Monetary Reformers Abroad

Australian Economists at the Ottawa and World Economic Conferences

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I. Introduction

The Imperial Economic Conference which met in Ottawa in July 1932, and the World Monetary and Economic Conference (WEC) which met in London the following year, were watershed events in the conduct of international trade between the world wars. The most prominent attempts to salvage order from the collapse of the global economy into Depression, the conventional historical accounts of the retreat at Ottawa of the world's greatest trading nation (the United Kingdom) into protectionism, and of the subsequent collapse of the WEC, have become totems of the bankruptcy of international economic co-operation in the inter-war period. Less well known was that both these Conferences were also the venues for a range of schemes and remedies from outside the economic orthodoxy. Many of these concerned monetary policy, and it was in this field that Australia was to play an oddly prominent role.

The Ottawa Conference came less than a year after the United Kingdom's historic break with free trade, and the agreements reached there were an attempt by the members of what was then the British Empire to construct (via tariff preferences) an *imperial* division of labour. But Ottawa was also about money. More specifically, Ottawa was a venue for the countries attached to Sterling to attempt to affect British monetary policy - policy which greatly impacted upon their own economies and, given Britain's break with the gold standard in 1931, a policy for which there was perceived room for influence.

The WEC met in London in July 1933. Convened by the League of Nations, the representatives of sixty-four countries met to 'decide upon the measures necessary to solve the economic and financial difficulties which are responsible for, and may prolong, the present world crises' (Australia, Parliament 1933, p.1). It was a dismal failure. Mistakenly believing that he was being called upon to fix the dollar in terms of gold, President Roosevelt made public his famous 'bombshell' mid-Conference that he was not willing to surrender domestic action for the 'old fetishes of so-called international bankers'. [1] His pronouncement effectively rendered the Conference moribund and it was adjourned shortly after.

Australia's position on monetary matters at Ottawa and at the WEC was the product of three of its most distinguished economists - Douglas Copland, who then held the chair in economics at the University of Tasmania, Leslie Melville, economist for the Commonwealth Bank (its first) and Edward Shann, the foundation professor of history and economics at the University of Western Australia. Copland, Melville and Shann were all involved in the deliberations which led up to the so-called 'Premiers' Plan', that compromise between the advice of the economists, the voices of powerful advocates of 'deflation' such as the Commonwealth Bank, and the political imperative which sought to cut wages and other payments under the slogan of 'equality of sacrifice'.

Trade issues in the case of Ottawa apart, the Conferences have been largely ignored by historians of economic thought in Australia who have generally been concerned with the advice and activities of economists domestically, and for whom the Premiers' Plan has become the *leitmotif.* Such an omission is unfortunate. Freed from the constraints of Australia's particular circumstances - in the inter-war years a small dependent economy with an undeveloped monetary and banking system - it was the approach taken by Australian economists to *international* questions which was a much better indicator of their theoretical positions and development.

It was in this context that Ottawa and the WEC were important. At these Conferences, Australia's representatives advanced the line that Australia's best hope for economic recovery lay in expansionary monetary policies carried out by the principal creditor nations. A line consistent with that long advocated by Keynes and other monetary reformers, it had been evident in the individual writings of the Australian economists for some time, but brought together with the conferences in mind. Using archival sources hitherto unexplored, the paper will conclude that key members of the Australian economics profession in the inter-war years were theoretically much less 'orthodox' than conventional studies, confined to domestic policy, have allowed.

II. Australian Economists and Monetary Reform

Copland

Of the Australian economists concerned with Ottawa, Copland was the best known as a writer on monetary theory and policy, a position partly aided by his editorship of *The Economic Record* from its inception in 1925. A firm adherent to a strictly 'classical' conception of the quantity theory of money in his earliest writings, by the early 1920s Copland became enamoured of the work of 'monetary reformers' such as Irving Fisher, Ralph Hawtrey and J.M. Keynes. Keynes's *Tract on Monetary Reform* was particularly influential and its central theoretical claim, that fluctuations in the general price level were a function of the demand rather than the supply of money, was quickly absorbed by Copland who also adopted Keynes's revised quantity formula in all his subsequent writings. The formula stressed that the velocity of circulation of money could respond to changes in money demand, implicitly recognising the ability of a modern banking system to create credit and thus influence prices and output without the stock of money changing.

An important feature of this pre-*General Theory* reasoning was that price changes were the motive force behind changes in output. This meant that although the story was now more complicated, the quantity equation remained central as did, therefore, monetary policy. With the money supply dethroned as the determinant of prices, however, monetary policy should be directed towards stabilising the demand for credit. *How* this should be done (according to Keynes) was to vary the rate of interest to offset changes in the velocity of circulation. *When* it should be done would depend upon movements in the price of some 'standard composite commodity'. *Why* it should be done was that stable prices were consistent with the needs of contemporary capitalism - 'unemployment, the precarious life of the worker, the disappointment of expectation, the sudden loss of savings, the excessive windfalls to individuals, the speculator, the profiteer - all proceed, in large measure, from the instability of the standard of value' (Keynes 1923, p.v).

