 Copland (1951, p 21).

123 See, for example, Maddock (1985), a paper for 'Depression Conference', Australian National University, August 1985.

124 Copland himself pointed this out in Copland (1951, p 23) and PD Jonson re-emphasised this in his comment on Maddock (1985) at the 1985 'Depression Conference'.

economic problem'. It comprised another businessman, GS Colman; LG Melville, Economist for the Commonwealth Bank; and Professors Giblin, Mills and Shann. Their report was based on the principle that 'the restoration of employment as opposed to temporary stimulants, is to be found in bringing into harmony the costs and prices of export industry', through cutting costs and, through depreciation, raising prices.[125]

The report[126] recommended 'that budget deficits for 1932–33 should not exceed £12,000,000' when 'preliminary figures' indicated they 'may reach £22,000,000, unless all Governments take determined action to reduce them'; that, as 'the reduction of real wages has been very partial', 'all wage-fixing authorities [should] complete the reduction of real wages by 10 per cent below the level of 1928'; cautious public works programmes to substitute employment for 'sustenance', with loan money spent on 'public works capable of earning interest' and governments loans to private enterprises for capital expenditure able 'to earn interest'.

Keynes commented on this report in an article, written in mid-April 1932, and published in the Melbourne *Herald* on 27 June.[127] Having said that 'it is a rash thing to write from a great distance on a matter which demands practical judgment more than theory', Keynes wrote:[128]

> I sympathise intensely with the general method of approach which underlies the new proposals of the economists and Under-Treasurers. *I am sure that the Premiers' Plan last year saved the economic structure of Australia*. I am not prepared to dispute that another dose of the same medicine may be necessary. But there are some aspects of the Experts' Report which cause me hesitation. I am fearful lest a degree of readjustment should be attempted which is impracticable in the environment of present world conditions.

Keynes argued that if every country were 'to attempt to solve' their problem 'by competitive wage reductions and competitive currency depreciations, no one

125 Shann and Copland (1933, p 39).

126 See Shann and Copland (1933, pp 40–42).

127 Re-published in Shann and Copland (1933, pp.79-85). See also Louis and Turner (1968, pp 218–223), and JMK (21, pp.94-100).

128 Emphasis added.

would be better off'. He said:

> ... a prudent country will lay its plans for orderly reconstruction on the assumption of a much higher world price level than the present, because, unless this assumption is realised, so much else will happen, so many other things will be broken, and the whole structure of national and international indebtedness will have collapsed so completely that its pains will have been wasted.
>
> If, therefore, I were an Australian economist advising Mr Lyons today, ... I should not press for heroic measures. It is a time to chastise gently. Moreover I should have sufficient confidence to take this line, precisely because Australia has done so much already and has been relatively so successful in her programme of necessary readjustment – if only, in spite of disappointment, she could, by comparison with the state of affairs of others, know it! There is more chance of improving the profitableness of business by fostering enterprise and by such measures as public works than by a further pressure on money wages or a further forcing of exports.

On wage cuts, Keynes said this:

> I understand that the reductions of wages so far effected have been unequal. It is of the essence of what has been happening in Australia that there should be equality of sacrifice, and it would seem obvious that New South Wales should be brought into line with the rest of the country. Indeed this must be in her own interest if she is not to suffer more than her share of unemployment. But ... [a]part from [such] local anomalies, I do not believe that a further general cut in money wages could do anything which a further exchange depreciation could not do better.

Keynes was sceptical of the benefits of further depreciation:

> ... I doubt if I should alter the exchange unless either the Australian banks and financial institutions were to tell me that it would make them feel more comfortable and more willing to expand credit, or the proposal was put forward as a substitute for tariffs. ... For the aggravation of the existing tariff by the exchange depreciation being superimposed on it, is probably the principal cause of those remaining maladjustments which are purely Australian and not just a reflection of world

> conditions. The tariff should be reduced in proportion to the depreciation of the exchange.

In September 1931 Keynes had written in *New Statesman and Nation* of 'the great primary producers of South America and Australia unable to borrow and unable to buy, ... endeavouring to balance their international accounts by restricting their imports'; this, Keynes lamented, was 'perpetuating the slump in the manufacturing countries.[129] In Australia, tariffs had been raised higher and higher from April 1930.[130] Keynes's 1932 Melbourne *Herald* article expressed 'complete agreement' with what he called the Wallace Bruce Committee's 'proposed loan for relief work', which puts rather too definitely a more nebulous hope of the Committee. He also supported reducing 'the Budget deficits to the figure allowed by the experts'.

Keynes had this to say on 'Australia's credit in London':

> I feel most strongly that it is immensely worth while to foster it. I believe that Australia has heavily over-borrowed in the past and I have often advised that her securities be avoided. But I do not therefore conclude that the days of Australia's overseas borrowing are over. In my opinion the intrinsic quality of Australia's credit though still very sensitive to passing events, relatively to that of other borrowers is higher today, in spite of Mr Lang, than it has been for several years. ... I believe that Australian credit is rising rapidly in the estimation of the London market. Australia's heroic measures to fulfil her bond may have been apprehended in England somewhat slowly, but they have not escaped notice.

Keynes believed that 'it may not be too long before this has a practical importance':

> ... the best contribution towards world recovery which London can make will be the earliest possible resumption of her position as an overseas lender and the extension of a helping hand to those debtor countries who have shown that they deserve it. And why should not Australia be one of the first of these? It lies within her power.

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129 JMK (20, p 601).
130 Shedvin (1970, pp 140–145).

That article was based on cabled reports of the Wallace Bruce Committee report. On reading the full text some weeks later Keynes wrote to CL Baillieu, an Australian businessman,[131] that 'if I had had the full text before me, I should have amplified my article in certain respects, but I don't know that I should have appreciably modified its general tendency'. He thought the report 'notably weak' in the imprecision and lack of substantiation of 'the hypothesis that export costs are 20 per cent above export prices'. He thought 'more strongly than before that the committee is inclined to be too drastic and is aiming at adjustments which are humanly impossible for Australia in the existing environment of the world'; but taking a 'milder ... reading of the report', he thought that 'while their general approach to the problem seems to me rather frightening, their actual proposals are mild and reasonable enough'.

Shann and Copland in 1933 quoted Keynes as having 'us raise loans ... for relief works, "expand internal bank credit and stimulate capital expenditure as much as courage and prudence allow"'.[132] They responded:

> ... we are already doing all the things Mr Keynes recommends 'as much as courage and prudence allows'. But they form parts of a policy the central principle of which is and must be the restoration of balanced budgets as the chief test of our success in retaining economic control.

Notwithstanding Keynes's greater inclination to expansionary policies than Australian economists and governments favoured, his was a more cautious approach than the later 'Keynesian' conventional wisdom would have wanted. Most striking is his statement that 'the Premiers' Plan ... saved the economic structure of Australia'.

This cannot justly be deprecated by claiming Keynes was writing under the influence of or as the agent of Australia's creditors. His article was explicitly from the position Keynes would take 'if ... I were an Australian economist advising Mr Lyons'. There is no basis in the article or in Keynes's other writings or actions to doubt the sincerity of this. Keynes was not slow to criticise the British Government, the Bank of England, or private interests; it is not obvious

131 See JMK (20, pp 100–102).
132 Shann and Copland (1933, p xiii). See also, Louis and Turner (1968, p 223).

why his attitude to Australia should be deflected by concern for their interests or deference to them. Certainly there is no evidence that his public statements were influenced by private interests; given that National Mutual, of which he was Chairman, had ‘for many years past’, in line with Keynes’s approach, ‘held no securities of the Australian Government or States’,[133] it is not clear that the private interests in his purview required Australian austerity. Indeed, Australian default would have vindicated Keynes’s earlier suspicions of Australian borrowings.

Nor can Keynes’s support for the Premiers’ Plan be dismissed as ‘pre-Keynesian’. Keynes had already on many occasions advocated public works to promote employment;[134] he did so in the very article in which he (effectively) endorsed the Premiers’ Plan.[135] And, at least with the publication of the *Treatise* in 1930, if not earlier, the term ‘Keynesian’ was in use; Dyason used it at least three times in his *Economic Record* review of the *Treatise*,[136] and in May 1932 FRE Mauldon cited Paul Douglas as approving ‘the Keynesian diagnosis of disparity in the pace of investment and saving’.[137]

Keynes’s attitude to the Premiers’ Plan, and his refusal in April 1932 ‘to dispute that another dose of the same medicine may be necessary;[138] is better understood in the light of his lecture to the International Economic Society in Hamburg on 8 January 1932:[139]

> ... today the primary problem is how to avoid a far-reaching financial crisis. There is now no possibility of reaching a normal level of production at any reasonably early date. Our efforts are directed towards the attainment of more limited hopes. Can we prevent an almost complete collapse of the financial structure of modern capitalism? ... no one is likely to dispute that the avoidance of financial collapse, rather than the stimulation of industrial activity, is now the front-rank problem. The restoration of industry must come second in order of time.

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133 JMK (12, p181).

134 See, for example, ‘Can Lloyd George Do It?’ in JMK (9, pp 86–125).

135 See, for example, JMK (21, pp 96, 98).

136 *Economic Record*, Nov, 1931, pp 229, 231, 236.

137 *Economic Record*, May, 1932, p 133.

138 JMK (21, p 94).

139 JMK (21, p 39).

Furthermore, Keynes was conscious of the adverse effects on confidence of expansionary policies: in May 1932, only a few weeks after writing his Melbourne *Herald* article, Keynes said to Colin Clark and Joan Robinson of the beneficial effects of budgetary deficits – ‘But how ... could the physician prescribe when the patient vomited as soon as he received the medicine?’[140] The pressures in Australia for ‘sound finance’ were very great.

