

REVISITING GIBLIN: AUSTRALIA'S FIRST PROTO-KEYNESIAN ECONOMIST?

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INTRODUCTION

Over the next few years Australia will honour some of her more famous economists as biographies of those who first made their name in the interwar period are published.¹ One notable absence will be that of one of the founding fathers of modern Australian economics, L F. Giblin. Besides this, Giblin was, as this paper argues, the first interwar Australian economist to echo the sentiments of Keynes with regard to deflation and unemployment and act upon them with constructive, viable policy advice. It is doubly tragic therefore that we will never see a biography, even a thesis, dedicated to Giblin in the near future, if ever.² Torleiv Hytten, one of his closest friends, shed light on why this is the case:

To write an appreciation of the work of L.F. Giblin in the sphere of economics is a very difficult task. It not only covers a very wide field but a great deal of it is buried in official archives, and will probably remain so for many years yet, until some energetic researcher is given access to it. Let us hope that whoever this young man may be, he will have the imagination to visualise this picturesque figure in Australian economic life and give him the duly great position in its history which Giblin undoubtedly deserves. A great deal of his work is also to be found in correspondence with friends, much of which will probably be lost, and a great deal more in discussions which have never been recorded, except in the minds of the fortunates who knew him and looked up to him as the grand old man of economics in Australia (1951, 67).

That said, the nearest to a biographical tribute is the collection of memoirs from those who knew Giblin in his various guises which was edited by his colleague D.B. Copland (1960). A more recent evaluation of Giblin's contribution to public life has been sketched by Neville Cain in his entry in the Australian Dictionary of Biography (1981).

The reason for the pessimism about ever witnessing a biography of Giblin is that the 'grand old man' of Australian economics, with characteristic modesty, did not have posterity in mind when it came to the ordered management of his papers (Wilson, 1951). A survey of Giblin's papers housed in the National Library of Australia and at the University of Melbourne Archives conjures up an incomplete canvas of the man. In particular, there is, given his status within the profession, a perplexing lack of correspondence between Giblin and his academic peers. Nor does Giblin help the potential biographer with his faint, minute scrawl together with his habit of neither dating nor labelling bundles of screeds. Perhaps Giblin wanted it that way; Manning Clark recalled that, for all Giblin's easy manner, '... one was allowed to know what went on inside the mind and the heart of this giant of a man' (1987, 344).

Giblin's relative lack of scholarly output has been attributed to his applied economist bent. He was extensively involved in official policy development work throughout the 1930s serving, in turn, as Acting Commonwealth Statistician (1931-1932), a foundation member of the Commonwealth Grants Commission (1933-36) and a member of the Commonwealth Bank Board (1935-42). In addition, there was intermittent committee work through the decade. Besides this, Giblin had a propensity to verbalize rather than commit himself to paper, and, blessed with an affable temperament, was happy helping others solve intellectual puzzles as much as his own. There is evidence too that Giblin was, like many, only moved to write when under pressure³.

The incomplete nature of his papers does not detract from my purpose in this article, namely, to argue that Giblin deserves greater recognition for laying the groundwork for what would later become known as 'The Keynesian Crusade' (Coombs 1981). Giblin was not just one of Lyons's closest economic advisors but also an early and consistent expansionist (Hart 1967, 267). In that regard, Giblin was happy to have the more flamboyant Copland serve as the voice of the 'Melbourne school of economics', so much so that Sir Herbert Gepp dubbed Copland the 'Keynes of the Commonwealth' because of his prolific output and involvement in public affairs (cited in Harper 1985, 46). When it comes to nominating economists of the interwar years, historians of economic thought have usually considered the Cambridge-educated E. R. Walker as Australia's first authentic Keynesians (Cain 1984, Cornish 1991), whereas Groenewegen and MacFarlane (1990) confer that honour on Melville. Where, however, in all this is Giblin, who devised the export multiplier that allowed Australian economists to ascertain the national income repercussions from a fall in export prices and cessation of foreign capital? It was Giblin too, as Copland recalls with clear regret, who, along with Dyason, was among the first to recognize that the budgetary policy set in July 1931 was stripping the Australian economy down to its bedrock (Copland 1960, Copland 1950, 110). Giblin decided to do something about it. An examination of his activities between 1931 and 1935 should cause a reassessment of Giblin's contribution to interwar economics. In that regard, this paper will show that Giblin had, in contrast with some of his contemporaries, a marvellous mental elasticity in coping with the new challenges the Australian economy posed to its managers. It was a versatility and energy that was well reflected in his many lives.

A BIOGRAPHICAL NOTE

'Miner, boatman, teamster, sailor, cook, lumberjack, schoolmaster, fruitgrower, labour agitator, soldier, Member of Parliament, Government Statistician.'

The entry for Giblin in the 1937 Australian edition of *Who's Who* (1937) is representative of the man's spirit and sense of adventure. Like Keynes, Giblin never formally completed a degree in economics but rather drifted into the subject through a background in statistics and mathematics, which he studied at King's College, Cambridge. Unlike Keynes, Giblin rejected the advantage of his family's patrician background and elected for an adventurous early life. Later, he would reflect that 'to be any good, an economist ought to have been hungry in his youth' (Hyttén 1971, 52).

In Giblin's case it was not just his fortune but, in truth, his destiny to be at the head of a select band of men who created 'a golden age' for Australian economics (Groenewegen and MacFarlane 1990). Indeed it was proper that he was

Tasmanian, for the patronage he bestowed upon the teaching of economics there helped bring forth an extraordinary profusion of talent from that state in a very short period of time.

Giblin's lifestyle and his aesthetic pursuits, together with his idiosyncratic appearance and intolerance of both convention and formality, bore the hallmark of an original mind. While Alfred Marshall liked to inspect factories and wonder at the efficiency of industrial machines, Giblin, in his early life, engaged with the lot of the working man. These experiences of artisan life endowed him with not just a concern for unemployment and the standard of living but also an uncanny ability to relate to the working man the nature of the economic problems confronting Australia.