Copland took up monetary reform ideas in his own writings with extraordinary speed. In August 1924, for example, nine months after the appearance of Keynes's *Tract* (in England), Copland was declaring to the Australasian Association for the Advancement of Science that 'we may overlook the teachings of the classical economists regarding money' (Copland 1932a, p.33). Advances in both the practice of central banking and in monetary theory - especially 'the more adequate expression of the quantity theory of money, with particular reference to the factor "rapidity or velocity of circulation"' - all seemed to prove to Copland the essential truth of the monetary reform position (Copland 1932a, p.33). Taking the pick of Fisher, Hawtrey and Keynes, Copland ventured 'the main objectives of monetary reform' and the 'fundamental conditions of future policy' to be:

(i) Stability of prices;
(ii) Control of credit rather than control of currency;
(iii) Regulation of the credit cycle, with a view to eliminating short-period fluctuations;
(iv) The use of the central bank as a means of controlling credit and prices; and
(v) A new place for gold as an international currency, and not the basis of domestic credit and currency nor the ultimate determinant of prices (Copland 1932a, p.73).

But having dictated the terms of what a modern monetary policy should look like, Copland was not of the view that such a policy was yet within Australia's reach. Australia was a 'small dependent economy' whose national income was largely determined by export prices 'not dependent upon any conditions under political control in Australia', but moving in accordance with 'financial policy abroad, the purchasing power of our customers, and the international situation' (Copland 1932a, p.62). Copland also did not believe that Australia as yet had a monetary system up to the task of maintaining domestic price stability. Until the Commonwealth Bank Act (1924), Australia did not have a central bank even in name. The 1924 Act provided the Commonwealth Bank with the power to rediscount bills of exchange and to publish a rediscount rate, but there was no obligation for the trading banks to keep reserves with it, nor were there any powers granted to the Bank for acquiring external reserves. After the 1924 Act, central banking in Australia evolved exceptionally slowly and until the onset of the Depression the only real central banking function undertaken by the Commonwealth Bank was to control the note issue. This slow evolution in central banking in Australia, moreover, was accompanied by an even slower evolution in the thinking of those charged with monetary policy at the Commonwealth Bank, its first official historian noting that its Board did not really understand that the creation of credit could extend beyond the note issue, resulting in 'an exaggerated importance attached to currency' (Giblin 1951, p.11).[2]

For all of these reasons Australia was not, in Copland's view, in a position to run a truly independent monetary policy. The solution to price stability in Australia rather was up to the monetary authorities in those countries whose activities had most bearing upon Australian export prices. For Australia this meant, as it had always meant, the United Kingdom. 'Deflation in England...means deflation in Australia' and, as such, 'it would be in the best interests of this country to set up machinery for maintaining stability of exchange on London' (Copland 1924, p.58). What was required therefore, was 'enlightened' policy *in the United Kingdom* so as to achieve stability in the British price level.

In advocating such a framework, Copland was consistent with other monetary reformers - again, especially Keynes - who saw such a general system in which one or two countries would direct monetary policy to achieve price stability, and against which other countries could attach their own currencies via a form of gold exchange standard. Such a global scheme offered countries, according to Copland (in reasoning faithful to Keynes's *Tract*);

> a means of escape from the gold standard...it may be used to promote stability of exchange in all countries that find it convenient to establish a definite link with

> the currency of a more powerful creditor nation...We may therefore expect to see a new grouping of central banks according to the position of the countries. In practice the heavier international responsibilities will fall upon the Federal Reserve Banks and the Bank of England...(Copland 1924, pp.43-44)[3].

The onset of Depression inspired an orthodox impulse in Copland as manifested in aspects of the Premiers' Plan. He remained, however, convinced that the solution to the Depression more broadly lay not in the hands of Australian policy-makers and, beyond the Premiers' Plan, opposed deflationary policies which sought to move Australian 'costs' in line with lower prices. He maintained, rather, that it would be a far better policy for the world's central banks to engage in lifting world prices to remunerative levels. The fall in Australia's national income, he argued, had come from unenlightened monetary policies in the *rest of the world,* and it was 'the task of central banks throughout the world to negate a process they had themselves set in motion' (Copland 1932a, p.126).

Shann

Influential historian as well as economist, Shann's historical writings have been described as depicting 'the struggle of enterprising groups against the forces, largely public, of restriction', a theme which was also apparent up to, and including, his early economic writings on the Depression (Snooks 1988, p.575). Thus Shann's initial reaction to the falling world prices for Australia's exports was to press for a large and rapid reduction in costs. Fitting in generally with his view of a profligate Australia living beyond its means, this meant 'a radical revision of individual incomes all round... so radical as to enable the local manufacturer to compete at lowered prices for the impoverished exporters' custom' (Shann 1930, p.2). Shann expected that Australia would continue to meet all its debt obligations, and in the long run maintain the gold standard.

Remarkably, it was in the context of Australia's move from a rigid exchange rate though that the influence of Shann on Australian monetary policy was to be most apparent. In 1930 the exchange rate was for all practical purposes not a policy instrument available to the government or to the Commonwealth Bank. Historically set at a rate marginally short of sterling (and in the absence of any foreign exchange holdings of the Commonwealth Bank), Australia's exchange rate relied for its maintenance upon the co-operation of the Australian trading banks and their 'London funds'.

In January 1930 Shann was appointed by the largest of these, the Bank of New South Wales, as its 'consultant economist' - the first such position at an Australian bank. Shann had been in contact with the Bank's general manager, A.C. Davidson, for some time and it was Shann who encouraged Davidson's interest in economics (Holder 1970, p.642). It was also through Shann that Davidson established contact with other academic economists, most especially Copland, Melville and R.C. Mills of the University of Sydney, collectively forming the nucleus of a coherent centre of economic advice at a time when there were exceedingly few economists in the service of the government or its agencies.[4] But Shann's most important influence on Davidson came in his advice that the Bank take a lead in moving the Australian currency *off* close parity with sterling. The market leader in Australia's rural sector, Davidson was keenly aware of the suffering caused by the collapse in commodity prices and was coming around to this view in any case.[5] Needing to convince the other banks that such a move was not just about protecting his commercial interests though, Davidson circulated memoranda written by Shann to the other banks, the Commonwealth Bank, and to the Scullin Government.