In his Hamburg lecture Keynes stressed the benefits of Britain’s abandoning the gold standard in September 1931, and in this context said that Australia’s ‘economic and financial conditions may have turned the corner in the last three months’.[141] In November 1931 Keynes said ‘Australia has gone farther off [the gold standard] than we have’.[142] At various times in 1931 he suggested consideration of a new currency system based on the Empire.[143] In September 1933 Keynes wrote that ‘the remarkable recovery of Australia could not have occurred but for our devaluation of gold two years ago’.[144]

In January 1933, in a ‘Memorandum on Sterling Exchange’, Keynes wrote of ‘the improvement of ... Australian ... balances in London’,[145] and sounded an optimistic note about the Australian economy.[146] In an article in the *Economic Journal* in September 1932, he had argued that loans floated by Dominions in London would do more to promote international trade than, say, lending to ‘the distressed countries of Europe’.[147]

The determination of the Anglo-Australian exchange rate was the responsibility of the Commonwealth Bank. In 1932 there was much pressure for further devaluation, while the Chairman of the Bank Board, Sir Robert Gibson, favoured movement – in the opposite direction – towards re-establishing parity with sterling.[148] Gibson’s attempts in September–October 1932 to have the Board begin

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140 Clark (1983, p 33).
141 JMK (21, p 42, pp 12, 14).
142 JMK (21, p 17).
143 JMK (20, pp 381, 486, 592).
144 JMK (21, p 286).
145 JMK (21, p 224).
146 See JMK (21, pp 142, 217, 220).
147 JMK (21, p 124).
148 See Shedvin (1970, pp 359–365).

the move to parity came to nothing – not least, it seems, because the Bank of England made clear that it had 'no objection to the Australian exchange rate fluctuating in accordance with internal conditions'.[149] The issue was not reopened until a Board meeting in October 1933, where again the Board 'decided not to alter the rate for the present'.[150]

At that meeting, the Board had before it 'Notes Made in London, October, 1932' by Melville, detailing the attitudes of various prominent financial authorities to Australia's exchange policy. The document began (somewhat audaciously, considering Sir Robert Gibson's opinion):[151]

> London opinion is greatly divided on the matter of the Australian rate of exchange. Beyond saying that well informed people insist that we should not attempt to restore the old parity with sterling it is impossible to give any general view. All that is possible is to suggest the attitude of various individuals whose opinions seem worth recording.
>
> Mr JM Keynes thinks that the rate of exchange should be altered only in accordance with economic conditions in Australia. He is dubious about any further depreciation of the Australian pound. It might result in a fall in the sterling prices of our exports. He does not think the pound should be appreciated even if commodity prices rise. Any unreasonable profits thereby given to exporters could be removed by raising wages and thus increasing costs. He considers this to be better than removing unreasonable profits by appreciating the Australian pound.

The paper continued:

> Mr RG Hawtrey, economic adviser to the British Treasury, considers that the rate of exchange should be altered to accord with economic conditions in Australia. Neither Keynes nor Hawtrey considers that, in any alteration of the exchange rate, we should pay attention to the effects of the alteration on other countries. Sir Basil Blackett agrees generally with Keynes but thinks we should pay some

149 Shedvin (1970, p 363).

150 Shedvin (1970, p 364).

151 Reserve Bank of Australia Archives, paper for 115th Board meeting, 9 October 1933. The opinions are summarised in Giblin (1951, pp 149-50).

> attention to the effect of any alteration on other countries. Sir Henry Strakosch agrees generally with Sir Basil Blackett.

So the 'notes' went on. Schedvin says that 'these views appear to have influenced Melville in favour of a reasonably flexible rate. In a memorandum prepared at the beginning of the 1933–34 export season, he expressed the opinion that the rate should rise or fall in accordance with internal conditions'; and his advice against exchange appreciation was followed.[152]

Keynes's views received attention in Australia in other contexts. For example, in May 1931, AC Davidson, the General Manager of the Bank of New South Wales, suggested to the Victorian branch of the Economic Society that Keynes supported the autonomy of central banks from government control, and that his 'analysis ... supports ... both government economy and a ... reduction of interest rates';[153] only on the last point (reduction of interest rates) is it clear that Davidson was right about Keynes.

The views of the Macmillan Committee on Finance and Industry, in which Keynes had great influence, were sometimes quoted in argument.[154] Keynes's *Treatise on Money* (1930) received considerable, though not entirely uncritical, attention from Australian economists, as shown in references to it in the *Economic Record*.[155] Giblin later wrote that it was Keynes's *The Means to Prosperity* of March 1933 that 'popularized the idea' of 'credit expansion in a depression'.[156] Giblin's review of *The Means to Prosperity* in the *Economic Record*[157] praised the 'simplicity, clearness and persuasiveness' of Keynes's exposition of 'an ordered plan for world recovery', and rather overstates the parallel between Keynes's plan and 'the successful steps that have been taken in Australia – piece-meal, sometimes almost accidentally, without any general acceptance of principle – in the effort to keep afloat in the economic maelstrom'.

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152 Schedvin (1970, pp 364–365).

153 Shann and Copland (1931, pp 66, 69).

154 See, for example, Shann and Copland (1932, pp 12–13, 15).

155 See, for example, Copland's review in *Economic Record*, June 1933 pp 126–127; Sawkins (1933) and Walker (1933, p 185).

156 Giblin (1951, p 120).

157 *Economic Record*, June 1933, pp 141–143.

In 1932, in reviewing a volume of lectures given at the University of Chicago, including by Keynes, FRE Mauldon had written (Shann and Copland 1932):[158]

> To Mr Keynes, with whose monetary theories we are becoming increasingly familiar, the most fruitful course to follow [to deal with the depression] is action to 'bring down the long-term rate of interest at a pace appropriate to the underlying facts'. Yet he confesses himself to be pessimistic about an early return to normal prosperity, for the reason that it may be extremely difficult both to restore confidence adequately and to reduce interest rates adequately.

It was thus into an Australian economics profession reasonably familiar with the policy prescriptions Keynes championed that the *General Theory* came early in 1936. This is well evident in an article by E Ronald Walker of Sydney University in the *Economic Record* in December 1933; Walker concluded by contrasting the policy prescriptions of Hayek and Keynes:[159]

> ... Professor Hayek is strongly opposed to all measures calculated to expand consumers' demand during depression, such as 'reflation', or public works paid for out of bank credit ... Yet Mr Keynes's remedy is to check savings and stimulate expenditure.

Walker, recently returned from Cambridge, where he had sat at the feet of the master (and written on *Australia in the World Depression*)[160], supported Keynes's approach, and found Hayek's theory – 'not relevant to the problem of recovery from a slump'.[161]

4. The 'General Theory' in Australia

The Australian economics profession – academic and bureaucratic – was a small community with much personal contact between individuals (for example, at

158 *Economic Record*, May 1932, p 132.
159 Walker (1933, p 200) in *Economic Record*, December 1933.
160 Walker (1933).
161 *Economic Record*, Dec 1933, p 201.

conferences of the Australian Association for the Advancement of Science).[162] As Schedvin put it in discussing the formation of the Premiers' Plan:[163]

> The teaching of economics as a separate university discipline was still in its infancy in 1930. There were only five full Chairs of Economics in Australian universities and a sixth was linked with history. Relative to the number of professors, sub-professorial staff members were even fewer. Small numbers did, however, make for ease of contact and for familiarity with one another's views, and this made unanimity comparatively easy to achieve when policy measures were under discussion during 1930–31 ... this appearance of complete agreement was successfully maintained despite wide differences of conviction.

That early 1930s unanimity was in support of moderate deflation. In the late 1930s, the pages of the *Economic Record* are strewn with references to Keynes and the *General Theory*; many of them seem almost to take for granted that Keynes was basically right, though there are also some critical discussions. By the Second World War the Australian economics profession was overwhelmingly Keynesian – though with different degrees of enthusiasm.

The word 'Keynesian' is used here to mean placing the central focus on aggregate or effective demand, and acceptance of policies of public works, with budget deficits, and 'cheap credit' as the appropriate policy response to a depression or recession, rather than wage cuts and 'economy'. I am less concerned with acceptance of Keynes's theoretical propositions – that income and employment are determined by consumption and investment, with investment determined by the marginal efficiency of capital and interest rates, the latter determined by liquidity preference, and all this in a context of uncertainty. I will add nothing to the debate on 'Keynes versus the Keynesians', except to say that the evidence is strong that Keynes, unlike some Keynesians, regarded deficit financing as strictly for counter-cyclical use, did not think it could necessarily ensure full employment, and was concerned to keep both inflation and interest rates low.

The differing degrees of enthusiasm for Keynesian ideas can be seen in the attitude, already quoted, of Sir Douglas Copland to the Premiers' Plan. He chaired

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162 I am indebted to Lady Phillips for making this point graphically to me (conversation, 11 September 1985).
163 Schedvin (1970, p 218).

the committee on whose report it was based; but in the 1950 lecture quoted above, he accepted the Keynesian verdict that it was too deflationary.[164] Especially during the Second World War, Copland became a strong supporter of a public works policy to maintain employment levels post-war.[165] But Copland declared himself ‘certain that Keynes ... would not have been guilty of the mistake which so many of his followers make in concentrating too much attention on aggregative remedies for depression and too little on internal price relationships’.[166] Copland said:[167]

> The more extreme devotees of the doctrine of full employment are much too confident of their ability to control the powerful forces arraigned against them .... I suggest that the reason for this excess of confidence lies in too much emphasis being placed on the Keynesian doctrines in circumstances in which it is difficult to apply them.

The smallness of the Australian economics profession in the 1930s enables us to consider the transmission of ‘Keynesian doctrines’ to Australia by examining the careers and writings of the major Australian economists of the time. What follows will necessarily be cursory and incomplete. After some general remarks, I will give details of several economists of note in this period, and then briefly consider three issues – the Banking Royal Commission of 1936–37, aspects of wartime economic policy, and the Full Employment White Paper of 1945.