After falling under Giblin's spell at Hobart, Copland engineered his friend's appointment to the Ritchie Professorship at the University of Melbourne at the ripe old age of 57. The University Council summoned to screen the candidate unanimously approved of the Tasmanian despite his appearance in the hillbilly garb of hiking boots, lapel-less jacket, red tie and battered digger's hat. The red tie, which he always wore, signalled a lifelong embrace of socialist values. Up till then Giblin's contribution to economic theory had been an analysis of the employment repercussions of building a railway in the Mallee district - a construct that later led to the export multiplier. Hytten recalls that, upon its discovery, the phlegmatic Giblin appeared quite 'excited' by the idea (1971, 52). Prior to this there was, of course, Giblin's extensive Committee work on the Report of the Australian Tariff. Brigden and Giblin took on the responsibility to draft the main report after Prime Minister Bruce voiced his displeasure at earlier drafts as being too theoretical (Hytten 1971, 52). In the process, Giblin was reminded by the Chairman of the Committee, Charles Wickens, that the report was a rare opportunity to impress Bruce about how economists could speak with one voice and thereby prove worthy of having their advice taken seriously.⁴

Giblin marked his arrival at the University of Melbourne with his famous lecture, 'Australia 1930,' where he gave the first public rendition of the export multiplier, showing how a downturn in export receipts percolated throughout the economy (Giblin 1930). The concept was to later find application in the doctrine of sharing the burden, as Australia engaged in economic readjustment with the Premiers' Plan. Schedvin (1970) and Karmel (1960) rightly ponder why Giblin did not apply his concept domestically to gauge the effects of the cutbacks in public expenditure then being implemented. Schedvin attributes it to Giblin being too contemporary, attuned, as were all Australian economists, to the prevailing spirit of puritanism and guilt upon how Australia had indulged itself with excessive public sector spending in the roaring twenties (1970, 221). It was a sentiment that would resonate through the thirties and, in Australia's case, retard the acceptance of Keynesian demand management

In theoretical terms, Giblin did not apply the multiplier to spending upon public works because of his belief in the crowding-out argument. In not applying his conceptual device to changes in public investment spending, Giblin perhaps missed an opportunity for academic acclaim - a fame Richard Kahn won in 1931 when he independently developed the income-expenditure variant of the multiplier. As Dimand notes, Giblin's analysis 'vanished almost unremarked from the collective memory of the economics profession' (cited in King 1998, 63). Even Keynes showed no awareness of his old friend's work in the field, despite receiving Giblin's advice about the value of the multiplicand used in 'The Means to

Prosperity' (Markwell 1985, 31)⁵. For his part, Giblin never showed any rancour regarding his treatment over the matter. Here was the measure of the man: disclaiming credit for his achievements but extolling the virtues of others. In like fashion, he refused an imperial honour for serving his country at short notice as Acting Commonwealth Statistician, with all the attending inconvenience of a Canberra posting, and, just as importantly, for the role he played in formulating the Premier's Plan.

THE PREMIERS' PLAN

With his consummate ability to reduce economic discourse to intelligible form, Giblin, courtesy of the *Melbourne Herald*, outlined Australia's economic predicament to the people and explained why their real wages had to fall. In writing his 'Letters to John Smith' the explicit message was, that as an old Labor man, Giblin had broken away from the monetary heresies then raging within the federal Labor Party. Giblin always held that the Premiers' Plan, while accompanied by a fair dose of good fortune, was a triumph of native economic wisdom quite distinct from the austere Niemeyer prescription of deflation. Given their intellectual heritage in Cannan and Marshall and their quantitative bent, the Australian economists were well acquainted with the national income repercussions of deflationary policies. In that regard, falling export prices and the cessation of capital inflow had left Australia suffering a grievous fall in National Income, from some 650 million pounds in 1929 to 450 million pounds in 1931.

One could find no two more different personalities than Giblin and Niemeyer and, not unexpectedly, they were at each other's throats from the day the Bank of England man arrived. Niemeyer found Giblin 'pretty disappointing', particularly his schemes for industrial self-sufficiency to mop up pools of unemployment. Secondary industry, Giblin held, would help in the development of the Australian economy so long as tariff protection was not ludicrously high (cited in Love 1983, 273).

Like his colleagues, Giblin held that there was a binding relationship between the output of the primary industries, Australia's national income and her capacity to employ her working population. He further drew Niemeyer's annoyance by telling businessmen that our 'best efforts' at balancing the budget would be futile whilst deflation raged (*The Argus*, 30/10/1930). Niemeyer regarded Giblin's comment as representative of a 'quitter' mood he had encountered among his hosts. Seeing the country heading for 'a bad smash', Giblin turned to his old Labor colleague, Joe Lyons, as the country's last hope.⁶

The full story of how the coterie of Australian economists composed what became known as the Premiers' Plan has been told in exacting detail by Cain (1987a, 1987b) and need not delay us here. What should however be drawn out is Giblin's masterful role in bringing the likes of Shann and Melville into the same orbit as Copland. All three were acutely sensitive to criticism and Melville had already, with Niemeyer's support, publicly berated the Melbourne School's embrace of the Theodore plan for price stabilization - an action that stood him in good stead with his future employer, the Commonwealth Bank.⁷ Giblin's air of authority, his natural ability as a leader of men, together with his aspirations for the 'cinderella' science of economics, brought his colleagues round to a consensus (Crawford 1960, 194). In truth, once Giblin and Copland dropped their fanciful

plan for price stabilization there was little difference between the Melbourne and Adelaide Schools.

Amongst many others Hytten alluded to Giblin's natural air of quiet authority: 'I have sat at meetings listening to bitter debates which ended peacefully because Giblin found a compromise that suited everybody, despite heated differences of opinion' (1971, 196). Giblin, rather characteristically, downplayed this role as merely reflecting his penchant for the middle way - for sitting on the fence, somewhat unsure of his ground but checking zealotry on either side.⁸

Giblin has often been linked with Copland as an inseparable part of the Melbourne School. However, there were considerable differences between the two during 1930-31. Giblin, for instance, was initially hostile to Copland's plan for devaluation coupled with the liberal credit policy that he presented before the Victorian branch of the Economic Society in July 1930 (Copland 1960, 6). When convinced, Giblin took up the devaluation option with relish. Similarly, Copland refused to support Theodore's plan for price stabilisation, telling a recalcitrant Giblin that he placed too much faith in the quixotic treasurer's schemes. Another difference between the two, germane to this paper, is that from August 1931 Giblin, fearing that he had underestimated the slump in private investment, began to harbour designs for public works. Copland, to his later professed regret, took some time to agree with his colleague (1950, 110). Giblin's call for limited expansionism did not mean he disowned the business-confidence building measures set down in the Premiers' Plan nor the complementary measures on wages and the exchange. As Schedvin reminds us, the Premiers' Plan was all about fiscal consolidation, saving the nation from liquidation rather than generating economic recovery (1970, 373). As a holding action, the Plan was predicated upon a recovery in export prices and when this failed to materialise Giblin felt more policy action - upon the exchange and upon public works - was needed.