The process by which Davidson eased the Australian pound from sterling parity has been described in much detail elsewhere and need not concern us unduly here.[6]

Suffice to say perhaps, that his actions were made in[illegible]ation with Shann, Copland and Melville in a series of meetings over the [illegible] the year.[7] Despite the wavering resistance of the Commonwealth Bank, which had declared in 1929 its view that 'the last resource which should be adopted would be any course which meant even temporary departure from the operation of the gold standard', devaluation to £130/£stg100 was achieved in January 1931. The actions of the private banks and (by this time) the desires of the Scullin government having forced its hand, the Commonwealth Bank in December 1931 finally assumed responsibility for the exchange rate.[8]

Over the course of 1931 and 1932, Shann ventured further along the lines of the monetary reformers. Influenced by the proceedings of the Macmillan Committee in the United Kingdom, at which Keynes was able to articulate much of the reasoning of his recently completed *Treatise on Money*, Shann came around to favour a much more activist monetary policy.[9] In an article entitled 'Monetary Policy', which he wrote for *The Australian Quarterly* in March 1932, Shann quoted at length a passage of the First Addendum to the Committee's report, of which Keynes was the principal author and signatory. This pointed out what he regarded as the 'fallacy';

> that 'surplus' financial resources can be gradually built up, unembodied in any physical form. It is supposed that if we 'save' a part of our current income and do not 'use up' these savings in capital schemes, we can in some way hoard them up for use at a later date and that these 'accumulated' savings will gradually strengthen our 'financial' position. These ideas are probably derived from a false analogy between the position of a particular individual or firm and that of the community as a whole... But a little reflection will show that the community as a whole cannot increase its 'liquid' resources by the various members of it building up claims against one another.[10]

As the passage cited indicates, Shann recognised the core message of the *Treatise;* that it was the equality of saving and investment which was the equilibrium condition of the economic system. The trouble, according to the *Treatise,* was that Britain's return to the gold standard ensured that such an equality was unlikely to occur. The 'natural' interest rate which would equate saving and investment could not be arrived at so long as the rate of interest was also the vehicle through which stability of the exchange rate was to be maintained. In the United Kingdom this meant a rate of interest which was too high (since sterling was overvalued) for the level of investment demand corresponding to a given level of entrepreneurial expectations. At such a rate, the resultant 'hoarding' of the above did not deliver an equivalent level of investment, but merely fluctuations first in price, then output and employment.

The policy prescription that emerged from the *Treatise* was much the same as the *Tract,* even if Keynes' identification of the saving/investment dichotomy had been an advance theoretically. An enlightened monetary system was still the vehicle by which an interest rate equating saving and investment had to be found, a rate which would not be arrived at automatically. Accordingly, and with the 'loosening of the links between Australian and British currencies and between both and gold' (Britain had abandoned the gold standard in September 1931), monetary policy should be used to ensure 'stability in purchasing power' (Shann 1932a, p.98). Shann even wrote that he agreed with the Premier of New South Wales, J.T. Lang, even if he did not believe Lang's methods were appropriate. What was required in Australia was the 'management of our money so that contracts in terms of it may be carried through as they stand', and to 'attempt all-round deflation would be too difficult and almost as destructive as Mr Lang's lop-sided exaggeration of it in the class-war style' (Shann 1932a, p.100).

In his evidence before the Macmillan Committee, Keynes also put forward a number of policy options which were either necessary for, or complementary to, the general policy of 'cheap money'. These included devaluation, protection, public works, and action by central banks around the world to act together to raise prices. The first two of these Australia had already attempted, but Shann was impressed with the idea of concerted central bank action. Shann, indeed, saw such a move as integral to the whole new conception of monetary policy as envisaged by Keynes, while retaining his earlier concerns as to how far countries like Australia could venture on their own. In this Shann noted the important role of the Bank of England:

> The first step towards the conscious management of all rates of interest so that they should maintain a moving equilibrium between capital supplies and demands came with the recognition of the Bank of England *as the other banks' bank* in what was easily the most important of the world's money markets (Shann 1931, p.3, emphasis added).

Melville

Of all the Australian economists active in policy debate in the early 1930s, Melville was perhaps the most publicly orthodox.[11] Comfortable with the message delivered by Niemeyer and Gregory on their visit to Australia in 1930, Melville wrote later that same year that deflation 'will not make us poorer as a nation' (Melville 1930, p.48). Most importantly, deflation was the policy by which the costs of falling world prices could be redistributed across the community, and not just borne by exporters, the sector essential if Australia was to avoid the 'calamity' of default (Melville 1930, p.52).

Melville's appointment to the Commonwealth Bank in January 1931 curtailed his public commentary, but his collaboration (above) with Davidson over the exchange rate revealed the beginnings of what would be a slow but extraordinary journey from orthodoxy. Even before this movement, though, Melville was not opposed to expansionary monetary policies applied elsewhere, especially in the United Kingdom. Commenting upon this later, Melville explained that there was no inconsistency:

> We were bothered by a balance of payments problem in Australia. When we turned to expansion on a world scale, of course, this was a very different problem from our point of view. We saw our salvation in Australia coming from expansionary policies applied in the rest of the world and if we could have persuaded England and the rest of the Commonwealth and later the United States and Europe to develop an expansionary policy, of course this would be very much in our interests.[12]

