Australian Economics in the Twentieth Century

Comment

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We have heard papers on four[†] distinguished Australian economists of this century. I might have added two others: Trevor Swan, Australia's most eminent theorist, and Colin Clark who was at least half Australian. I will comment on them in chronological order and shall begin with some personal reminiscences. There are probably not many others around who knew all four personally.

Personal Reminiscences

Giblin. I met Giblin only twice, at a conference in 1949 of the NSW Branch of the Economic Society on "Are Depressions Necessary?", and when he invited me to a cup of coffee and a chat near the Commonwealth Bank in Sydney while he was writing his history which I found very useful when I was writing my book on *The Australian Trading Banks*[1] (Arndt 1985, p. 16).

Coombs. I attended LSE some years after him (but had Harold Laski as one of my supervisors!). I first heard of him when Noel Butlin (our neighbour in Hurstville) brought home the evening paper and enthusiastically announced: "Chifley has appointed Nugget Governor of the Commonwealth Bank". In the 1950s I saw a lot of him at the Economists' Meetings which he convened at the Bank twice (later once) a year, ostensibly to seek their advice on economic policy (Arndt 1985, p. 27). In 1970 he asked me to edit a volume of his papers, which I did, under the splendid title of one of his talks, *Other People's Money*[2].

Downing. Dick Downing was my closest friend for almost 30 years, 1948-75. I first met him at the same conference as Giblin, but began to see him frequently when I moved to Canberra in 1950 and joined the Editorial Board of the *Economic Record*. I have given an account of my cooperation with him on the journal in my memoirs (Arndt 1985, pp. 29-30). We cooperated on many other projects, such as the report on *Taxation in Australia*[3], and at meetings of the Australian and New Zealand Association for the Advancement of Science (ANZAAS). I often visited him at his lovely house in Eltham, and we had some time together in Geneva in 1960. You may like to see the wedding photo which stands above my desk at home.

Melville. Leslie Melville, now 97, lives round the corner from us in Deakin, and I see him almost every week. We talk about current affairs, economics and politics. There is no one whose judgement seems to me more trustworthy. Just now he is a bit peeved because for the first time he has been refused a driving licence (inadequate eyesight). He reads the papers and listens to the news. In his spare time he reads a textbook of physics: "I want to understand the quantum theory".

I first met him in 1948 when he asked me (for a handsome fee of £50) to draft a paper on "The Causes and Consequences of Inflation in the Post-War World" which he had agreed to prepare for a sub-commission of the United Nations Economic and Social Council (ECOSOC) of which he was the chairman. Later I saw him regularly at the Economists' Meetings at the Bank and, less frequently, when he was Vice-Chancellor of the ANU. In 1978, on the 50th anniversary of his appointment to the chair of Economics in Adelaide, I presented him for an honorary degree at ANU. We loved his charming wife, Mary, and I was honoured when asked by the family to speak at her funeral.

Papers

Of the four papers, Cornish's on Melville is closest to my interest: macroeconomics. The other three, rather to my surprise, focus more on politics and sociology. Millmow's on Giblin is scholarly but confined to the depression years 1930-33; not a word about Giblin's *Growth of a Central Bank*[4]. I am puzzled by Rowse's failure to understand what the "Keynesian Revolution" consisted of and by his notion that it has been "much mythologised". The term was coined by Lawrence Klein (Nobel Prize 1980) when he published a book with this title (Klein 1949).

Let me quote Coombs's explanation: "The mystery element in monetary policy was sharply reduced with the emergence of what has been described as the 'Keynesian Revolution' in economics...The essence of the Keynesian analysis was that in a market economy the level of production and employment is determined by the level of spending...It followed that there is a level of spending which is sufficient to employ the whole of labour and available resources of the economy. If spending falls short of that level the economy will experience unemployment...If spending exceeds that level...the increased spending will show itself in rising prices and shortages" (Coombs 1954).

Allow me to take another minute reading to you a summary account of the Keynesian Revolution which I presented to Indonesian students twenty years ago, if only to explain why I cannot see what Steven Kates is on about. "Keynes's problem was to explain why the capitalist economy did not tend automatically towards equilibrium at full employment. For a century, economists had taken such a tendency for granted because of their acceptance of Say's Law that 'supply creates its own demand' and that, therefore, aggregate demand can never fall short of aggregate supply. To Malthus's nagging question, what happens when (planned) saving exceeds investment, the neoclassical economists replied that the rate of interest, as the price of capital, equates the supply of capital (saving) with the demand for capital (investment). Keynes had to explain why the rate of interest cannot be relied upon to do so. His explanation, which was essential to his refutation of Say's Law, was that it is necessary to distinguish between the price of real capital and money rates of interest, that investment is not very elastic with respect to changes in the cost of credit, and that speculation based on belief in a 'normal' level of the rate of interest is liable to set a floor to the rate of interest and thus frustrate efforts by governments to lift the economy out of a depression by an expansionary monetary policy" (Arndt 1984).

The essence of the Keynesian revolution was the emphasis on demand management, primarily through fiscal policy. All our four economists were Keynesians in that they substantially agreed with this emphasis, though Downing's interest, as Brown has shown, shifted increasingly to social problems, the foundation of the welfare state. Both Melville and Giblin from the early thirties supported the case for demand management, but were much more acutely aware than Keynes in the *General Theory* of the balance of payments constraint. In Australia's situation in the early 1930s, an expansionary fiscal policy of the sort which Theodore advocated was inconsistent with the maintenance of the old sterling parity (a point Schedvin completely missed in his book) (Arndt 1971). Melville, as Cornish has explained, urged devaluation as a precondition for expansion (and has ever since consistently favoured the Bretton Woods adjustable peg system, though admitting that a small country like Australia cannot adhere to it when all the major currencies are floating).

By 1945, Keynesianism was triumphant. "We are all Keynesians now" (Henderson 1986, p. 4). In the 1950s the emphasis shifted from fiscal to monetary policy, a change reflected in Coombs's increasingly market-oriented policy stance. In the 1960s, the emergence of "stagflation" led to serious doubt whether demand management could be made effective. In the 1970s the Keynesian revolution came to be challenged by Friedman's monetarist revolution.

We are all still Keynesians in the sense of acceptance of the analytical framework of Keynes's macroeconomics. But there is now much less agreement about macroeconomic policy than in the days of the Full Employment White Paper.

The four papers are all useful contributions to the history of Australian economic thought. But I hope I have been able to suggest one or two directions in which they might be further developed.

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† a fourth paper by Alex Millmow entitled "Revisiting Giblin: Australia's First Proto-Keynesian Economist?" is still in preparation.

Notes

[1] Arndt (1957).
[2] Coombs (1971).
[3] Downing (1964).
[4] Giblin (1951).

References

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