THE WALLACE BRUCE REPORT

S.J. Butlin has attributed the deflationary nature of the Premiers' Plan and subsequent economic planning to the tyranny of inherited ways of thought. That is, bankers and Treasury officials - and presumably also economists - were all 'prisoners of doctrine inherited from past experience as they faced a new situation in which these doctrines had little application' (Butlin 1961, 389). Certainly the weight of collective memory, particularly the profligate waste of government spending in the 1920s, intimidated expansionists.

By early 1932, however, an air of economic despondency hung heavily. It impelled Giblin to think it time for a 'bold - perhaps desperate - policy to kick things together'. He sounded out the newly elected U.A.P. Government under Lyons, whose Cabinet was already showing signs of deep division about the direction of economic policy. Swayed by Giblin's advice to 'do something' about the mounting unemployment, Lyons decided to commission a group of businessmen and economists to make a preliminary survey of the economic problem and review the appropriateness of the Premiers' Plan.⁹ Melville, Shann and Giblin drew up the terms of reference for the Government's approval:¹⁰ 'to formulate a long-run policy with the aim of maintaining and expanding both primary and secondary industries; and to explore the possibility of immediate action to tide over the period which must elapse before results could be expected from the long-range policy'. The terms of reference had more than a touch of

Giblin about them and were quite reminiscent of the Secretariat on Unemployment set up by Scullin in August 1931.

The economists on the Wallace Bruce Committee were joined by R.C. Mills, their University of Sydney colleague, who filled in for the indisposed Copland. An apprehensive Giblin conceded to his wife, Eileen, that with Mills's 'conservative instinct' the prospects of a 'positive policy', (that is, public works and credit expansion) were decidedly poor. However, he was adamant that the Committee's findings had to appear unanimous to help Lyons take on the 'hard-shelled' minority within his Cabinet who were demanding sound finance.¹¹ While the Chairman of the Committee, Sir Wallace Bruce, and G.S. Colman were businessmen sympathetic to economic discourse, the report itself was, as Melville recalls, very much an economist's show.¹² Shann, who laboured tirelessly over the Committee's drafts during Easter time, told a university colleague: 'We economists - an inveterately hopeful band - are doing our best to push the governments into a sound monetary policy' (cited in Alexander 1964, 153). He told his protégé, John La Nauze, that he hoped the report would convince the thinking public but added that '... the Treasury officials whom we have to use as a medium of transmission to Premiers are as snake-headed deflationists as the bankers or, rather, as the worst of them'.¹³

With primary product prices falling further below marginal costs, Australia's fundamental economic problem became acute. Since a general recovery of employment could, given the nature of the economy, only come by way of expansion of exports, the long-term focus had to be a reduction of costs since a recovery in world prices seemed far off. To expedite this the Committee settled for a threefold strategy that embraced a further depreciation of the exchange, compensatory tariff cuts and ensuring that the wage cut of 1931 was uniformly enforced.

Their recommendations came also with the proposal that budgetary deficits be reduced in accordance with the Premiers' Plan. Indeed, the economists strongly argued that there could be no plan to relieve unemployment until deficits were progressively reduced in the name of business confidence. However, under the influence of Giblin, the Committee in a key paragraph now conceded that budgetary improvement was as much a function as a condition of recovery (Cain 1985, 11). The Committee's findings were, in short, a reprise of the Premiers' Plan strategy, with the three measures deemed interdependent and inseparable. The emphasis was in further improving Australia's relative cost structure so that the nation would be well placed to benefit from the awaited recovery in export prices (Cain 1985, 9). The economists eschewed bridging the gap between export costs and prices by resorting solely to cutting cost levels, since this would impair financial stability and, in turn, prevent budgetary equilibrium from being realised. Likewise, electing to have the exchange rate carry the burden of adjustment might trigger a flight of capital. The most revolutionary proposal was not just the devaluation, per se, but to have the Board of the Commonwealth Bank manage the exchange according to economic circumstances. Devaluation would check the sagging price level resulting from falling money wages while giving the export trades, particularly the debt-laden rural industries, some breathing space.

There was a more elevated macroeconomic rationale behind the Committee's thinking. A further devaluation, coupled with a uniformly applied real wage cut, would lessen the dangers of an adverse balance of payments and thereby allow stimulation, in terms of public works, to be contemplated (Cornish 1993, 12). Even

with his great knowledge of the vagaries of the external account, Giblin was prepared to gamble on an increase in public works before the danger of default had been overcome. His three colleagues felt this would merely re-ignite Australia's trade deficit and bring back the spectre of default.¹⁴ The Wallace Bruce Report is, apart from its inherent merits, famous for focussing the attention of Keynes on Australia's policy predicament. It also prompted a resumption of the correspondence between Keynes and Giblin.

KEYNES AND GIBLIN

Within days of the Report being released the economists came under fire from many quarters. As Giblin intimated to Keynes, there had to be something in the Experts' Report, since 'Banks, Chambers of Commerce, Trades Hall and Mr. Lang abuse it in terms of equal intensity'.¹⁵ A crafty political operator, Giblin worked behind the scenes, trying to solicit favourable press treatment for the forthcoming report by getting the managing editor of the *Melbourne Herald*, Keith Murdoch, on side. While equivocal, Murdoch agreed that 'something' was needed and that the Experts' Report was the 'only plan in the field'.¹⁶ Much criticism revolved around the misunderstood clause lowering money wages by an average of twenty per cent to give effect to the ten per cent real wage cut initially prescribed by the Arbitration Court. Both Premier Lang of NSW and the Acting-Premier of Victoria, Tom Tunnecliffe, denounced it as an attack upon the working man. The WA Labour Opposition Leader, Mr. Collier, chanced his arm against the economists 'and all their works' even before a copy of the report had reached Perth ('Blind Critics and Worse', *Adelaide Advertiser*, 22 April 1932).