III. Ottawa

Preparation

Sometime in early 1932 Copland, Shann and Melville, together with Giblin and Mills, prepared a series of proposals for carrying out the London-centred monetary policy that had long been their concern.[13] The proposals were meant for the upcoming Imperial Economic Conference in Ottawa, at which the long campaign for imperial preferences would be partially realised. Commenting on these proposals, Giblin wrote in early June 1932 that the 'stuff on monetary policy at Ottawa' was 'very aggressive' and 'will probably flutter some of the dovecotes a little'. This was provided, of course, that 'the Govt [sic] will send them'.[14]

It is not clear from the surviving records precisely when the economists' proposals became a part of the government's strategy for Ottawa, a strategy which was more about tariffs, quotas and preferences than it ever was about monetary policy.[15] Certainly they could not have been approved of in anything but very general terms prior to the selection of the delegation, which took place before Giblin's comments above. Australia's delegation to Ottawa was headed by S.M. Bruce, the former Prime Minister soon to take up residence as Australia's High Commissioner in London. Melville was Bruce's official adviser while Shann, reporting on the Conference for the Bank of New South Wales, was an adviser in all but name. Bruce's leadership was critical to the delegation's make up as Sir Robert Gibson, Chairman of the Commonwealth Bank, was 'a bit suspicious and distrustful' of Melville following his advocacy of devaluation and initially refused Melville's participation. Eventually, under pressure from Bruce, he relented.[16]

So what were the 'series of proposals' designed by the economists for Ottawa? Long thought to be missing from the historical record, they were a familiar mix of the monetary reform agenda as adapted to the special circumstances and responsibilities of a monetary power and centre.[17] Written up by Copland in May 1932, and modified by Melville and Shann en route to the Conference, the proposals nominated a 'speedy reversal of the present trend of prices' as the prime hope for prosperity, a hope which would be best realised by all nations carrying out an agreed plan of monetary action. The 'sterling area' (as the nations attached to the British currency came to be known) was picked out as a group of nations in which there was 'less divergence of immediate interests', but which was still an 'important group of nations' nonetheless.[18]

In order to bring about this rise in prices the Australian economists proposed that the sterling area conduct monetary policies so as to lower interest rates and thus stimulate investment. For the United Kingdom, and those other countries with monetary systems which would allow for it, this could be achieved through a combination of:

(i) Low bank rates.
(ii) Purchase of Government Securities by central banks.
(iii) Encouragement of investment by Governments and financial institutions...
(iv) Public and Municipal works...[19]

All of these would, in turn, require the management of both the sterling-gold exchange and the exchange rates of those countries linked with sterling. For the countries linked with sterling this would mean the adoption of a sterling-exchange standard (of the sort long adopted by Australia) in which such countries would hold their main reserves as sterling. Only sterling itself would be linked to gold. The rate of sterling to gold could not be too high though, or the experiences of post-1925 would simply be revisited but, surprisingly perhaps, the Australians were anxious that it not be too low either. Of concern here was the impact upon those countries outside the sterling group and still attached to the gold-standard. A sterling-gold rate which was too low would have 'disturbing effects upon industry in gold standard countries', causing a 'further fall in gold prices' and ultimately bringing little relief to sterling countries themselves. What was required, therefore, was a sterling-gold rate somewhat below that prevailing after 1925, but accompanied by the sort of monetary proposals advocated above. With the whole system working correctly, the Australians envisaged that:

(i) Industrial activity, including exports and imports, within the sterling group would increase. As a consequence sterling prices would rise.
(ii) Imports from outside the sterling group would increase. Exports from the sterling group would also increase, but not to the extent until some time had elapsed.
(iii) Sterling would depreciate in terms of gold. Imports from outside the group would decrease and exports increase. Capital movements away from low interest rates would accentuate the movement of exchange.[20]

The Conference
The Imperial Economic Conference met in Ottawa in July-August 1932. Australia found support for its monetary line from the New Zealand and Indian delegates, but resistance from Canada (which was attempting to stay at parity with the US dollar) and South Africa (the world's largest gold producer).Whatever the support of individual Dominions, however, the whole point of Australia's Ottawa advocacy was to influence the United Kingdom, whose delegation was led by Neville Chamberlain, then Chancellor of the Exchequer. Plans for monetary expansion were not unknown in the United Kingdom in the early 1930s and, especially once gold had been abandoned, even enjoyed some official support. Both the British Treasury and the Bank of England were concerned though to keep such matters firmly within their own prerogative. In a memorandum prepared for the Ottawa Conference, Treasury made clear its desire that countries in the sterling area maintain exchange stability, but beyond being willing to ensure that 'the interests of the Empire would at all times be borne in mind in the framing of general policy', was not willing to countenance Dominion *participation* in monetary decisions. 'Within these limits', the memorandum concluded, 'there is room for fruitful discussion at Ottawa'.[21] The Bank of England nursed almost identical concerns, Governor Montagu Norman stating that 'Ottawa is definitely *not* the place and the Ottawa atmosphere *not* the atmosphere for discussions on this matter'.[22]

Thus advised, the tactics of the British delegation on the monetary side of Ottawa was a mixture of obfuscation and attempts to assure Dominion representatives that what they most wanted in the monetary sphere was precisely what Britain was already doing. Pointing to on-going open market operations by the Bank of England that had led to a 'reduction of bank rate to a figure equal to the lowest ever recorded', Chamberlain declared in his opening statement at Ottawa that he could 'fairly claim that there [was]... no monetary obstacle to a rise in wholesale prices'.[23] The government of the United Kingdom would continue to direct banking policy 'towards providing an adequate supply of credit at moderate rates, but there should be no 'rash experiments' in monetary policy'.[24]