As I have already suggested, Keynes’s writings – such as the *Treatise* and *The Means to Prosperity* – gained considerable attention in Australia. Some of the older economists, such as Giblin and RC Mills were receptive to them,[168] and the recent, younger arrivals from Cambridge – especially Walker, Reddaway and Clark – created, in turn, greater impetus towards general acceptance.[169]

In general, the degree of awareness and acceptance of Keynesian ideas declined with age, and increased with the extent and recentness of direct contact with English, especially Cambridge, economics (though there are a number of

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164 Copland (1951, p 21).
165 Cornish (1981, pp 20–21).
166 Copland (1951, p 23).
167 Copland (1951, p 25).
168 See Cain (1984, p 377, note 14).
169 See Cain (1984, pp 378–380).

exceptions to this). As there was much youth and much contact with Cambridge, it is not surprising that the *General Theory* had a profound and immediate impact in Australia. More important still, no doubt, was the climate of receptiveness to new ideas – to an analysis that offered real hope of preventing a repetition of the depression.

The successful application of Keynesian analysis to the problems of the war economy confirmed the Keynesian ascendancy, which reached its apogee in the 1945 Full Employment White Paper, in the preparation of which almost every Australian economist of any note contributed.[170]

I have already indicated Copland's cautious approach to 'Keynesian doctrines', and, earlier, showed Dyason's early and enthusiastic Keynesianism. EOG Shann died in May 1935, nearly a year before *General Theory* reached Australia. His staunchly anti-interventionist views, especially as expressed in the 1920s and very early 1930s, have gained some renewed prominence in recent times;[171] what is perhaps less well known was recorded by Copland in 1935:[172]

> He was against undiluted deflation as a solution, and as the depression deepened his belief in monetary policy as a way of escape increased. He carried this belief to Ottawa in 1932 and to the World Economic Conference in 1933. In both places he worked untiringly to bring about a declaration of policy by the British Commonwealth of Nations. It was a 'wider planning, a monetary policy that would permit of recovered equilibrium, and an expansion of consumers' demand' that was the goal of his endeavours in these years.

After Shann's death in 1935, a heavy teaching load at the University of Adelaide fell on to JA La Nauze, in whose classes the *General Theory* was much studied and discussed, and received with enthusiasm by many students.[173] Such students included DG Badger and the late LF Crisp, both of whom went on to play, *inter alia*, a part in shaping the Full Employment White Paper of 1945.[174] On the

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170 Cornish (1981, p 191).

171 See Stone's (1984) Shann Memorial lecture.

172 See Copland and Janes (1936, p viii).

173 Recollections of Dr Don Badger (conversation, 13 September 1985).

174 See Cornish (1981, pp 56–61, 87, 134).

other hand, notwithstanding the quotation later from Gifford, it was possible to be an intelligent economics student at the University of Queensland from 1935–1939 without being aware of the *General Theory* making much impact.[175] Even in the mid-1940s at the University of Western Australia it was 'necessary for students to organize their own group, meeting 'once a week to discuss, successively, chapters of the *General Theory*'.[176]

The economists to whom I will pay particular attention are: LF Giblin, E Ronald Walker, WB Reddaway, some other recent arrivals from Cambridge (especially Colin Clark), LG Melville and HC Coombs.

(i) *LF Giblin*: Schedvin has written that 'the intellectual leader and politically most influential' of 'the Australian economists of 1930–1931' was LF Giblin.[177]

Giblin, born in 1872, was educated at King's College, Cambridge, and, in 1929, after a career of statistical, political and other work mostly in Tasmania, was appointed the first Ritchie Professor of Research in Economics at Melbourne University. He served on the Board of the Commonwealth Bank from 1935–1942, and during and immediately after the Second World War chaired the influential Financial and Economic Committee. At the age of 75 he began writing the history of the Commonwealth Bank that was published after his death in 1951.[178]

When Keynes died in 1946, it was Giblin who wrote his obituary – or, rather, 'some personal notes' – for the *Economic Record*. Giblin wrote: 'Economic thinking has been revolutionized by his work; and his planning and negotiations in world economic affairs have been the outstanding contribution of any individual to the economic reconstruction of the world'.[179]

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175 Recollections of TJ Bartley (conversation, 12 September 1985).

176 Austin Holmes (1983) in his address to the Economic Society, Brisbane, 27 July 1983.

177 Schedvin (1970, p 218).

178 Giblin (1951).

179 In *Economic Record*, June 1946, p 1.

Giblin had first met Keynes in 1918, and they had some correspondence over subsequent years – for example, in 1933 about *Keynes's The Means to Prosperity*;[180] during the Second World War about war finance and rationing;[181] about planning for the International Monetary Fund;[182] and on other occasions.[183] Giblin had been an architect of the Premiers' Plan, and a signatory to the Wallace Bruce proposals of 1932 (which Keynes himself, with reservations, broadly supported). Giblin's favourable review of *The Means to Prosperity* in 1933[184] with his endorsement of public works programmes to combat unemployment, reflects his shift towards 'Keynesian' policies. Cain says of Giblin: 'he must be bracketed with Walker as the precursor of a new philosophy, [but] his views fell short of Walker's in coverage and sophistication'.[185]

In 1938, Giblin spent several months in residence as a supernumerary Fellow of King's College, Cambridge, where he had been a student over forty years before.[186] He had use of Keynes's rooms in King's, and visited him at his farm at Tilton, Sussex.[187]

But Giblin was not swept off his feet by the *General Theory*. He wrote of 'a leisurely reading in one piece of Keynes's General Theory – with not much more definite result than the need to read it again'. He wrote:[188]

> In so many places I cannot get the convincing picture of things happening just so – there are so many alternatives and qualifications to be thought out. So much seems to require a careful statistical analysis and testing before one can feel that it is safely based, and Keynes is a bit offhand on that side – rather the amateur trusting to the impressions of a shrewd and sensitive intelligence than the professional seeker after

180 JMK (13, pp 414–420).

181 See Coombs (1981, pp 11–12).

182 Copland (1960, pp 103–105).

183 See, for example, *Economic Record*, June 1946, p 2; Copland (1960, p 56). JM 'Pete' Garland recalls that a letter from around the time of the Wallace Bruce report of 1932 was lost before it could be published in the *Economic Record* (conversation with JM Garland, 7 September 1985). The catalogue of the Giblin papers at the National Library of Australia does not list Keynes as a correspondent, however.

184 *Economic Record*, June 1933, pp 141–143.

185 Cain (1984, p 377).

186 See Copland (1960, pp, 19–20).

187 *Economic Record*, June 1946, p 2.

188 Copland (1960, pp 45–46).

> facts – and not demanding and relying on the professional investigator as a necessary partner in the business.

It has been said that in England in 1938 Giblin had 'many fruitful talks with Keynes as well as other economists, and with some of their pupils. Occasionally he was proud to think he had converted Keynes on some points to his own view'.[189]

It has been claimed that Giblin anticipated Richard Kahn and Keynes on the multiplier. For example, at the ANZAAS meeting of January 1939 in Canberra, in the reported discussion of a paper by GL Wood focussing on the operation of the multiplier in the US, Dr (later Sir) Roland Wilson 'deplored the absence of reference in the paper to the work of 'one in our midst' on what had been called the 'Keynes-Kahn' multiplier'.[190] He said that 'possibly Mr Clark could explain to what extent Keynes and Kahn had been anticipated by an eminent Australian economist'. Colin Clark, having referred to the US as 'the most beautiful laboratory for the working of the multiplier', went on to say:

> The evidence was satisfactory that Professor Giblin, in his *Inaugural Lecture* in Melbourne in 1930, first put the multiplier on the map. The multiplier appeared to have been in the minds of economists in Australia long before it had been thought of in America or Great Britain.

PH Karmel has pointed out that the multiplier analysis in Giblin's 1930 lecture was a foreign trade multiplier, less complete than (and different in other ways from) Kahn's formulation of an investment multiplier.[191] Karmel says that 'for Giblin savings are automatically invested and there is no problem of insufficiency of effective demand in the Keynesian sense'.[192]

Giblin's lecture, on 28 April 1930, was entitled 'Australia, 1930'.[193] He was speaking of 'a direct loss of income from the fall in exports and the cessation of external loans of the order of £50m.', and asked: 'What will be the effect on other

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189 Copland (1960, p 20).
190 *Economic Record*, April 1939, p 132.
191 Karmel, in Copland (1960, p 168).
192 Copland (1960, p 172). But see Copland (1960, pp 42–43).
193 These extracts are from Giblin (1930, pp 10–12).

income?' He then set out an argument with 'a woolgrower receiv[ing] £900 less income than his average', reducing his expenditure, thus reducing the incomes and therefore expenditure, of others and so on until 'there has been ... a reduction of Australian income of ... three times the direct shortage of income of the wool-grower'. Giblin then applied this argumemt to the drop in Australian 'income' of £50 million, saying it would mean a shortage of Australian incomes of £150m., which would imply an addition to unemployment of at least one-sixth of our population'. This was a prescient warning of the enormity of the crisis engulfing Australia.

Two points should be made. First, Giblin had not worked the concept out clearly, and was somewhat uncertain; he said:

> Is, then, this appalling result likely to happen, or is the whole argument affected by a fundamental error? The matter is obscure. I confess I do not see my way clearly through the tangle of price reactions that must follow the loss of income.

Secondly, Giblin's analysis was the basis for the Austrailian economist's stress on 'spreading the loss' in, for example, the Premiers' Plan;[194] Giblin went on:

> I will only say that my somewhat muddled belief is that the tendency will be broadly to this result, to the extent that the Australian standard of living fails to adjust itself to the diminished income; but that if the loss is evenly spread through the community, it may be very nearly confined to the first direct loss of £50m., and there need be no serious addition to unemployment.

Giblin had in the late 1920s evolved the multiplier concept to analyse the effect on national income of a Victorian railway construction project.[195] But in 1930 he appears to have ignored this domestic investment multiplier.[196]

Kahn's famous article setting out the multiplier was published in *the Economic Journal* of 1931.[197] It is true, as AL Wright has said, that Kahn 'first popularized'

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194 See, for example, Schedvin (1970, p 220).