A more effective censure of the Experts' Report, however, came from Sir Robert Gibson of the Commonwealth Bank Board, who insisted that the Bank would not be swayed in its decision-making by 'sectional interests'. By that phrase, Gibson meant economists, rural interests and, not least, A.C. Davidson, the enigmatic General Manager of the Bank of New South Wales. In a sense, the Experts' Report merely intensified the bickering over the exchange rate between Davidson, who 'talks too much', and Gibson, 'who understands little and talks less'.¹⁷ Gibson did 'talk', but more often to the English banks on Collins Street than anyone else.

Apart from Gibson's intransigence on the exchange rate, and Lyons's refusal to have the Commonwealth Government instruct the Bank Board, Melville recalls that what also helped condemn the Wallace Bruce Report was Keynes's refusal to support the recommendation to devalue the Australian pound further. Melville recalls, with pointed irony, that the Commonwealth was denied the latitude to practise 'Keynesian' type stimulation by the Cambridge man's reluctance to support further devaluation.¹⁸ The Assistant Treasurer in Lyons's Government, S. M. Bruce, while initially 'greatly influenced by the recommendations of the Theorists', lost interest in the idea the closer he came to depart for London where he was to take charge of Australia's loan conversion operations.¹⁹ Lyons, the one man who had the power to direct Gibson on the exchange, elected to sit on his hands for fear of antagonising conservative elements within his Cabinet; the experts' vision proved larger than his own ambition. As Cain concluded, the Wallace Bruce Report was a political Godsend, for besides 'dumping on Lang', and reaffirming faith in private enterprise, it absolved the Federal Government from

taking responsibility for economic policy, which lay with the State Wage Tribunals together with the Loans Council and Commonwealth Bank (1985, 13-14).

Derived from his appraisal of the Wallace Bruce Report, Keynes's reluctance to back the recommendation for a further devaluation was based on the premise that the level of export prices countenanced was not a 'practical working hypothesis'; that is, it was unsustainable given the structure of national and international indebtedness. Moreover, he felt that the proposed action would be the act of a bad neighbour and instead of promoting international co-operation would engender a round of competitive devaluations, thereby inflicting greater deflationary pressures upon the global economy. Keynes closed with the comment that there was more chance of improving the profitability of business by fostering enterprise with such measures as public works than by a further expansion of exports. In other words, 'The problems of the Budget and of Unemployment are more pressing than that of the Balance of Trade' (Shann and Copland 1933, xiii). While Copland likened Keynes's words to 'a breath of warm, fresh air', Giblin publicly voiced his disappointment over the latter's view upon the exchange rate (*The Melbourne Herald*, June 27, 1932). He argued that Keynes would have been completely unaware that Australia's trade surplus came by dint of two exceptionally favourable seasons. In more normal times, however, Australia would need the insurance of a higher exchange rate to generate the trade surplus necessary to meet her heavy external obligations.

In private communication with Keynes, Giblin advised that his other main preoccupation with Australian policy concerned gathering support for more public works.²⁰ Reflecting his isolation alongside his colleagues, Giblin divulged to Keynes the real focus of the Committee, namely, that it had been "too pre-occupied with the narrowness of the bank and financial people", such that the case for public works to stem the growing tide of unemployment was deemed secondary to that of restoring business confidence. Giblin felt that the danger of social dislocation from high unemployment merited equal billing.

Consequently, upon signing the Report - 'with some hesitation' - Giblin urged the Prime Minister, Mr Lyons, to take 'immediate action, to relieve the strain, until the long-term policy bears fruit'.²¹ His ideas had, as mentioned, a precedent in the Scullin Government's Secretariat on Unemployment, charged with identifying feasible remunerative public works to alleviate unemployment (Hyttén 1971, 64). While the Committee could not readily identify any profitable short-term public works projects, Giblin, in his dissenting letter to Lyons, begged to differ. Deploying a modification of his own multiplier analysis, à la Kahn, he outlined a proposal whereby a 20 million pounds public works program, financed by Treasury Bills, could generate employment for 100,000 people. The proposed spending, Giblin assured Lyons, would only be for 'tiding over a limited period' until export prices recovered and was also not so large as to jeopardise business confidence. Giblin would have known that his proposal was in vain, since Cabinet was unreceptive to unorthodox advice²². As Melville reflected, the Board's trenchant opposition to both Giblin's palliative public works schemes and the Wallace Bruce committee's wish to further depreciate the exchange rate meant that the report itself 'fell between two stools' (Melville 1992, 672).

With Copland's encouragement, Giblin kept up the pressure for further devaluation but, again, found no support from Keynes, who responded that it would merely entice farmers to overproduce and thereby compound the downward pressure on Australia's export prices, merely diminishing the sterling or gold

equivalent of Australia's exports. In any case, too much rural production for export was hindering the longed-for recovery in export prices. Keynes went on to concede that, if Giblin's typically pessimistic prognostications about Australian export prices came to pass, 'it will in effect be impossible for Australia to meet her London charges in a season of only normal productivity. It is no good attempting the hopeless task of reaching adjustment on the basis of meeting your London charges without any rise in the price of your exports'.²³

In other words, under those trying circumstances Keynes saw no other option but for Australia to default on her London commitments. Such talk of default from the Empire's most eminent economist would have shocked many, but Giblin kept Keynes's remarks to himself. Bruce, however, would use the threat of default to force London to embark upon a more expansionary monetary policy to the benefit of the Dominions, and also to soften London's recalcitrance over Australian loan conversions (Turnell 1999, 17). Not long after, Giblin assimilated Keynes's global view of the problem at hand, arguing in a memorandum intended for high officialdom that 'the effect of the Australian effort to preserve external solvency must have been to intensify and prolong the depression.' By this Giblin referred to Australia cutting its imports by half and physically increasing export volume by one-third.²⁴ By the end of 1932 a pessimistic Giblin conveyed to Melville his doubts about the validity of the current approach to economic policy:

If every debtor nation strives to meet its foreign obligations and succeeds - whether by exchange or tariffs, or by reducing internal costs and expanding exports - then the result is going to be the further drying up of trade, further falls in prices and general intensification of the depression. I fancy a condition precedent to recovery is a scaling down of all internal debt, so I should be inclined to use the higher exchange rate as an argument for debt readjustment in the first place - and I'm not sure that I would not default rather than raise the exchange in the last resort.²⁵