The Australian delegation was aware of the recent monetary moves in the United Kingdom and, indeed, used what they regarded as the beginning of a reversal of the trend in British prices as further proof of their cause. They were concerned though to get a much stronger commitment from the United Kingdom to the continuation of such a policy, a task which was strongly taken up by Bruce - who told Chamberlain that the United Kingdom had 'made a most admirable start but the question is whether they will be prepared to stick to it in the face of what will amount to a situation that will require very great courage'.[25] The test, according to Bruce, would come 'if, as a result of the prevailing low rates for money in Britain, you begin to get a tremendous outward flow of the floating international money'.[26] In the past the obvious corrective to such an outflow had been an increase in British interest rates - a policy which 'would defeat the whole policy of cheap money'.[27]

In attempting to extract from Chamberlain what he referred to as a 'definite announcement...ruthlessly pursued', Bruce himself was prepared to 'ruthlessly pursue' the monetary line, including using Australia's most powerful card - default. Writing to Senator Massey Greene after the completion of the Conference, Bruce recalled that he had;

> put the position very strongly that every possible step to bring about the increase in wholesale commodity prices had to be taken if default by a number of debtor countries was to be avoided. I pointed out that if Australia ran into a period of bad

> seasons she would be forced into such a position notwithstanding the amazing efforts we have made in the past to meet our obligations...[28]

Largely as a result of the prompting of Bruce, Chamberlain did make a declaration which went at least part way towards what Australia was demanding. The statement included the avowal that:

> His Majesty's Government desire to see wholesale sterling prices rise ...[and]... recognize that an ample supply of short-term money at low rates may have a valuable influence, and they are confident that the efforts which have successively brought about the present favourable monetary conditions can and will...be continued.[29]

The Ottawa Resolutions

Chamberlain's statement of his government's 'commitment' to the maintenance of its monetary stance was included in the final resolutions of the Ottawa Conference concerning monetary policy. These declared the desirability of a rise in the general level of prices, recorded the conviction of the delegations that international action to bring this about was 'urgently necessary' and, while acknowledging the British government's reservations as to its limits, placed monetary policy centre stage.[30] The restoration of an international monetary standard, though the 'ultimate aim of monetary policy', would have to await a rise in prices. Once established, the new monetary standard should be constructed so as to avoid 'wide fluctuations in the purchasing power of the standard of value'.[31] In the meantime the sterling area provided a valuable haven - 'first by creating an area of stability among countries regulating their currencies in relation to sterling; and secondly, by avoiding wide day-to-day fluctuations between sterling and gold'.[32]

On the monetary side, the Australian delegation to Ottawa was happy with the Conference's resolutions.[33] They had not gained the iron-clad assurance that Britain's policy of 'cheap money' would continue, nor did they believe the British statement went quite far enough, but in other respects the Ottawa resolutions conformed to the 'series of proposals' the economists had drawn up in Australia. Low commodity prices had been unambiguously specified as a principal cause of the present difficulties and low interest rates recognised as an important tool to bring about a reversal of the trend. On the exchange side, the Conference resolved almost exactly along Australian lines. Members of the sterling group would maintain some fixed relation with sterling, but sterling itself would not return to gold until prices had risen. This commitment, made only after the British delegation's rejection of Canada's and South Africa's proposals for a quick return to gold, was deeply significant - recognising the monetary reform agenda that internal price stability had to have priority over exchange stability. Writing some months after Ottawa, Melville summed up the Conference's resolutions in declaring 'they mark a step away from the fatalistic conception of depressions and towards the view that some relief can be secured by monetary policy'.[34]

IV. The World Economic Conference

All three of the principal economists concerned with Ottawa continued to write on the need for international action to raise prices beyond the Conference, an activity which was stimulated by their selection as Australia's delegates to the World Monetary and Economic Conference (WEC) to be held in London in June 1933. In the case of Copland these were mostly concerned with developing a theoretical case against production controls - an idea that had emerged at Ottawa as an alternative to monetary policy in lifting commodity prices. According to Copland, it was a fallacy of composition that the restriction of the production of certain commodities could lead anywhere but to further deflation. Depending on elasticities, the income and the spending power of the producers of commodities under restriction *could* increase, 'but the income and spending power of the rest of the community is decreased proportionately'.[35]

The influence of Keynes's evidence before the Macmillan Committee upon Shann has already been noted, but in his post-Ottawa writings Shann's extraordinary journey from orthodoxy became more apparent. In a commissioned commentary for the Bank of New South Wales *Circular* in January 1933, for example, Shann wrote of the impact of deflation in driving a flight to liquidity - what he colourfully referred to as the 'cancer of hoarding'. Nevertheless, he remained convinced both of the efficacy of monetary policy and of the role of the United Kingdom in being able to induce global recovery - even if its senior government figures doubted it themselves. These doubts, he wrote, 'may be ridiculed by students familiar with the time-honoured practice of regulating the money market by means of the Bank Rate and of keeping the British price-level by that means' (Shann 1933b, pp.11-12). Citing R.G. Hawtrey's recently published *The Art of Central Banking* in support of his case, Shann also bemoaned the 'inhibitions to which leaders in key positions are subject', a situation which was 'amongst the most important facts in the depression complex' (Shann 1933b, pp.11-12).