195 See Copland (1960, p 156, pp 42–43); Schedvin (1970, p 220). See also Copland (1951, p 16).

196 See Schedvin (1970, pp 220–221).

197 Kahn (1931).

the multiplier[198] it was Kahn, not Giblin (nor anyone else) who set out the multiplier in clear detail in a journal that would give it prominence amongst economists. (But E Ronald Walker wrote in his *Unemployment Policy* (1936) of the secondary employment effects of expenditure: 'Although Mr JM Keynes has attempted to popularize this notion [in *The Means to Prosperity*], it has failed to make any impact upon the mind of the British Government'.)[199]

It is clearly the case that Giblin anticipated Kahn, in that his brief exposition of a form of multiplier was published before Kahn's article. In this, Giblin was not alone. Wright[200] and Patinkin[201] have cited a number of other writers, some before Giblin, who developed similar concepts, and even used expressions such as 'multiplying principle' and 'multiple spending'.[202] In Australia, JB Brigden was thinking along comparable lines.[203] And, as Patinkin points out, Keynes and Hubert Henderson had in their 1929 pamphlet *Can Lloyd George Do It?* referred to 'indirect employment' effects of 'schemes of capital expenditure', without using the term 'multiplier'.[204]

In 1933, after publication of Keynes's *The Means to Prosperity* (in which he used the expression 'the multiplier'), Giblin wrote to Keynes criticising his multiplier calculations; Keynes largely rejected the criticism.[205] One of Giblin's letters told Keynes: 'I have at times made similar computations here, e.g. on the total increase in income following from a given increase in export production'.[206] Whether Giblin informed Keynes of his own pre-Kahn work on the multiplier, I do not know. But it seems Keynes did not acknowledge that work as influencing his own. Indeed, he wrote in the *General Theory* that 'the conception of the multiplier was first introduced into economic theory by Mr. RF Kahn in his article on "The Relation of Home Investment to Employment"... '[207] In a brief note on the 'history

198 Wright (1956, p 181).
199 Walker (1936, p 138).
200 Wright (1956).
201 Patinkin (1982, ch 7).
202 Wright (1956, pp 181–182).
203 Schedvin (1970, pp 116–117).
204 Patinkin (1982, pp 191–195). See also Shackle (1951, p 241) and JMK (12, p 806).
205 JMK (13, pp 414–419).
206 JMK (13, p 415).
207 JMK (7, p 113).

of the multiplier doctrine' Keynes sent Colin Clark in 1938, Keynes made no reference to Giblin, even though Keynes's accompanying letter mentioned his seeing Giblin in Cambridge.[208]

Giblin became a practical and cautious Keynesian. In comments by him (and by HC Coombs) at the ANZAAS meeting of January 1939, there was concern at the adverse effects deficit spending could have on business confidence and so on investment;[209] this was a concern Keynes also had.[210] During World War II, Giblin supported Keynes's Clearing Union plan ahead of the American Stabilisation Fund plan (of which he was very critical); but he was less convinced than many other Australians of the need for an international agreement on full employment *before* Australia could commit itself to such a scheme.[211] During this time, Giblin took a more cautious line on post-war economic policy than many 'Keynesians'; as Copland put it, 'Giblin was far too realistic and cautious in his approach to succumb to the allurements of so extravagant a doctrine' as 'over-full employment (more jobs than there are people to fill them)', which Copland says 'was the theme song of a new generation of economists who might perhaps be classed as neo-Keynesians'.[212] But Giblin played an important role in the shaping of the 1945 White Paper on Full Employment, and, though he recognized the difficulties, supported the commitment to achieving full employment through demand management.[213]

(ii) *ER Walker*: The writings of E Ronald Walker in the 1930s, some already quoted, represent 'the first formal deployment of [Keynesian ideas] in a comprehensive critique of Australian policy during depression and recovery'.[214] Having graduated from and taught at the University of Sydney, Walker was a graduate student at St John's College, Cambridge, in 1931–1932, staying into 1933, and was exposed to aspects of the development of Keynes's thinking from the *Treatise* to the *General Theory*. His doctoral thesis, published in 1933 as *Australia in the World Depression*, aimed 'to consider Australian wage and

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208 JMK (12, pp 803, 806–807).

209 *Economic Record*, April 1939, p 133.

210 See, for example, Clark (1983, p 33). See also JMK (7, pp 161–163).

211 Reserve Bank of Australia Archives, files C3-9-1-74, IT-f-472-1; memo by Giblin, May 1943.

212 Copland (1960, p 8). See also Copland (1960, pp 204–212).

213 See, especially Cornish (1981, pp 19–20).

214 Cain (1984, p 367).

monetary policy in the light of Keynesian analysis';[215] but Keynes, with whom Walker certainly had contact,[216] was not credited with giving assistance to him, though Robertson, Pigou, Gregory and Guillebaud were.[217] Neville Cain has recently contributed a valuable article on Walker, reviewing his contributions to both theory and policy debates from his return to the University of Sydney in 1933 through to 1936.[218]

(iii) *WB Reddaway*: When Giblin was appointed to the Commonwealth Bank Board in 1935, he devoted a large part of his fees to an Economic Research Fellowship at the University of Melbourne. 'Keynes was consulted and a young Cambridge man, WB Reddaway, came to Australia as the first Research Fellow'.[219] Reddaway was then 23 and had come from what Sir Austin Robinson called 'that astonishing vintage of 1934'.[220] Though he returned to Cambridge in 1938, teaching economics until his retirement (as Professor of Political Economy) in 1980, he has retained links with Australia.

Reddaway reviewed the *General Theory* for the *Economic Record* (June 1936). It is a confidently written piece, expounding clearly the *General Theory*, and expressing strong, though not totally uncritical, support for it. Reddaway wrote to Keynes in July 1936 with some thoughts on aspects of the *General Theory* – the nature of money, Keynes's underemphasis (as Reddaway saw it) on confidence in considering the marginal efficiency of capital and the effect of money wage cuts.[221] Keynes replied saying he had 'somewhat reconsidered the argument' in chapter 17 of the *General Theory*, 'entirely' agreeing with Reddaway that 'the schedule of the marginal efficiency of capital ... depends on confidence as well as on physical facts', and agreeing with him on money wages.[222] Keynes wrote: 'I enjoyed your review of my book in the *Economic Record*, and thought it very well done'.[223] Neville Cain has described Reddaway's review as 'one of the finest

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215 Schedvin (1970, p 1n).
216 See JMK (29, p 48) and Patinkin and Leith (1977, p 50).
217 Walker (1936, pp v–vi).
218 Cain (1984).
219 Copland (1960, p 62).
220 Pantikin and Leith (1977, p 33).
221 JMK (14, pp 66–68).
222 JMK (14, pp 68–70).
223 JMK (14, p 70).

contemporary reviews of the *General Theory*, giving a flying start to that technical discussion with which, it might reasonably be said, Australian economics came of age. The Keynesian revolution had arrived, and was soon to be consummated in war and post-war planning'.[224]

(iv) *Other arrivals from Cambridge*: Walker and Reddaway, on coming from Cambridge, were important and active agents of the Keynesian revolution in Australia. But they were not the only recent Cambridge economics graduates to make a mark in Australia. J.M. 'Pete' Garland had studied at King's in the early 1930s, attended 'the Keynes Club' (the Political Economy Club, a group that met on Monday nights under Keynes's guidance to discuss a paper), and been aware of the exciting developments underway. He recalls, for instance, Joan Robinson telling him of her troubles in keeping Keynes to the true path of the revolution. On returning to Australia, he went into the wool industry, with the Australian Estates Company, but started work at the Commonwealth Bank in 1938. During the Second World War, he played some role, *inter alia*, in preparation of the Full Employment White Paper.[225]

SJ Butlin, later Professor of Economics at Sydney University (1946–1971), and of Economic History at the ANU (1971–1975), had studied in Cambridge in the early 1930s. Butlin wrote on Keynes's death in 1946:[226]

> ... and fascinating lectures they were too. It was a refreshing experience to listen to a man who thought as clearly and originally as Keynes, thinking out aloud for the benefit of students ... I heard his lectures in 1933 and 1934. They were concerned with the central themes of the *General Theory* and, in fact, the second set was given using galley proofs in place of lecture notes.

Butlin aimed to convey the excitement of Keynes's developments to his students as a young lecturer at the University of Sydney from 1935 to 1941.[227] But Butlin argued in 1946 that 'it was the *Treatise*, not the *General Theory* which accomplished the Keynesian revolution'; he wrote: 'the Treatise was the really

224 Cain (1984, p 367). See also Cain (1984, p 379).
225 Conversation with JM Garland, 7 September 1985; Cornish (1981, pp 136, 140, 142).
226 Butlin (1946, p 9).
227 Conversation with Miss Judy Butlin, 9 September 1985.

revolutionary book, as those who read it when it appeared and wrestled and sweated over it will agree'.[228] But he acknowledged that the *General Theory* which he regarded as an especially untidy book, 'was immediately recognised as a great, original book'.[229] He noted somewhat scornfully that, as the Keynesian revolution gathered momentum in Australia, 'those who differed from Keynes had little chance of getting a hearing, especially from the younger men'.[230] And Butlin was certain that much of what passed for Keynesian economics, especially Keynesian policies, would have aroused 'vigorous attack' from Keynes himself.[231]

The Australian (as he became) with the closest personal links with Keynes was, of course, Colin Clark;[232] his arrival in Australia in 1937 helped to maintain 'the momentum of acceptance' of Keynesian economics that had built up through the work of Giblin, Walker, Reddaway and others.[233]

Clark was born in London in 1905, and educated in England. Although he first met Keynes in 1929[234] Clark came to know Keynes well while on the staff of the British Government's Economic Advisory Council in 1930–1931; Keynes was a member of the Council. Their links were strengthened when Clark went to Cambridge in 1931 as a lecturer in statistics. It was while with the Economic Advisory Council and at Cambridge that Clark developed a very considerable reputation for original statistical work, especially in the development of national income statistics. In the *General Theory*, Keynes referred favourably to Clark's first major work, *The National Income, 1924–1931*,[235] and cited his statistics on many other occasions.[236] References to Clark's statistics are made in letters from DH Robertson,[237] Harrod,[238] Hawtrey,[239] Kahn,[240] and in drafts of chapters of the

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228 Butlin (1946, p 13).