Certainly the failure of the Imperial Trade Conference in Ottawa to open up world markets to more Australian exports meant that the country was thrown further upon its own resources in extricating itself from the slump. Bruce's replacement as Assistant Treasurer, Senator Massy-Greene, was not receptive to the relatively minor changes in economic policy that the expansionists proposed. Giblin felt the new appointee was a good man with an intelligence to match, 'but with a deflationary bias also a little hampered by the invariable Treasury complex with its preoccupation over Government receipts and expenditure'.²⁶ For his part, Massy-Greene was initially distrustful of high officialdom; nor did he entertain a high opinion of economists (Kemp 1964, 135). He was, for instance, sceptical of Giblin's paper on Exchange and Tariffs, prepared for the 1932 July Premiers Conference, where he had modelled the economic effects of a devaluation of 60 per cent against sterling before settling for a more realistic 40 per cent rate. Echoing Keynes, Massy-Greene felt that Giblin's push for this level of devaluation would do little to elicit any further export gains in either commodities or manufactures, but rather spark a capital flight at a most inopportune time.²⁷

With Australia at its economic nadir, the Premiers' Conference of July 1932 marked a watershed, with budgetary, monetary and exchange policies more in Gibson's orbit than the economists. As the Acting Commonwealth Statistician, Giblin had to tread carefully, letting Copland, Davidson and Premier Stevens of NSW take up the expansionist cause. They had first to prevent the Lyons Government falling further under the sway of Sir Robert Gibson who, in reasserting

his authority, wanted not just to ‘rehabilitate’ the exchange, but also to retire the huge floating debt of Treasury Bills then extant. To do so on either front would impart another deflationary impulse onto an already weakened economy and further jeopardise the viability of the export sector. Fortunately, Gibson was only partially successful in his bid to turn back the tide of Treasury Bills needed to finance state governments’ deficits. Meanwhile, the Governor of the Commonwealth Bank, Sir Ernest Riddle, reported from London that export prices were still too precarious to warrant any appreciation of the Australian pound. Riddle, moreover, was informed by Montagu Norman, Governor of the Bank of England, that, following Sterling’s break with the gold standard, London no longer had objections to fluctuations in the Australian exchange rate in accordance with local conditions; in other words devaluation was no longer seen, as Sir Robert Gibson certainly did, as a form of default. Giblin sought out his old antagonist, Niemeyer, about the Bank of England’s change of heart. In a classic piece of English understatement, Niemeyer replied that he was ‘honoured though I don’t quite know why you choose me as the symbol for an Australian Pound at par’, before going on to corroborate the Bank’s new line of thinking upon the exchange. The dogmatic strictures upon parity at all costs, issued in August 1930, were all but forgotten.²⁸

Copland, heartened by Riddle’s undermining of Gibson over the exchange in 1932, felt that the ‘deflationists were in the bag’.²⁹ While he proved to be premature in his optimism, it did mean that the economists could, in the absence of any other policy expedient, renew their campaign for devaluation, supported by the Bank of New South Wales and the Country Party. On that note, Giblin, contrary to Melville’s recollections about him being rather protectionist, was, as already mentioned, ideally in favour of greater devaluation, along with compensatory tariff relief.³⁰ Protection, Giblin maintained, would allow industrial inefficiencies to fester and, moreover, ‘...justify the chairman [Sir Robert Gibson] and make him an even greater menace to Australia than he is’.³¹ Consistent with the findings of the Brigden Report, Giblin therefore rejected former Treasurer Theodore’s prescription of a fortress Australia as the way out of the slump.³²

THEORY, PRACTICE AND POLICY

After passing over the reins to the new Commonwealth Statistician, E.T. McPhee, Giblin returned to Melbourne in 1933 and refreshed himself in the academic ferment of new ideas. With Copland, Walker, Coombs and Gifford - purportedly the advance guard of the Keynesian crusade - all abroad Giblin may well have felt isolated, but he had the lively company of a prize collection of students, including Dick Downing, Horrie Brown, J.F. Nimmo and Pete Garland. As a patron of economics education, Giblin felt it imperative that Australia develop a corps of mandarins to guide and manage the economy. He had already been instrumental in getting the Tasmanian wunderkind, Roland Wilson, into the Treasury, even if by the back door as an assistant statistician. Like Keynes, Giblin felt that the power of reason and ideas would ultimately triumph over ignorance and dogma. For that to happen there had to be a professional public service based upon the recruitment of graduates to deal with the growing complexity of modern society. When, therefore, E.G. Theodore put forward the idea in 1933 of a National Credit Commission to manage Australia’s monetary policy instead of the much maligned Commonwealth Bank Board, Giblin told him that the country had nowhere near enough qualified

personnel to staff the body.³³ He would return to the matter of the proper and informed administration of the nation's monetary policy in his evidence before the Royal Commission on Banking Systems in 1936.

Many of the new ideas and theoretical controversies that raged in economics during the thirties were aired before economics staff and graduate students at an informal society known as the Shillings club (Downing 1960, 46). Founded by Giblin, it was remarkably similar to Keynes's Political Economy club at Cambridge in that the twenty select members would have their names drawn from a hat to discuss a speaker's paper. At the July 1933 meeting, Giblin, having just favourably reviewed Keynes's 'Means of Prosperity' in the *Economic Record*, delivered 'a further instalment of the expansionist policy which we suspect is dear to his heart' (Downing 1960, 46). Applying multiplier analysis to local public investment, Giblin contended that a net increase of 50 million pounds in loan expenditure would boost employment by ten per cent. Horsfall, a graduate student, doubted whether such internal measures could wholly compensate for the cessation of overseas loans together with the adverse terms of trade. C.R. Mountain, later to become the National Bank of Australia's first economist, queried the elasticity of supply assumptions behind Giblin's estimates. Roland Wilson, visiting from Canberra, believed that the added expenditure would increase the demand for money and hence raise interest rates, while a rash of imports would put pressure on the exchange rate. Another critic maintained that the mooted expansionism would pander to the avarice of trade unionists - a problem which Giblin, like Keynes, believed could only be allayed by education and a sense of community-mindedness. Interestingly, F.R. Mauldon, one of Giblin's departmental colleagues, felt the plan was 'too easy... as economists we could not be satisfied with any simple means of recovery.'³⁴