Making Shann's contribution at this time more remarkable was his suggestion that this lead from Britain in the monetary sphere be combined with 'concentrated measures in many lands to increase capital expenditure'. By this he meant public works, 'a feature common to the relief programmes into which the growth of unemployment has pushed the French, Italian and German Governments'. If only the 'United States, Britain, India and the Dominions followed suit', then 'the danger, so dreaded by central bankers, of the relative depreciation of their moneys need not deter them'. Demonstrating an understanding of a multiplier concept (though noting residual concerns of 'crowding out'), Shann concluded that:

> Any nations that can build public utilities at low interest cost and continue thereby to set afoot an expansion of consumers' outlay, to a degree which they can continue to finance themselves at a steady price-level, will have regained their economic balance (Shann 1933b, p.12).

Melville's position at the Commonwealth Bank continued to constrain his public pronouncements, but his thoughts in the period after Ottawa are accessible via a correspondence with Sir Hal Colebatch, a semi-independent Senator from Western Australia. In this Melville sought to convince Colebatch of the efficacy of monetary policy as a counter to deflation. Writing against what were apparently Colebatch's concerns for inflation and the potential for abuse of monetary activism in a democracy, Melville argued that there were 'just as serious dangers of deflation getting out of control'.[36] There would be resistance to monetary action by the most extreme proponents of 'individualism', but 'if the price of individualism is really to be periodical and *avoidable* breakdowns of the productive system due to rising or falling prices... then the socialist critics would be justified...'. Monetary action accordingly, had to be employed 'whatever the consequences to individualism', and the criterion for monetary policy;

> should be its success, over a number of years, in maintaining the average level of wholesale prices of important international commodities relatively stable, and its success in eliminating such violent short term fluctuations as the world has recently witnessed.[37]

Melville told Colebatch that the Ottawa monetary resolutions were an outline of feasible policy to raise prices by an international expansion of credit, but he was sceptical that the upcoming WEC would bring agreement from countries still attached to the gold standard. Accordingly, Melville, like Shann, continued to urge Britain to go it alone in attempting to raise sterling prices. Such a task would be difficult, but it was also one to which Britain was accustomed to. Before the war London had managed the gold standard with little help from anywhere else, 'indeed the gold standard broke down when the co-operation from other countries became necessary'.[38]

The Conference

From the outset of its deliberations the WEC was divided in ways much more fundamental than those which had divided the participants at Ottawa. At Ottawa, the Australians' principal dispute with the United Kingdom was over degree, not the underlying philosophy. If there was a certain resistance to what some British Treasury officials regarded as 'extreme monetarism', there was no mistaking the general direction of United Kingdom policy (Drummond 1981, p.132). Not so beyond the Imperial family, where a number of countries, but notably France, maintained an inflexible commitment to gold. To France and certain other of the 'gold bloc' countries, monetary expansion raised not so much thoughts of an orderly rise in the prices of primary products, but the spectre of rampant inflation.[39]

In contrast to the rigidity of the French position, the one uniform principle underlying United States' involvement with the WEC could only be described as manifest confusion. Promotion of the idea of a conference had come from President Hoover, and coincided with a time when his administration had itself been attempting to raise internal prices by expanding the money supply. At this time certainly, the centrality of raising prices for the WEC agenda was clear to the American government. Hoover's defeat at the hands of Roosevelt in the elections of 1932, however, changed matters and the US delegation, imperceptibly believing that they were following the wishes of the new President, initially pressed for global exchange rate stabilisation. But if this was not bad enough for monetary expansionists, the US delegates to the WEC also proposed a whole series of initiatives which, to the extent that they were often contradictory, only made less certain that the Conference could achieve anything worthwhile at all. Over the course of the Conference the American representatives advocated raising commodity prices through production controls, the abolition of exchange controls, a 'customs truce' and, most striking of all, opened up the issue of *bimetalism* by pressing for the inclusion of silver in a new monetary standard. (Drummond 1981, pp.138-140).

Breakdown

On 27 July 1933 the WEC adjourned, ostensibly to reassemble as soon as various sub-committees of experts had considered the most intractable disagreements over the issue of exchange rates, in fact never to meet again. The end when it came was a surprise though - a compromise proposal which both affirmed the gold bloc's determination to remain on gold without prejudicing the freedom of those off gold having come within days of gaining agreement. All of this was swept aside, however, by Roosevelt's famous 'bombshell'. Fearing that he was being asked to re-fix the dollar in terms of gold (now firmly *not* the policy of his Administration), Roosevelt railed against what he called the 'old fetishes of so-called international bankers' which argued for 'the specious fallacy of achieving a temporary and probably artificial stability in foreign exchange'. What was important was not the price of one currency in terms of another, but the stability of the purchasing power in terms of 'the commodities and needs of modern civilisation'.[40] Spelling it out more clearly in a second declaration two days later, Roosevelt avowed that:

> The revaluation of the dollar in terms of American commodities is an end from which the Government and people of the United States cannot be diverted... What is to be the value of the dollar in terms of foreign currencies is not and cannot be our immediate concern.[41]

Roosevelt's statement was, more or less, what the Australians had been arguing all along and what the British Commonwealth had agreed upon at Ottawa in 1932. Nevertheless, the seeming capriciousness of the American position and the provocative nature of Roosevelt's declarations was sufficient to panic a number of the delegations, and not just those of the gold bloc. The British feared above all 'monetary disorder and confusion'. They wanted the gold bloc to abandon gold, but did not want this to occur in 'chaos while the Conference was actually sitting'.[42] The Australian government too was worried about the American moves, and suggested that a joint statement of empire delegations be made 'to avoid panic'.[43] The gold bloc delegations were not surprisingly incensed at Roosevelt's actions, responding with a statement reaffirming their 'intention to maintain the free functioning of the gold standard...at the existing gold parities and within the framework of existing *monetary laws*' (emphasis added).[44]