229 'John Maynard Keynes', *Current Affairs Bulletin*, Sydney, 8 October 1 p.15; this article was apparently written by Butlin.

230 Butlin (1946, p 18).

231 Butlin (1951, p 15); see also p 9.

232 For Clark's recollections, see 'The "Golden" Age of the Great Economists: Keynes, Robbins *et al.* in 1930', *Encounter* 1977; 'Recollections of Keynes', *Economic Papers*, October 1983; book review in *Quadrant*, May 1984.

233 Cain (1984, p 379).

234 Clark (1983, p 34).

235 JMK (7, p 102).

236 For example, JMK (7, p 386, 409n).

237 JMK (13, pp 493, 498).

238 JMK (13, p 563) and JMK (14, pp 175, 325).

General Theory.[241] Clark had what he recalls as 'frequent discussions' with Keynes as the *General Theory* was evolving, not least on the multiplier[242] (and Keynes sent Clark a complimentary copy of the *General Theory*).[243]

A number of Keynes's references to Clark are extraordinarily glowing. For example, in December 1931 Keynes wrote to Daniel Macmillan, the publisher, to recommend Clark's work *The National Income, 1924–1931*. Keynes wrote 'that Clark's work, on this and allied subjects, is quite outstanding, and that he is likely to become the recognised authority, in the course of time ... Clark is, I think, a bit of a genius: almost the only economic statistician I have ever met who seems to me quite first class'.[244] Nearly a decade later, in *How to Pay for the War*, Keynes declared that 'there is no one today, inside or outside government offices, who does not mainly depend on the brilliant private efforts of Mr Colin Clark (in his *National Income and Outlay*, supplemented by later articles)'. But, in the vein of his complaint of government disregard of the need for good statistics, Keynes went on: 'but, in the absence of statistics which only a government can collect, he could often do no better than make a brave guess'.[245]

Patinkin reads a great deal into remarks such as this. He seeks to imply that, 'in the early 1930s', Keynes had 'little faith' in national income statistics, and 'even less faith in the aggregate estimates of Colin Clark'.[246] There seems to me little evidence to support this contention; certainly Patinkin provides little.[247] And he simply fails to mention some important evidence: though he places considerable stress on unfavourable reviews of Clark's 1932 book, he does not mention Keynes's own reaction. Keynes wrote to Clark on 2 January 1933:[248]

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239 JMK (13, p 571). See also pp 577, 580.

240 JMK (13, p 635).

241 JMK (13, p 473).

242 Clark (1983, p 37). Re the multiplier, see JMK (13, p 413), Patinkin and Leith (1977, pp 50, 68) and Patinkin (1976, pp 130–131).

243 JMK (29, p 207).

244 JMK (29, p 57n).

245 JMK (9, p 381).

246 Patinkin (1982, p 251). See also p 237.

247 Patinkin (1982, pp 251–254).

248 JMK (29, p 58). Original emphasis.

> I have just finished reading your book carefully ... I think that it is *excellent*. An enormous step forward.

(This letter was published in Keynes's *Collected Writings* three years before Patinkin's book.) Surely Sir Alec Cairncross is right to say that 'it was with [Keynes's] encouragement ... that Colin Clark and, later, James Meade and Richard Stone laid the basis for national income accounting'.[249]

It is certainly the case that Keynes more than once criticized aspects of Clark's work. For example, in the *Economic Journal* in 1940 Keynes strongly criticized Clark's *concept* of 'gross national income', which Keynes found misleading.[250] Keynes prefaced his criticism, trenchant as it was, by saying that Clark's 'views must be much respected because we all owe to him an immeasurable debt within this field'.[251] In 1938, in a letter to Harrod,[252] Keynes criticized economists for converting models into quantitative formulae; to do this, Keynes said, was 'to destroy [the model's] usefulness as an instrument of thought'; having referred to Tinbergen, he went on:

> All the statisticians tend that way. Colin [Clark], for example, has recently persuaded himself that the propensity to consume in terms of money is constant at all phases of the credit cycle. He works out a figure for it and proposes to predict by using the result, regardless of the fact that it is not constant, in addition to the strong *a priori* reasons for regarding it as unlikely that it can be so.

Neither of these two adverse references to Clark provides any evidence for lack of faith at any time in aggregate estimates in general: in the first case, Keynes was using aggregate estimates to consider 'the income and fiscal potential of Great Britain';[253] and in the second case, Keynes's comments on the danger of quantifying models came in the same letter in which he told Harrod it was 'most important ... to investigate statistically the order of magnitude of the multiplier'.[254]

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249 Caincross in Thirlwall (1978, p 40).
250 JMK (22, pp 68–73); see p 52.
251 JMK (22, p 68).
252 JMK (14, pp 299–300).
253 JMK (22, p 52).
254 JMK (14, pp 299–300).

This letter to Harrod came not long after Keynes had received an article from Clark for the *Economic Journal*. Keynes was very critical of it,[255] and there was a considerable correspondence between Clark and Keynes about it.[256] But only weeks before Keynes had urged Clark to return to Cambridge rather than stay in Australia. Clark had written of 'having an excellent time in Australia where economics ranks next after cricket as a topic of public interest'[257] and that he was 'reaching the conclusion that I want to stay in Australia', where there were open minds and great potential.[258] Keynes replied:[259]

> I am rather dismayed with the last paragraph in your letter, though not taken entirely by surprise. Don't make too quick a decision. Come back here in the first instance anyhow. You will be able to get back to Australia at any subsequent moment you may choose. The problem of doing anything here might be more difficult – indeed it is – but it may be more important. It is very necessary to lay the foundations for a proper department of statistical realistic economics at Cambridge ...

But Clark was not persuaded. He replied:[260]

> ... [The] Queensland Government have appointed me Director of their Bureau of Industry and State Statistician ... [When] Queensland made their offer I thought it was too remarkable an opportunity to be missed for putting economics into practice. My job is to advise the Premier on practically everything connected with economic matters, to plan the public works programmes, and to manage the state statistical office.

Cornish, in outlining the wartime discussions on full employment policy, described Clark as 'a leading expositor of Keynes's *General Theory*'.[261] By then, of course, he was far from alone as a Keynesian in the corridors of power.

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255 See especially JMK (12, p 802).
256 JMK (12, pp 802–809).
257 JMK (12, p 799).
258 JMK (12, p 800).
259 JMK (12, pp 800–801).
260 JMK (12, p 801).
261 Cornish (1981, p 96).

(v) *LG Melville*: Professor LG (now Sir Leslie) Melville had joined the Commonwealth Bank as its Economist in 1931; this appointment marks the start of what is now the Research Department of the Reserve Bank of Australia. Melville, born in 1902, had been appointed Professor of Economics at the University of Adelaide at the age of 26. In the early years of the depression, Melville was one of the Australian economists most committed to deflationary policies.[262] Giblin wrote to Walker in April 1934 that 'Melville gradually and reluctantly has moved [since 1930] a very long way, but with always a hankering backwards'.[263]

Melville, already familiar with Keynes's work, first met Keynes in London in 1932 after the Ottawa Conference, and, as we have seen, obtained his views on Australian exchange rate policy. Back in London for the world Economic Conference in 1933, Melville was a guest at a dinner party hosted by WS Robinson, an Anglo-Australian businessman; other guests included Keynes, Ohlin, Hawtrey, Robbins and Shann. Keynes strongly advocated expansionary policies, and Hawtrey strongly opposed them.[264]

Melville's published comments on the *General Theory* were far from uncritical. For example, in his evidence to the Banking Royal Commission in May 1936, Melville advocated counter-cyclical fiscal policy[265] but, referring to the fact that in Australia, 'money wages have not been rigid, but have varied with prices', Melville said:[266]

> Hence, if profits and prices give way before a contraction of credit, and cause a fall in the cost of living, wages also fall, reducing money costs of production and correcting the passive balance of payments. It may be, however, that a new philosophy in regard to money wages is in the course of development. Perhaps in future wages will be increased from time to time, but never decreased. This may be one of the economic consequences of Mr. Keynes. If this philosophy spreads to Australia and affects wage policy, I believe that it will at times cause depressions to be unnecessarily acute.

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262 See Schedvin (1970, pp 219–220).
263 Quoted from Schedvin (1970, p 220).
264 Interview with Sir Leslie Melville, 31 August 1985.
265 *Evidence of the Royal Commission on Monetary and Banking Systems in Australia*, 1936, p.1127.
266 *Evidence of the Royal Commission on Monetary and Banking Systems in Australia*, 1936, p.1119.

This is presumably a reference to Keynes's expression of support in the *General Theory* for 'the maintenance of stable general level of money-wages', provided (in the case of an open economy) 'that equilibrium with the rest of the world can be secured by means of fluctuating exchanges'.[267] It was in this context that Keynes made the sole and 'very scornful'[268] reference to Australia in the *General Theory*: it is a reference to Australia's attempt 'to fix real wages by legislation'.[269]

In stressing the static nature of economic theory in an article in 1939, Melville wrote:[270]

> Keynes has attempted to break away from the concepts of the 'classical' economists and has given us a brilliant start in formulating a theory suitable for a dynamic world. Nevertheless, he is often unable to shake off the earlier mode of thought. Throughout his book ... we can see him struggling to give expression to two conflicting ideas, the one static and the other dynamic. In his discussion of the principle of effective demand, savings and investment, the propensity to consume, the marginal efficiency of capital and the general theory of interest, the dynamic approach is struggling for expression. It bursts out triumphantly in his discussion of expectations and employment. However, Keynes surrenders to the equilibrium viewpoint in formulating his statement of the general theory. Moreover, in this statement he adds to the old duality a new concept of three independent variables, the rate of interest, the marginal efficiency of capital and the propensity to consume.

Melville had in a two-part article on 'The Theory of Interest' in 1938[271] argued that 'these variables are highly interdependent in a dynamic world'. His 1939 article continued:

> Thus, despite the epoch-making nature of the whole book, it seems to me that Keynes's general theory fails to break away from the older concepts.