Mauldon's fear probably reflected that of many economists, namely that Giblin's simplistic scheme was too much like the pamphlets circulated by Major Douglas and R.F. Irvine. Despite the underworld connections, however, underconsumptionist ideas were becoming the *lingua franca* of economic debate in the thirties. To some, Giblin's multiplicand seemed unrealistically high: yet years later Copland proudly told Sir Keith Murdoch that Australia had operated on a multiplier figure of 2.5 to 3 in the depression years and that these estimates were put forward with confidence, '...because we happen to have given rather more attention to this problem in Australia than economists have done in other parts of the world.'³⁵

The failure of the World Economic Conference in 1933 to reflate the global economy along the lines Keynes had spelt out in *The Means to Prosperity* meant that there would only be sporadic expansionary economic policies in the world as a whole. In Australia's case, the Bank Board vigilantly continued to monitor credit expansion, preventing the schemes of the expansionists from coming anywhere near fruition (Cain 1988a). The Lyons Government was complacent enough to interpret the gradual fall in unemployment as clear vindication of its policies. The Premiers' Plan was to run its course: State Government deficits were wound back, while the Federal Budget, already in surplus, was redistributed in the form of tax cuts rather than being used to finance public investment. The emphasis lay on a supply-side strategy of cheap money, lower taxes and lower costs. The predominant policy concern lay with ensuring that there was an adequate accumulation of funds in London to meet Australia's external obligations. Economic activity came a poor

second, and it showed, with the unemployment rate remaining above twenty per cent for five long years.

The next episode where Giblin pushed again for further expansion came in a strongly worded, untitled memorandum to the Assistant Treasurer, Richard Casey, in late 1934. Anticipating a worsening international trading environment, Giblin called for a new 'economic' Premiers' Plan 'to meet known tendencies and prepare for the unknown.'³⁶ He felt the only way of preventing further unemployment and a recurrence of state deficits was public expenditure from loans financed by Treasury Bills. He confidently asserted: 'There can be no doubt about its large effect on national income, and employment, and on the budgets on both these accounts'. He estimated that an additional 1 million pounds of loan expenditure would add between 2 million to 3 million pounds to national income and increase employment by 10,000. The new consensus on Commonwealth-State financial relations, enshrined in the new Commonwealth Grants Commission, held that the Federal Government together with the States should share any increase in revenue arising from the loan expenditure. Should the Commonwealth Bank prove recalcitrant in issuing the Treasury Bills to expedite the exercise, Giblin encouraged the re-elected Lyons Government to take the reins and not 'shelter behind a Bank Board of their own creating'. In closing, he warned Casey that if the Federal Government failed to act an alternative Government would, with consequences as disastrous as the present Government's complacency.

Casey's frustrating failure to act, despite his promise and drive, was compensated somewhat by Giblin's having no longer to wage his battle alone. Apart from Copland there was greater intellectual firepower gathering alongside, in the form of Walker and Coombs and stalwarts like Shann and Mills. Indeed a small gathering of Proto-Keynesian economists took root in Sydney with Premier Stevens their mouthpiece. Despite this progress, Giblin and the others were constantly at work trying to dissuade the Commonwealth Bank from raising public loans to retire short-term debt, given the Board's fear of the inflationary potential if trading Banks cashed in their Treasury Bills (Downing 1960, 45). As Giblin later reflected, it would have been much better had the Bank Board proved more vigilant about getting the current depression behind them before preparing for the next (1951, 171).

As the Australian economy entered its third year of patchy recovery, stimulated by improving export prices, public investment and the return of business confidence, Giblin delivered an address entitled 'Unemployment in Australia' to the Shillings Club in June 1935. He sought to counteract a fall in private investment spending by pushing again for more public investment.³⁷ One critic feared that doing so would push up costs, while another argued that Australia's prosperity was forever dependent upon the world price for her exports. Another critic spoke of the country's structural maladjustment, manifested by the external account.

Giblin's surprise appointment to the Commonwealth Bank Board in October 1935 was in part the result of the Federal Treasurer's wish to have the deliberation of economic policy considered by more enlightened specialists. Casey had his sights set on the Tasmanian for some time. Just after Sir Robert Gibson's death in early 1934 Casey wrote to the Attorney General, Sir John Latham, to allay his concern that the left-leaning Giblin might be a risky appointment:

There are sufficient 'practical men of affairs' on the Board to dilute and, if necessary, to offset any radical tendencies that he may have...I know

you remember, with some misgivings, that fact that he recommended a rise in the exchange rate a year or 18 months ago, which was fortunately not acted upon, and, as subsequent events have shown, would have been quite the wrong thing to have done, but personally, I don't wipe him off my visiting list for that one error.³⁸

The English banks on Collins Street did not share the Treasurer's optimism. The Superintendent of the Melbourne-based Bank of Australasia, G. M. Healy, agreed with his London superior, Edmund Godward, that Giblin's views on the banks' behaviour in early 1931 were 'pure Bolshevism.'³⁹ However, an official from the London branch of the Commonwealth Bank informed Godward that Giblin had since moderated his views. Godward was happy to hear it: 'I hope in this case the leopard has changed his spots and that Professor Giblin has given an assurance of his reformation.'⁴⁰

Healy informed Godward that Casey, following the retirement of one of the Commonwealth Bank directors, wanted a 'balancing' in the make-up of the Board and that the appointment had been a 'toss up' between Giblin and Copland, neither of whom, incidentally, met with the approval of the new Chairman of the Commonwealth Bank Board, Sir Claude Reading.⁴¹ The truth was that Copland was passed over because of his close association with the two ardent expansionists, Premier Stevens of N.S.W. and Davidson of the Wales. Lyons, too, undoubtedly played a hand in his old friend's appointment, concerned as ever about the unemployment problem and worried about the prospect of tightening interest rates caused by the Bank Board's inherent fear of inflation. In that regard, Copland was sure that Giblin's appointment had primarily been the Prime Minister's doing, given his grave concerns that '... the Treasurer and one or two staid members of the Cabinet had been allowing the virtues of deflation to seduce them'⁴².