The American declaration finished off what remained of the hopes for serious multilateral discussions at the WEC, but the Conference did linger on long enough for the desires of the Australian government for a British Commonwealth declaration to be realised. Heavily pushed by Bruce, this declaration reaffirmed the Ottawa line of seeking 'the creation and maintenance within the limits of sound finance of...low rates of interest and an abundance of short-term money'. Noting the success already of Britain's cheap money policy in raising sterling wholesale prices, the declaration asserted that this should continue to a level 'which restores the normal activity of industry and employment, which ensures an economic return to the producer of primary commodities, and which harmonizes [sic] the burden of debts and fixed charges with economic capacity'. The ultimate aim of monetary policy remained the 'restoration of a satisfactory international monetary standard', but this required a rise in world prices first. Public works were down played following resistance from the British Government as 'a matter which must be dealt with by each Government in the light of its own experiences and of its own condition'.[45]

Aftermath

If the collapse of the WEC is remembered for anything among historians, it is usually for the emphatic manner in which Keynes (reporting for the *Daily Mail*) greeted Roosevelt's declaration. 'President Roosevelt is magnificently Right' proclaimed Keynes's headline, going on to interpret the American declaration as an invitation for the rest of the world to join with them in putting 'men to work by all means at our disposal until prices have risen to a level appropriate to the existing debts and other obligations fixed in terms of money' (Keynes 1982, pp273-277). As he was to admit later, Keynes read more coherence into Roosevelt's declarations than they warranted, understandable given that at this time he held great store in being able to influence the American President.

Keynes's celebration of Roosevelt's actions were not shared by the Australians, who were profoundly disappointed at the WEC's collapse but who tended to blame a lack of leadership from Britain for the outcome. For Shann the British rejection of international public works was particularly disturbing, subsequently noting that 'one recognizes here the authentic voice of National Finance' (Shann 1933c, p.174). As in earlier writings, the extent to which Shann anticipated what would only become orthodox later was extraordinary - only now he was more convinced that monetary policy alone was not enough. Writing that 'Mr J.M. Keynes is right in looking for the needed balance in equality of saving and capital construction', Shann noted that British policy (even if cheap money was maintained) was little more than an attempt at 'coaxing' prices and recovery - as opposed to 'the policy of pushing', which was the case for public works (Shann 1934, p.170). In the end Britain had substituted action for 'an empty assertion of freedom to act', and as a result it was Shann's view that just as Britain had been driven from the gold standard, so may it be to the advantage of countries such as Australia to seek 'the same complete freedom in the management of their own currencies' (Shann 1933c, p.175). The conclusion to be drawn from the failure of the Conference was that countries had to sublimate all to internal balance, and only;

> when they have grasped the technique of finding and maintaining individual *trim* they may decide not to link hands again, but to continue their sober ways alone. That is the logic of the Conference's monetary work, and, in the absence of an effective lead from Britain, it will [win] out (Shann 1933c, p.175).

V. Conclusion

Remarkably, the WEC was the last venue at which a global solution to the Depression was attempted before once again a world war rendered such matters irrelevant. The Australian economists examined here (with the exception of Shann, who died in 1935) remained active in the intervening period, but their activism was confined to matters that were directly concerned with the domestic economy, or with standard syndicalist and protectionist themes. None of these were indicative of any new theoretical insights and all were symptomatic of that preoccupation with the balance of payments that has been a defining feature of Australian economics. This pessimistic rumination was particularly apparent as the decade wore on, when a recovering (and re-arming) economy once more became tightly constrained by the current account. A new wave of young economists, many fresh with the insights coming out of Cambridge, England, were beginning their move into positions of influence, but they were not yet firmly established.

It has been the purpose of this paper to demonstrate that Australian economists, mindful of the most severe balance of payments crises ever experienced by this country, sought salvation in the 1930s partly through international policy initiatives that they thought would relieve conditions at home. In their advocacy at Ottawa and the WEC, Copland, Shann and Melville demonstrated that Australian economists were not the upholders of orthodoxy that has sometimes been their allotted fate at the hand of historians. The Premiers' Plan, emergency tariffs and less imaginative policies might have been dominant in the response of Australian economists to the Great Depression, but they were not the measure of their contribution.

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Notes

1 Roosevelt cited in Skidelsky (1992), p.481.

2 The Bank's *second* official historian, C.B Schedvin, wrote that the Board's obsession with the note issue was to a degree that 'even the crude quantity theorists would have shuddered' (Schedvin, 1970, p.85).

3 See also Keynes (1923), pp.204-205.

4 These arrangements were soon formalised by the creation of an economic department headed by Shann, again the first of its kind.

5 Schedvin (1970, p.159) maintained that Shann was the 'catalyst' rather than the 'father' of Davidson's views with regard to the exchange rate and it was, therefore, 'more accurate to say that the ideas of the two grew together'.

6 For more on this though, see Giblin (1951), Holder (1970), and Schedvin (1970).

7 The most important of which took place in Davidson's home at Leura in December 1930 (Holder 1970, p.647).

8 For the reaction of Australian economists to this development see 'Economists' statement on devaluation' in Shann and Copland (1933), pp.85-87. The signatories included Copland and Shann.

9 Curiously though, Shann seems to have missed a key piece of advice given by Keynes to the Macmillan Committee - that private investment was likely to be relatively interest inelastic.

10 Macmillan Committee, Addendum 1, cited in Shann (1932a), pp.100-101.

11 See, for example, Schedvin (1970), pp.222-223 and the citations of Giblin and others in Cain (1987), p.8.

12 L.G. Melville, interview with Alan Hodgett, Oral History Transcript, TRC-182, Australian National Library. Melville was, of course, treading a most difficult path given his official position.