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267 JMK (7, p 270).
268 Clark (1958, p 134).
269 JMK (7, p 269).
270 Melville (1939, pp 2–3).
271 Melville (1938, pp 172–173).

It is clear from his war-time writings that Melville accepted that public works programmes could enable governments to maintain high levels of employment.[272] He played a major role in shaping the Full Employment White Paper. As we shall see below, he also played a key role in the execution of the Australian policy, which he contributed to shaping, of favouring the more expansionist Keynes plan for a Clearing Union to the American plan for a Stabilisation Fund, and of stressing the need for agreement between countries to pursue full employment as a prerequisite for Australian membership of the International Monetary Fund that grew out of these earlier plans.

(vi) *HC Coombs*: HC Coombs, who had read Keynes's *Treatise* with care, was surprised when he went to the LSE in the early 1930s to do his doctorate to find that Keynes was not especially highly regarded; Hayek and Robbins dominated, and Kaldor was Keynes's only real supporter. Coombs studied the *General Theory* closely as part of an informal group at the University of Sydney which discussed contemporary developments in economic theory; participants included RC Mills, E Ronald Walker, RB Madgwick, Trevor Swan, and JG (later Sir John) Crawford. The *General Theory* seemed to Coombs, and to many of his contemporaries, 'to answer a lot of problems'.[273] Coombs presented a paper to the 1939 ANZAAS conference, in which he, in effect, suggested that Swedish economic theory and policy were developing along Keynesian lines in advance of the *General Theory*;[274] this notion has subsequently gained considerable attention.[275]

Coombs was seconded from the Commonwealth Bank (where he was Assistant Economist) to the Treasury in 1939; in 1942 he became Director of Rationing, and from 1943 to 1948 was Director-General of Post-War Reconstruction. The tenor of his work can be seen in chapter headings of his memoirs: 'The Keynesian Crusade – Domestic' and 'The Keynesian Crusade – International'.[276] Coombs wrote of prominent economists such as Melville and Giblin:[277]

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272 Cornish (1981, pp 18–19).

273 Interview with HC Coombs, 1 Sep 1985.

274 Coombs (1939).

275 See, for example, Bertil Ohlin in Patinkin and Leith (1977) and *South African Journal of Economics*, Sep 1983, pp 434–437.

276 Coombs (1981).

277 Coombs (1981, p 6).

> It was among these men that the ideas were being formulated which were to make the conduct of the war when it came and the planning of the transition from war to peace exercises in the application of Keynesian economic theory.

But Cornish has written of the war-time planning:[278]

> The dominant voice, however, among the economists on the subject of full employment was that of Coombs. He had for a long time been an ardent supporter of demand management along Keynesian principles, and his advice was often the most decisive influence on the governments of Curtin and Chifley.

Indeed, Coombs was an advocate of over-full employment[279] which (as we have seen) more cautious economists such as Copland and Butlin deprecated.

The Banking Royal Commission

The *General Theory* first became available in Australia in March 1936.[280] The Royal Commission on Monetary and Banking Systems (1935–1937) was sitting. Professor RC Mills of Sydney University was its 'leading light';[281] he worked very closely with another member, Ben Chifley, later Treasurer and Prime Minister; and, at Mills's instigation, a former student of his, JG (later Sir John) Phillips was its economist.[282]

Keynes was quoted or referred to by several witnesses before the Commission: Alfred Davidson of the Bank of New South Wales on a minor point[283] (Davidson made extensive reference to Hawtrey, and argued for credit expansion in depression);[284] LG Melville, as quoted above; as Cain puts it, ER Walker 'rendered for the Commission Keynes' new view of saving-investment equilibrium and the

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278 Cornish (1981, p 22).
279 Cornish (1981, p 23).
280 Crisp (1960, p 169).
281 Conversation with Sir John Phillips, 11 Sep 1985.
282 Conversation with Sir John Phillips, 11 Sep 1985.
283 *Evidence of the Royal Commission on Monetary and Banking Systems in Australia*, 1936, p.373.
284 See, for example, *Evidence of the Royal Commission on Monetary and Banking Systems in Australia*, 1936, pp 382, 384–385.

alternative theory of interest it had summoned forth';[285] GL Wood of the University of Melbourne cited Keynes on the desirability of low interest rates;[286] and others, such as Professor Torleiv Hytten,[287] Dr Roland Wilson,[288] Sir Herbert Gepp,[289] and FW Eggleston[290] referred to or quoted Keynes.

One exchange warrants mentioning.[291] JLK Gifford of the University of Queensland was advocating credit expansion against depression. A Commissioner, HA Pitt, asked him: 'Your policy is based on similar lines to that of Mr Keynes?' Gifford replied:

> Yes. I have been influenced by Mr Keynes' way of thinking for a number of years and I was very pleased to see the recent development of his theory in his last book.

Pitt asked: 'He supports your view?' Gifford replied: 'I support his view to be more modest'.

Chifley's biographer, LF Crisp, wrote:[292]

> Chifley, with mills beside him, was perfectly placed to gain an early appreciation of the Keynesian 'revolution'. Experience and instinctive inclination had predisposed Labour men to Keynes' approach and central theses. Allowing for the lag in the appearance of Keynes' book and ideas in Australia, Chifley in a broad sense became a 'Keynesian-of-the-first-hour', a fact of enormous significance for Australia in the years after 1941.

The Commission laid down in its Report certain broad guidelines of decidedly Kenyesian bent:[293]

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285 Cain (1981, p 367). See *Evidence*, pp 1288–1289, 1294–1295.
286 *Evidence*, pp 1357, 1358.
287 *Evidence*, p 1271.
288 *Evidence*, p 1412.
289 *Evidence*, pp 1419, 1424.
290 *Evidence*, p 1447.
291 *Evidence*, p 1199; see also p 1185.
292 Crisp (1960, p 169).
293 *Report of the Royal Commission on Monetary and Banking Systems in Australia*, 1937, pp 209–210.

> In general, the proper policy for the governments to pursue if a depression is developing is to expand public works, refrain from increasing taxation, and avoid a general contraction of government expenditure even although deficits are incurred. When conditions have improved as private enterprise revives and full employment is approached, the proper policy is to contract public works expenditure, maintain or increase taxation, budget for surpluses, and reduce the debt which has been incurred through the depression policy ... The assistance which can be given by the central bank in meeting or preventing a depression is to expand or control credit in conformity with the general policy. If an expansion of central bank credit is to be successful in promoting recovery, the credit must be used, and this comes about mainly through government spending or a supplement to private spending.

The Commission criticised the Commonwealth Bank for delaying the depreciation and the expansion of credit during the depression.

How to Pay for the War

By the Second World War, the Australian economics profession was largely Keynesian; and the war placed many economists into positions of great influence on war-time economic policy and planning for the post-war period. T.W. Swan wrote in the *Economic Journal* in June 1940:[294]

> ... whatever criticisms we may have for specific proposals, it cannot be denied that the major battle of war finance is already won when recognition is given, as it has been given by the Commonwealth Treasurer [Mr, later Sir, Percy Spender], to the conception of the problem as one of the organization of resources rather than of money ... [In] this respect, the Commonwealth Treasurer is at one with the economists of his own generation ... If the beneficence of contemporary economic ideas be granted, it is greatly to be hoped that the Treasurer's future financial proposals will confirm Mr. Keynes' confidence that 'soon or late, it is ideas, not vested interests, which are dangerous for good or evil.

Keynes himself had adapted his analysis to the problem of war-induced economic boom and the need to divert resources from consumption to the war effort in his 1940 pamphlet *How to Pay for the War*. It is 'a discussion of how best to reconcile

294 Swan (1940, p 67).

the demands of war and the claims of private consumption'.[295] The argument is this:[296] In wartime, as more are employed, total earnings will rise. However, given the demands of the war effort, civilian consumption must be constrained. Unless consumer purchasing power is reduced, the excess demand will produce inflation. Because prices will rise faster than wages, as the act of spending the wages sends prices higher still, this will redistribute the increased earnings to 'profiteers'. These profits will be partly taxed and partly borrowed by the State for the war effort, giving them a right to repayment post-war. Keynes aimed to break this chain, reduce civilian consumption and increase the 'savings' forthcoming for the war. Keynes proposed a scheme of 'deferred pay' or 'compulsory savings' to do this. In essence, it was to take in tax a proportion of earnings (above a certain minimum) which would be returned after the war, financing this refund by a general capital levy.

How to Pay for the War was much discussed by Australian economists.[297] SJ Butlin said in a review of the ILO's *Studies in War Economics*:[298]

> Mr Riches, as one might expect of an economist, comes down on the side of the [Keynes] Plan (provided it is on the principles of Mr Keynes), because he believes taxation will not be used sufficiently to avoid inflation, and deferred pay appears, therefore, as the next best.

A variation on the Keynes Plan was contained in Fadden's September 1941 Budget: a proportion of tax would be collected as a compulsory loan – called a 'wartime contribution' – to be repaid with interest (at 2 per cent) after the war.[299] This proposal was bitterly attacked – amongst other things, as an attack on living standards of those on low incomes.[300] The Labor Party had made clear its opposition to such schemes 'ever since Keynes had first published in England his proposal for deferred pay'.[301] The Budget was defeated when two independents

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295 JMK (9, p 367).

296 JMK (9, pp 367–436). This encapsulation is from Markwell (1983, pp 50–51).

297 See, for example, Isles (1940, pp 206–207), *Economic Record*, Dec 1941, pp 286–287 and Butlin (1955, p 217).

298 *Economic Record*, Dec 1941, p 281.

299 Butlin (1955, p 387).

300 *Current Affairs Bulletin*, 8 Oct 1951, p 8.

301 Butlin (1955, p 390).

voted against the Government, Fadden resigned as Prime Minister, and Curtin was appointed.