Giblin relayed the good news to Keynes: 'The old fight over the C.B.B. has this time resulted in a win for the more liberal outlook. They have compromised with me as a supposedly, inoffensive kind-of-statistician (they do not know much of my indiscretions)'.⁴³ By indiscretions Giblin meant not only his own forays into calling for a change in policy, but also the tacit support he gave to Copland's dealings with Davidson and Stevens. Giblin was not to know that Casey had come close to appointing him Chairman of the impending Royal Commission into Banking, feeling that the Tasmanian 'could admirably fill the position' (Sutherland 1980, 38). In this case, however, Giblin's somewhat intemperate views upon the banks, together with his closeness to Lyons, went against the appointment.

A few months later a mollified Healy told Godward 'I think it is better for us that Professor Copland was not appointed. He and A. C. Davidson are too "thick" with each other for my liking. Copland also is a credit expansion man.'⁴⁴ Healy's inference that Giblin was, somehow or other, less expansionist in his monetary policy views than Copland was wrong; and in that respect, Copland knew the mind of Giblin better than any banker. Indeed Copland would regard Giblin's elevation to the Board as not just a 'cock-a-snoop... at our suave and rather sticky friends in the city' but symbolic, more importantly, of the gradual move towards intelligent economic control in policy-making. There was popular support for Giblin's appointment, with *The Herald* lavishing praise upon the new appointee's 'courageous and informed mind' concerning the techniques of central banking ('The Best Man for the Job', *The Melbourne Herald*, 21 October 1935).

As a sequel to Giblin's appointment to the Board, Frederick Eggleston, the Chairman of the Commonwealth Grants Commission, in his evidence given before

the Royal Commission on Banking Systems, lent credence to S.J. Butlin's remark that Australia's economic misfortune in the thirties was the result of its key decision makers being 'prisoners of doctrine':

Control in business is exercised by men of force but with little insight and breadth of vision. They are nearly always old men. Melbourne and Sydney are ruled by very old men. They do not favour youth or delegate responsibility. Economic affairs in Australia are under the control of men of routine minds who make money successfully when prices are rising, but are at a complete loss when things are falling (*The Argus*, 13 November 1936).

Eggleston went on to urge reconstitution of the Bank Board, with an infusion of fresh blood. He was, like *The Herald*, in favour of a meritocracy instead of special interests appointments, with board members able to access statistical data from which to make informed decisions. Giblin, for all of his 63 years, fitted the bill beautifully. Shortly after his appointment the Board began to use statistical input in its deliberations. Coincidentally or not, Giblin's elevation to the Board also signalled a marked change in focus, with more attention directed to the domestic economy than to the external account (Reddaway 1960, 192). Some time later Giblin and the new Governor of the Commonwealth Bank, Sir Harry Sheehan, together with Melville and Wilson, helped Australia emerge relatively unscathed from the 1938 international recession: public works, but more importantly a liberal credit policy, insulated Australia from any economic fall-out. Gilbert has somewhat contentiously interpreted this occurrence as the first practical example of Keynesian counter-cyclical policy-making in Australia, if not the world (1973, 195). In retrospect, it owed more to a canny sense of provident improvisation than to any anticipation of the subtleties of Keynesian demand management. However, Giblin still welcomed it as a sign that the Bank Board was becoming more enlightened about the possibilities for monetary policy (1951, 243-245).

In truth, Giblin was not alone in finding difficulty assimilating the General Theory - only Ronald Walker, of all the Australian economists, took to it with relative ease. Towards the end of 1937, Giblin still professed lingering doubts about Keynes's grand theoretical schema (Downing, 1960, 45). This lent support to the claim that Australian economists - certainly the more senior ones - were 'rarely nourished by the pure milk of the word' (cited in Hytten 1960, 154). Their renowned pragmatism and innate understanding of the local economy, especially its susceptibility to external shocks, together with the perennial concern about the trade account, was something that the closed economic analysis of the *General Theory* did not address. Richard Casey, the Federal Treasurer during this period, best encapsulated the Australian economy's predicament in the 1930s when he wrote, 'We are swung about, like a trailer after a motor car, at the back of the world's price levels.'⁴⁵

Giblin's appointment to the Board was vindicated by the constructive role he played behind the scenes in helping to defuse an impending problem on the external account in late 1935. With the recovery having gathered momentum, a flood of imports threatened Australia's external viability. Orchestrating a slowdown in economic activity was proposed by Commonwealth Bank officials. At Melville's initiative, three academic or 'outside' economists, namely Giblin, Copland and Mills, were called in to discuss the economic situation, along with the Treasury's latest recruit, Arthur Smithies, and to recommend corrective policy action. Copland and Giblin were, like Mills, initially reluctant to agree to any

cutbacks in public investment, believing that devaluation addressed the nub of the problem. For the September meeting each of the five economists drew up an appraisal of the economic situation. Giblin's effort, entitled 'The Progress of Recovery', was implicitly Proto-Keynesian in philosophy, arguing that with eighteen percent unemployment there was little case for dampening demand (Downing 1960, 45).

Giblin felt that recourse to deflationary policy would increase the burden of debt still very much extant. Nor would private investment take up the slack created by a cutback in public sector spending. Despite these sentiments the three expansionists were, at another semi-official meeting in Melbourne in October, brought round, rather remarkably, to the Melville-Smithies view of things, namely, that the rate of recovery had to be moderated because of the pressure on the London funds.⁴⁶ Apparently any notion of adjusting the exchange rate was unthinkable: Casey feared that, once depreciated, it would never be restored. Cain has examined the reasons behind Copland's change of mind and, by implication, the change of heart by both Giblin and Mills. Besides the evident signs of economic recovery, the fact that they were consensus men helped prevent a divide between inside and outside economists over policy (1988a, 18-19). In hindsight, the decision to apply the brakes to economic activity proved correct, with another gentle slowing of the economy required in mid-1936.

In both instances Giblin's advice proved complementary to the evidence he presented to the Royal Commission on Banking Systems. This was, in short, that full employment should be the overriding goal of monetary policy. This view was barely different from the evidence tendered by the other economists, all of whom argued that internal economic stability should come before exchange stability (Sutherland 1980, 97). However, Giblin was the only economist to maintain that a more equal distribution of income should be a goal of national economic policy (RCBS, Minutes of Evidence, 1341). This squared with Keynes's economic policy desiderata as enunciated in the last chapter of the *General Theory*.