13 All five economists had been brought together in March 1932 via their inclusion (by the newly-formed Lyons Government) in a committee of experts to report upon and continue the work of the Premiers' Plan. This committee, named after its chairman, Wallace Bruce, ultimately concluded that the 'cost reduction' strategy of the Premiers' Plan should continue to be pursued only to the extent that its original recommendations had not been carried out (principally wage reductions in New South Wales). Otherwise it cautioned against further deflationary measures as they would only 'threaten social and financial stability'. Significantly, the Committee also recommended that the Commonwealth Bank be authorised to manage the exchange rate. Giblin sent the Committee's recommendations to Keynes in April, who subsequently responded in a letter to the Melbourne *Herald*. In the letter Keynes too cautioned against attempts to reduce 'costs', but warned also against the dangers of further devaluation of the Australian currency. Much better for Australia, he wrote, was a devaluation of sterling, a topic which he suggested should be the subject of Dominion consultation at the Ottawa Conference. For more on Wallace Bruce, and Keynes's reactions to it, see Keynes (1992), pp.94-100.

In the end Copland had little to do with the deliberations of the Wallace Bruce Committee, being occupied with a similar committee in his native New Zealand, and was subsequently replaced by R.C. Mills. Though he did not feature prominently, Mills was also involved in the preparation of the monetary line to be taken at Ottawa. For more on Mills' involvement, see Giblin's letter to an unknown correspondent, 2 June 1932, and cited in Cain (1985), p.59.

14 Giblin to unknown correspondent, 2 June 1932. *ibid*.

15 Nevertheless, the economists' proposals for Ottawa were most welcome to the Lyons Government. At a conference of state premiers and the Commonwealth in June 1932, Lyons expressed his optimism for Ottawa and declared that in the meantime, the domestic task should be to 'keep Australia steady ... to reap the full benefit of better times when the prices of our primary products shall have been restored to normal levels'. Lyons cited in Cain (1985), p.40.

16 Gibson's objections to Melville's participation were somewhat ironic given that Sir Otto Niemeyer himself seems to have also asked for Melville's inclusion. Gibson's suspicions of Melville are reported in the letter written by Giblin on 2 June 1932, *op.cit.*

17 The proposals are contained in a memorandum entitled 'The Monetary Problem. A Memorandum for Consideration at Ottawa', and dated 30 May 1932. The memorandum is held by the Reserve Bank of Australia (RBA), C.3.7.6.71, The Imperial Economic Conference - Professor Melville's Papers, 1932. That these proposals seemed to be lost is bemoaned in Cain (1985), p.59.

[18] Shann and Melville's modified version of the above memorandum, entitled 'An Initial Policy of Several and Joint Action by Britain and the Dominions to Restore Economic Balance', and dated 15 June 1932, is contained in RBA, C.3.7.6.63, League of Nations, Monetary and Economic Conference, London, Papers and Proceedings, 1933.
[19] 'The Monetary Problem. A Memorandum for Consideration at Ottawa', *op. cit.*
[20] *ibid.*
[21] This Treasury memoranda, which was dated merely 'Spring 1932', is cited in Drummond (1981), p.16.
[22] Emphasis in original. Norman cited in Sayers (1976), p.448.
[23] Chamberlain cited in Australia, Parliament (1932), p.111.
[24] *ibid.*
[25] S.M. Bruce to Senator W. Massey Greene, 14 September 1932, National Archives of Australia Australian (NAA), M104/1, S.M. Bruce, Folders of Annual Correspondence.
[26] *ibid.*
[27] *ibid.*
[28] *ibid.*
[29] Chamberlain cited in Australia, Parliament (1932), p.18.
[30] The resolutions are contained in Australia, Parliament (1932), pp.18-19.
[31] *ibid.*
[32] *ibid.*
[33] See, for example, Melville's 'Notes on the Ottawa Conference', undated memoranda, RBA, The Imperial Economic Conference, Professor L.G. Melville's Papers 1932, C.3.7.6.71. See also the Australian delegation's 'official' reaction in Australia, Parliament (1932), pp.115-116.
[34] L.G. Melville, 'Notes on the Ottawa Monetary Resolutions', *op. cit.*
[35] 'Note on the Restriction of Production', 19 June 1933, RBA:C.3.7.6.63, File 1, League of Nations, Monetary and Economic Conference, London, Papers and Proceedings 1933.
[36] Melville to Colebatch, 3 February 1933, RBA: C.3.20.2.4, Miscellaneous Correspondence, General Correspondence 1933.
[37] Melville to Colebatch, 6 January 1933, *ibid.*
[38] Melville to Colebatch, 3 February 1933, *ibid.*
[39] Principal members of the 'gold bloc' included Holland, Italy, Poland, Romania, Switzerland and, when it was on gold, Germany.
[40] Roosevelt's statement was contained in a telegram to Secretary of State Cordell Hull, and read aloud to the WEC on 3 July. The statement is reproduced in Australia, Parliament (1933), p.28.
[41] This second clarifying statement, on 5 July, is cited in Shann (1933c), pp.165-166.
[42] Chancellor of the Exchequer, Neville Chamberlain, cited in Drummond (1981), p.176.
[43] J.A. Lyons to S.M. Bruce, 10 July 1933, NAA A981, Conf 117 Part 4, World Economic Conference.
[44] Press Communique Issued by the Representatives of France, Italy, Belgium, Poland, Holland and Switzerland on 3rd July, 1933, cited in Australia, Parliament (1933), p.28.
[45] The complete declaration is contained in Australia, Parliament (1933), pp.31-32.

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