The Full Employment White Paper

It was under the Curtin Government that a White Paper was prepared, and tabled on 30 May 1945, committing the Commonwealth to the maintenance of full employment and the use of 'pump-priming' to do this. Selwyn Cornish has written a detailed and impressive history of the White Paper.[302] He shows that the Australian White Paper was partly stimulated by a British White Paper of May 1944,[303] in which Keynes had some role (though not a dominant one).[304] Keynesian ideas were crucial to the development of both White Papers:[305]

> The publication of JM Keynes' *General Theory* ... was of signal importance, for it seemed to provide both an explanation of the causes of general unemployment, and a framework for the formulation of remedial measures. The war itself appeared to demonstrate, by practical application, the success of Keynesian economics, for much expanded levels of government expenditure served to convert a chronic situation of excess supply of labour into one of labour ... Above all, perhaps was the large wartime influx into Whitehall and Canberra of academic and other professional economists, among whom were many who had been converted to Keynesian principles .... By the time work commenced in earnest upon postwar employment policy, most Australian economists were confirmed Keynesians. Doubts which had been expressed in the early 1930s about the efficacy of expansionary policies - especially fiscal policy – to ameliorate the unemployment problem had virtually disappeared by 1942.

The commitment to full employment was also reflected in the *Banking Act* of 1945.

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302 Cornish (1981). See also Butlin and Schedvin (1977, ch 21), especially pp 673–679.

303 Cornish (1981, p 1).

304 See JMK (27, p 371).

305 Cornish (1981, pp 2, 17–18). See also Butlin and Schedvin (1977, p 631).

5. Australia and Bretton Woods: More Keynesian Than Keynes

Keynes's earlier writings had a major influence on wartime plannning for post-war international arrangements in at least two ways. First, many of those involved, influenced by Keynesian economics, wanted world expansion,[306] or at least to enable states to pursue domestic expansion.[307]

Secondly, planners for the post-war world were concerned to lay 'the economic basis of a-durable peace'; Gardner writes:[308]

> Profoundly influenced by the writings of Keynes and others, they believed the Versailles settlement had collapsed because of its inadequate ... economic underpinning ...

Certainly *The Economic Consequences of the Peace* featured in some Australian discussion of post-war plans,[309] and HC Coombs has said it 'greatly influenced' his own thinking.[310]

Keynes's pre-war writings had stressed both that international monetary arrangements could act as a severe constraint on the capacity of individual countries to pursue expansionary policies and, as he believed was the case with the gold standard, pit country against country in economic and political conflict.[311]

These were amongst the considerations that led Keynes to develop plans for a new international monetary system – based on a Clearing Union.[312] Another factor, important also for Australia, was the problem of working out a means to abide by Article VII of the Mutual Aid Agreement, by which both the UK and, later, Australia had bought American assistance in the war by promising trade liberalisation and non-discrimination, and other broad policy commitments, after the war.

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306 Gardner (1980, p 76).
307 Gardner (1980, p 79); see also p 92.
308 Keynes (1975, pp 203–204). See also JMK (25, pp 137, 194).
309 Wood (1940, pp 82, 85).
310 Coombs (1981, p 89).
311 JMK (7, pp 348–349, 382).
312 For other factors, see Markwell (1983, p 60).

Keynes's first detailed plan for a Clearing Union came in September 1941.[313] His drafts were part of his Treasury work (1940–1946); he became Britain's chief negotiator on the Bretton Woods institutions. His proposals were refined until in August 1942 a copy[314] went to Harry Dexter White, of the US Treasury, who had drafted a rather different monetary plan – for a 'Stabilisation Fund'. The Keynes and White Plans were published in April 1943.[315] Further negotiations resulted in April 1944 in a 'Joint Statement by Experts on the Establishment of an International Monetary Fund'.[316] Given Britain's dependence on the US, these proposals more closely resembled White's than Keynes's Plan. International negotiations at Atlantic City in June 1944 and at Bretton Woods in July 1944 finalised Articles of Agreement for the IMF and the International Bank for Reconstruction and Development (or World Bank). The inaugural meetings of both were held at Savannah, Georgia, in March 1946.

Keynes's plan[317] was for an international Clearing Union, with which the central banks would keep accounts through which they could settle their exchange balances with one another. This would involve a new international currency, bancor, 'which would be transferred from one account to another in the books of the Union in settlement of payments due by members to each other'.[318] The plan aimed at 'expansionist ... pressure on world trade'[319] by 'allowing to each member state overdraft facilities ... [designated its quota], proportionate to the importance of its foreign trade...'[320] This was Keynesianism on a world scale.

Keynes proposed 'rules ... to provide that equilibrium is restored'.[321] This placing of some responsibility for adjustment on creditor countries was a major innovation. The plan embodied short-term fixity and long-term flexibility of exchange rates.[322]

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313 JMK (25, pp 33–40); subsequent drafts are also in JMK (25).
314 JMK (25, pp 168–195, 449–452).
315 JMK (25, pp 233–235, 459–468).
316 JMK (25, pp 437–442, 469–477).
317 See Markwell (1983, pp 61–64).
318 Report by HC Coombs, 27 Sep 1943, Reserve Bank of Australia Archives, file C3-9-1-74.
319 JMK (25, p 113).
320 JMK (25, p 112).
321 JMK (25, p 116).
322 See JMK (25, pp 118–119).

Keynes wanted a post-war transition period[323] and controls on capital movements.[324]

White's plan[325] was different. Keynes stressed the right to exchange rate adjustments; White, stability of rates.[326] White proposed both a 'Stabilisation Fund' *and* an ambitious Bank for Reconstruction and Development. Unlike the Clearing Union, which gave 'each member an immediate addition to its ... reserves (... [i.e.] the right to an overdraft)',[327] the White Plan was contributor operating in national currencies, not bancor. White's formula for contributions was rather different from that for Keynes's quotas.[328] White did not provide for either a transition period[329] or controls on capital movements.[330]

Initially, Keynes was hostile to the White Plan.[331] Above all, he wanted far greater, and less conditional, liquidity provision than White.[332] He distinguished bilateral from multilateral clearing, stressing that White's scheme neither disciplined creditors nor was expansionist.[333]

Negotiations and redrafts ensued.[334] In September–October 1943, Keynes reluctantly accepted White's framework – there was to be a contributory Fund. But key issues remained. The most important were:

- compromise on the Fund's size, the British seeking a larger Fund (as they saw it, more adequate quotas) than the Americans would agree to;

- the British push for disciplines on creditors, resulting in the so-called 'scarce currency' clause;

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323 See JMK (25, pp 118, 135–137, 441).
324 JMK (25, pp 129–130).
325 See Gardner (1980, pp 72–76).
326 See JMK (25, pp 220–275).
327 Horsefield (1969, p 28).
328 See JMK (25, p 162).
329 Horsefield (1969, p 28).
330 Horsefield (1969, p 29); JMK (25, pp 225–275).
331 See JMK (25, pp 160–167).
332 See JMK (25, p 216).
333 See, for example, JMK (25, pp 251–226).
334 See Horsefield (1969, pp 57–75).

- agreement on less exchange rate flexibility than Keyries wanted;

- the adoption, at Keynes's urging, of transitional arrangements;

- the British push – defeated, as they saw it, at Savannah – for technical, non-political management by international civil servants rather than self-interested national representatives;

- the British emphasis on automaticity of drawing rights, as against the greater US stress on conditionality

On these issues, the Australian position broadly paralleled that of Britain, and on some Australia was more uncompromising. A detailed history of Austraria's role in the creation of the International Monetary Fund (the World Bank figured less prominently in Australian thinking) is beyond the scope of this paper;[335] but some indication can be given of Australia's role in the negotiations.[336]

Australian policy was based on the so-called 'employment approach' or 'positive approach'. Committed to high or full employment levels at home, but pessimistic about the danger of renewed depression and low levels of world trade after the war, Australian officials feared that Australia would face severe and recurrent balance of payments difficulties. It was thought that this might require substantial devaluation, exchange controls, tariffs and other trade restrictions. Australian officials came to the view that Australia could only participate in the open/liberal international economic order the US (and, to a lesser extent, the UK) were planning and surrender the right to take such unilateral action, if it could be guaranteed that international demand for Australian exports would constantly be at high levels. (This was especially important given the vulnerability of most Australian export industries to seasonal conditions at home and fluctuating prices on world markets.) So Australia took the view that an international agreement, with at least the major economies committing themselves to the maintenance of high or full employment, was a prerequisite to Australian membership of the IMF. Pressing for such an agreement was the central thrust of Australia's international economic diplomacy in the 1940s – from 1942–43, with early talks on monetary,

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335 See Butlin and Schedvin (1977, ch 21) and Crisp (1960, ch 14).

336 What follows is based largely on interviews and research in the Reserve Bank Archives.

trade and food matters, through the Bretton Woods Conference, the San Francisco Conference which created the United Nations, and the London, New York, Geneva and Havana negotiations that were to create an International Trade Organisation, but which resulted only in the General Agreement on Tariffs and Trade.

In the monetary field, the concerns that motivated this ‘employment apporoach’ led Australia (1) to favour Keynes’s Clearing Union Plan over the US Stabilisation Fund plan, (2) to push hard for changes in the agreed plan as it evolved (e.g. to increase Australia’s quota), and (3) to delay until 1947 before joining the IMF and World Bank.

The important international discussions in which Australia took part, relating to Bretton Woods, included:

1. in October–November 1942, Dr Roland Wilson (of the Departmen of Labour and National Service) was in London for talks at which Keynes’s Clearing Union plan was unveiled;

2. in April 1943 Dr. H.C. Coombs (of the Department of Post-War Reconstruction) was in Washington for talks with Harry White and E Bernstein on the American plan;

3. in June 1943, JB Brigden (of the Australian legation in Washington) took part in talks with US officials on their plan;

4. also in June 1943, Coombs had talks in London with British officials, including Keynes, on trade and monetary matters;

5. in March 1944, LG Melville (of the Commonwealth Bank) and Frederick Wheeler (of the Treasury) took part in Dominion discussions on the IMF in London;

6. after a lightning trip back to Canberra, Melville and Wheeler, joined by Brigden and AH Tange, were at the Atlantic City discussions of the IMF and IBRD in late June 1944;

7. immediately after Atlantic City, the same four delegates represented Australia at the Bretton Woods Conference; and

8. in March 1946, Australia not having joined the institutions, Melville attended the Savannah inaugural meeting of the institution as an observer.