CONCLUSION

It is well known that, even after the *General Theory* was published, Giblin was not a convert till much later and, even then, never a militant one. As Copland reflected, Giblin was too prudent and circumspect an economist to succumb to adulation at Keynes's grand vision (Copland 1960, 8). Indeed Giblin took lasting pride in the fact that he had influenced Keynes's outlook on some theoretical matters (Earp 1960, 20). For all that, Giblin proved to be Australia's leading Proto-Keynesian economist in the early thirties. He was the first economist to see that the Premiers' Plan had been too severe an economic program and that more had to be done in terms of public works. With the Lyons Government reluctant to countenance further devaluation to alleviate deflation, Giblin felt impelled to push for domestic expansion. While his belief in expansion was, in the early days, more the product of pragmatism than of theoretical illumination, by 1933 he was more assured that the multiplier would deliver the goods. With his appointment to the Commonwealth Bank Board in late 1935, Giblin became the first Proto-Keynesian voice to become an effective force in pushing for change in economic policy settings.

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Notes

- ¹ Biographies and biographical memoirs are in preparation for Melville, Copland, Coombs, Downing and possibly Shann and Wilson.
- ² While there is no pen portrait of Giblin, William Dobell has, in an act of magnificent compensation, given us a rare portrait of the enigmatic economist – a painting that came close to winning the Archibald prize in 1946. The portrait hangs within the Commerce faculty at the University of Melbourne
- ³ D.B. Copland to D.H. Robertson 24 December 1937, Box 55, Faculty of Economics and Commerce collection (hereafter FECC), University of Melbourne Archives (hereafter UMA).
- ⁴ C. Wickens to L.F. Giblin, 14 May 1928, Box 213, FECC, UMA.
- ⁵ L.F. Giblin to J. M. Keynes, 21 September 1933, Keynes Papers, Kings College (hereafter KPKC) A35/2/1.
- ⁶ L.F. Giblin to J. Lyons, 9 September 1930, Lyons Papers, NLA Mss 4841.
- ⁷ Extract from Staniforth Ricketson Diary, 20 March 1931.
- ⁸ L.F. Giblin to E.R. Walker, 20 April 1934, Giblin Papers, NLA Mss 366.
- ⁹ L.F. Giblin to E. Giblin, 9 March 1932, Giblin Papers, NLA Mss 366.
- ¹⁰ E. O.G. Shann to J. La Nauze, 11 March 1932, La Nauze Papers, NLA Mss 5248.
- ¹¹ L.F. Giblin to E. Giblin, 24 March 1931, Giblin Papers, NLA Mss 366.
- ¹² Melville Transcript 1971, NLA.
- ¹³ E.O.G. Shann to J. La Nauze 14 April 1932, John La Nauze Papers, NLA Mss 5248.
- ¹⁴ Melville Transcript, NLA, Pp. 58-60.
- ¹⁵ L.F. Giblin to J.M. Keynes, 19 April 1932. KPKC, Co /2/188.
- ¹⁶ L.F. Giblin to E. Giblin, 18 April 1932, Giblin Papers, NLA Mss 366.
- ¹⁷ G.L. Wood to W. S. Robinson, 21 April 1932, Box 14, FECC, UMA.
- ¹⁸ Melville Transcript, NLA, p.57.
- ¹⁹ Extract from Ricketson Diary, 11 April 1932.
- ²⁰ L.F. Giblin to J.M. Keynes, 19 April 1932. KPKC, Co 2/187-8.
- ²¹ L.F. Giblin to J. Lyons, 13 April 1932, KCKP, Co 2/189.
- ²² L.F. Giblin to E. Giblin, 9 March 1932, and 24 March 1932, Giblin Papers, NLA Mss 366.
- ²³ J. M. Keynes to L.F. Giblin, 31 August 1932, KPKC, Co /2/214.
- ²⁴ Memorandum No. 6, The Burden of External Debt, n.d., Box 213, FECC UMA.
- ²⁵ L.F. Giblin to L.G. Melville, 3 December 1932, Box 15, FECC UMA.
- ²⁶ L.F. Giblin to E. Giblin, 29 June 1932, Giblin Papers, NLA Mss 366.
- ²⁷ W. Massy-Greene to L.F. Giblin, 11 July 1932, Giblin Papers, NLA Mss 366.
- ²⁸ O. Niemeyer to L.F. Giblin, 19 October 1932, Bank of England Files, OV 13/2.
- ²⁹ D.B. Copland to C. Janes, 16 September 1932, Box 15, FECC, UMA.
- ³⁰ Melville Transcript, NLA, p. 37.
- ³¹ L.F. Giblin to E. G. Theodore, 7 November 1932, Giblin Papers, NLA Mss 366.
- ³² E. G. Theodore to L. F. Giblin, 4 October 1932, Giblin Papers, NLA Mss 366.

³³ L. F. Giblin to E.G. Theodore, 6 October 1933, Giblin collection 92/141 Box A-J, FECC, UMA.

³⁴ Minutes of Shillings Meeting, July 1933, Author unknown, Box 219, FECC, UMA.

³⁵ D.B. Copland to K. Murdoch, 25 March 1938, Box 60, FECC, UMA.

³⁶ Untitled Manuscript, November 1934, Box 23, FECC, UMA.

³⁷ Shilling Club Minutes, L. Anderson, Box 219, FECC, UMA.

³⁸ R.G. Casey to J. Latham, 16 January 1934, Latham Papers, NLA Mss 1009.

³⁹ E. Godward to G. Healy, 26 February 1931, Bank of Australasia, ANZ Group Archive.

⁴⁰ E. Godward to G. Healy, 12 December 1935, Bank of Australasia, D/O Correspondence, ANZ Group Archive.

⁴¹ G. Healy to E. Godward, 24 October 1935, Bank of Australasia D/O Correspondence, ANZ Group Archive.

⁴² D.B. Copland to J. Burton, 21 October 1935, Box 30, FECC, UMA.

⁴³ L. F. Giblin to J. M. Keynes, 22 October 1935, Box 32, FECC, UMA.

⁴⁴ G. Healy to Godward, 27 December 1935, Bank of Australasia D/O Letters, ANZ Group Archive.

⁴⁵ R. G. Casey to M. Hankey, 30 March 1932, Hankey Papers, Churchill College, Cambridge.

⁴⁶ D.B. Copland to W. S. Robinson, 7 October 1935, Box 37, FECC, UMA.

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