At Bretton Woods, Australia moved a resolution '... that Governments which are to be invited to accept an International Monetary Agreement should be invited to accept con-curren an international agreement in which the signatories will pledge themselves to their own people and to one another to maintain high levels of employment in their respective countries, and to exchange information on measures necessary to prevent the growth of unemployment and its spread to other countries'.[337] This was defeated. The US was strongly opposed, though the UK and New Zealand supported Australia. However, the relevant Commission of the Conference did call on countries to 'create by cooperative effort the harmonising of the national policies of member States designed to promote and maintain high levels of employment and progressively rising standards of living'. Although the Articles of Agreement refer to 'the promotion and maintenance of high levels of employment and real income',[338] Australia entered a reservation to the effect that not enough emphasis was placed on employment.

What is known of Keynes's attitude to the Australian 'employment approach'? Dr Coombs wrote to Keynes in 1942 or very early 1943 setting out his notions of what became known as the 'employment approach', and asked whether obtaining some kind of guarantee of high levels of employment and of demand for traded goods was practical. Coombs received a mildly encouraging reply from Keynes. Coombs understands that after receiving his letter, Keynes wrote to Lord Bruce, the Australian High Commissioner in London, telling him of his correspondence, saying that Coombs's approach was optimistic, but that the Australian Government should send Coombs to the US for talks concerning the monetary plans.[339] This may help explain why Coombs, who was in the process of establishing the

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337 US Department of State, *Proceedings and Documents of the United Nations Monetary and Financial Conference,* Washington, DC, 1948, p.279.

338 Horsefield (1969, p 111).

339 Interview with Dr HC Coombs, 1 Sep 1985.

Department of Post-War Reconstruction, was asked to go with Dr Evatt (Minister for External Affairs) to the US and UK in 1943.[340]

However, encouragement that Coombs should take part in talks does not endorse his approach. On 22 April 1943, Sir Frederick Phillips of the British Treasury wrote to Keynes from Washington:[341]

> The Australians have sent over Coombs, whom I have also seen. Under the influence of Dr Evatt they are taking the line that, before any plan at all is considered, it must be laid down in advance that the primary duty of every country is to raise its own employment and production to the maximum by its own efforts. They will not get far with the Americans on this.

Keynes's reply to this letter made no response to this accurate and dismissive prediction.[342] However, a year later, between the Dominion talks in London and Bretton Woods, Keynes did think it 'very possible a declaratory statement about full employment on the lines that the Australians are pressing would ... appeal to' President Roosevelt, who was seeking for electoral purposes to emphasise international economic collaboration.[343]

Aside from this, all the evidence of which I am aware suggests that Keynes regarded an international agreement on full employment as unnecessary or impractical. He did include Australia in a list made in October 1943 of a dozen countries that could form 'a Drafting Committee' on the international monetary plans.[344] But his comments on Australia's position at Atlantic City and Bretton Woods had a tone of some annoyance; he was more optimistic than the Australians on matters such as the degree of flexibility of exchange rates that would be permitted when the IMF began operating; in telling the House of Lords in May 1944 that the Anglo-American proposals for Bretton Woods provide 'an international framework for the new ideas and the new techniques associated with the policy of full employment',[345] he implied that no additional agreement was

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340 See Coombs (1943, pp 32–46), especially p 45.

341 JMK (25, p 251).

342 JMK (25, pp 255–258).

343 JMK (25, p 444).

344 JMK (25, p 378).

345 JMK (26, p 19).

needed (even for Britain, which he feared would have major balance of payments difficulties); and, in a letter to TS Eliot in April 1945 he ridiculed the Australian position. Keynes wrote:[346]

> Not long ago I was at a Conference where the Australians urged that all the Powers in the world should sign an international compact in which each undertook to maintain full employment in their own country. I objected on the ground that this was promising to be 'not only good but clever' ...
>
> ... the main task is producing first the intellectual conviction and then intellectually to devise the means. Insufficiency of cleverness, not of goodness, is the main trouble ...
>
> That is the first, ought-to-be obvious, not-very-fundamental point. Next the full employment policy by means of investment is only one particular application of an intellectual theorem. You can produce the result just as well by consuming more or working less. Personally I regard the investment policy as first aid. In US it almost certainly will not do the trick. Less work is the ultimate solution (a 35 hour week in US would do the trick now). How you mix up the three ingredients of a cure is a matter of taste and experience, ie of morals and knowledge.

In a letter in June 1945 to SG MacFarlane, Secretary to the Australian Treasury, Keynes implied that a full employment agreement was not necessarily a solution to Australia's problems:[347]

> I expect that both our countries incline to underestimate the difficulty of stabilising incomes where exports play so large a part. One is also, simply because one knows no solution, inclined to turn a blind eye to the wages problem in a full employment economy.

The greater Australian stress on full employment, and on particular means towards it, than Keynes himself thought wise suggests that the Australian position was more 'Keynesian' than Keynes.

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346 JMK (27, pp 383–384).
347 JMK (27, p 385).

Apart from a full employment agreement, the issues pressed – with limited success – by the Australians included:

1. an increased quota for Australia;

2. a high degree of flexibility of exchange rates;

3. increased drawing rights from the Fund; and

4. freedom to withdraw from the IMF without prejudicing membership of other international organisations (e.g. the proposed International Trade Organisation).

Although Australia gained a considerable increase in its quota, and some other concessions, it entered reservations on Articles relating to these matters.[348]

Although Keynes had advocated a larger fund and greater exchange rate flexibility than the Americans would agree to, his comments on the Australian demands are not particularly sympathetic.

On *quotas*, Keynes wrote between the Atlantic City and Bretton Woods meetings:[349]

> Australia's present quota is probably too low, but she demands a figure which is quite out of line with anyone else's, and is quite inconsistent with the limit of 8 billions [$8 billion] for the aggregate. I gather that Melville has instructions which make it difficult for him to compromise; all the same, in the end he will have to. I am going to see White privately again shortly and put up to him a solution which I have reason to believe will satisfy India and help Australia a little. If Australia is still dissatisfied, we are all agreed she must fight her own battle. I have been very anxious to avoid horsedealing agreements about this in public.

348 See *Proceedings*, pp 188–189.
349 JMK (26, p 69).

A few days later Keynes wrote from Bretton Woods on quotas:[350]

> ... Here, I am afraid, our proposals for something larger for the smaller people cannot be managed, since White would be under irresistible attack in his own Delegation if he were to agree to go beyond 8 billions for the aggregate; much smaller figures are being pressed upon him. On the other hand, I am hopeful that I have persuaded him to make a sufficient concession to India to keep them moderately satisfied, and enough for Australia to meet their deserts though not their demands.

The Australian quota was increased from £47m. to £62.5m.

On *flexibility of exchange rates*, Keynes was more optimistic than the Australians. A letter he wrote Melville in March 1944 said that he expected that ‘if there is a good and reasonable case’ for an exchange rate change greater than that permitted unilaterally, ‘approval will be easily given’ by the Fund. On Australia’s particular concern to be free to make exchange rate changes in response to collapse of export prices, Keynes wrote:[351]

> My difficulty is that I find it extraordinarily difficult to see how an alteration in the exchanges could possibly be the right remedy for a catastrophic fall in some staple export commodity, such as wool. To maintain the incomes of the wool producers by greatly increasing the incomes of all other exporters and diminishing the purchasing power of the public generally, is something like burning down the house for roast pork. Also, if the cause of the collapse is excess supply, it cannot be wise, after all, to temper the wind to the shorn (and unshorn) lambs so easily. Moreover, in the contingency contemplated a quite enormous change might be necessary to do much good. I would suggest that, in so far as the remedy is to be found in the realm of external policy, it should take the form of great enthusiasm for buffer stocks. It is precisely to protect primary producers against such catastrophes that buffer stocks are proposed. I confess I have been rather disappointed by the lack of enthusiasm which the primary producers seem to feel for plans to keep their prices more stable. But is not this really the right line to press on?

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350 JMK (26, p 79).
351 JMK (25, p 414).

Although it was understood, and Keynes himself stressed,[352] that signature to the Final Act of the Conference did not commit countries to the plans the expert delegations had thrashed out, the Australian delegation was under instructions from Canberra to sign nothing without prior approval. A cable from the delegation to Canberra setting out the case for signing[353] received this tart reply:[354]

> We are disturbed by contents of your [cable] Financial 5 and desire to be kept fully informed of any developments in this matter. In meantime no documents should be signed without further advice from this end.

The delegation did not receive instructions to vote for the adoption of the Articles of Agreement of either the Fund or the Bank, and so did not. Keynes talked with White about the danger Australia might not sign the Final Act, and they agreed to wait 'in the hope that the Australian Delegation could convince the Government of the *ad referendum* nature of the proceedings and the lack of commitment in signing'.[355] At the last minute, a telegram was received by Melville with instructions to sign - but he had to put beside his signature the words – meaningless in the context – ' for purposes of certification'.[356] Keynes reported to London:[357]

> ... we have had our final banquet and celebration. The love feast was completed by the two black sheep, the Australians and the Russians, receiving their telegrams just in time. Melville was able to sign the Final Act and the Russians raised their subscription to the full figure of $1,200m. ... amidst loud and continued applause, and embraces all round, the erring sheep were received into the fold.

However, because of very considerable hostility to the IMF within the Labor Party, partly based on fear of new Niemeyers, Australia did not join the IMF and World Bank until 1947.

By then, of course, Keynes was dead.

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352 JMK (26, p 99).
353 Reserve Bank of Australia Archives, file C3-9-1-77, dated 1 July 1944.
354 Reserve Bank of Australia Archives, file C3-9-1-77, dated 6 July 1944.
355 JMK (26, p 98).
356 Reserve Bank of Australia Archives, file C3-9-1-77, letter from Melville to Curtin, dated 26 August 1944.
357 JMK (26, p 112).

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