Economic thought and social democracy in Australasia and Scandinavia, 1919-39

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This paper seeks to compare the development economic policy in the Social Democratic or labour parties of Sweden, New Zealand and Australia between the world wars.[1] The electoral histories of these parties differ. The Swedish Social Democratic Labour Party (SAP, and usually called the Social Democratic Party in English), established in 1889, formed minority governments during the 1920s and led a majority administration from 1932. The Australian Labor Party (ALP) was established in 1901 when various state parties combined at the federal level; the ALP formed minority governments in the first decade of the century, a majority government from 1910 to 1913, and another from 1914. The party split over war policy in 1917 and the ALP did not return to government until 1929. This government also split, in 1931, over economic policy, and the ALP only regained office in 1941. The New Zealand Labour Party (NZLP) was formed in 1916 by a merger of older socialist and labour organisations, and won office for the first time in 1935. By 1949 (the year in which both the ALP and the NZLP lost office – the SAP would remain in government without a break until 1976) all three parties could claim to have reshaped economic and social policy. If the Swedish and the New Zealand parties were early movers in developing what became known as the Keynesian social-democratic welfare state, the ALP lagged somewhat.

As a general statement, social democratic parties are seen as having achieved success once they placed less emphasis on Marxist ideologies of class struggle and adopted pragmatic, reformist policies.[2] I seek in this paper to identify and compare some of the intellectual influences upon each of the three party platforms before each achieved a successful government. It should be noted at the outset that while (broadly speaking) one can identify a path from radicalism to pragmatism in the SAP and the NZLP, the ALP, having formed a number of administrations before 1920, had always been reformist rather than revolutionary. At the same time, there are differences also between the three parties in the ways in which politicians and economists interacted with each other and, therefore, the influence of economists upon policy development.

The Swedish Social Democratic Labour Party

The SAP programmes of 1911 and 1920 committed the party to widespread nationalisation, but the minority SAP governments of the 1920s under Hjalmar Branting did not pursue such policies, contenting themselves with a series of enquiries. The reformist policies in the programme included shorter hours and unemployment insurance; 'no demands were raised for combating unemployment, either in terms of business cycles or as a permanent feature of 1920s capitalism' and indeed the party was fiscally orthodox as the national economy limped through the 1920s.[3] Loss of office in 1928 and the worsening depression prompted a re-evaluation of the party programme, and by 1930 the party was advocating an assertive approach to unemployment: a general approach of stimulating demand, including public

[1] I was prompted to write this paper in the context of a larger project, a history of the New Zealand Labour Party, which I am undertaking with the independent scholar Peter Franks. My reflections on that party in this paper have been influenced by a number of conversations with him, as well as with my MA supervisor of many years ago, Len Richardson.

[2] A recent exponent of this argument is Sheri Berman, *The Primacy of Politics: Social Democracy and the making of Europe's twentieth century*. Cambridge University Press, New York, 2006.

[3] Villy Bergström, 'Party Program and Economic Policy: The Social Democrats in Government' in Klaus Misgeld, Karl Molin, and Klas Åmark, eds, *Creating Social Democracy: A Century of the Social Democratic Labor Party in Sweden*, Pennsylvania State University Press, University Park, PA, 1992, p. 136.

works at normal wages, and assistance to farmers.[4] In 1932 the SAP formed a government and shortly afterwards established an agreement with the Agrarian Party that ensured a majority in the Riksdag.

Swedish social democratic politicians were strongly influenced by British Liberals and Fabians, and by intellectual relationships with some of the economists of the Stockholm School. The extent to which the younger economists of the Stockholm School – Bertil Ohlin, Gunnar Myrdal, Dag Hammarskjöld - anticipated Keynes, has been discussed quite extensively. Whether or not the younger economists of the Stockholm School anticipated the General Theory, it should be remembered that the General Theory represented a maturing of Keynes's own thinking, not a complete reversal of it.[5]

Ernst Wigforss was the leading SAP figure in revising the party programme. Born in 1881, he did his academic training in linguistics, and as a student joined the SAP. As well, he was part of a student group which read English Fabians, such as H G Wells, the Webbs, Bernard Shaw. He was thus familiar with British socialist thought before he was elected to the Riksdag in 1919, and he was also 'well acquainted with Marx's theory of underconsumption and therefore very early became aware of the arguments of liberal English economists' such as J. A. Hobson, whose underconsumptionist theories were of some influence.[6] Wigforss continued to educate himself in economics during the 1920s, reading the Fabian *New Statesman*, the liberal *Nation*, and he was certainly reading Keynes by 1927.[7]

By the late 1920s, Wigforss was directly challenging classical economics. He criticised the older Stockholm economist Eli Hecksher's exposition of a classical theory of wages, which Wigforss regarded as coming out of 'a fictitious world, where economic "friction" is unheard of, where the mobility of all the means of production is complete and everyone set out from equal economic conditions'.[8] In 1928 Wigforss argued that economies are not necessarily self-correcting, that deflation can lead to a vicious circle and in such circumstances there is no virtue in saving because no one will invest the saved money. Thus he explicitly advocated that public authorities should adopt countercyclical policies – 'government and communes should be restrictive under good conditions, but should launch desirable projects in a depression without hesitation. When individual enterprise is hesitant to put available savings to use, the public needs to step forward and direct its use'.[9]

Wigforss's thinking about unemployment during the 1920s was important in developing a position with opposed wage cuts not merely on the basis of working class interest, not merely on moral grounds, but on practical grounds. While the SAP resisted the orthodox argument that wage cuts were the solution to unemployment, they did so only on moral or compassionate grounds; Wigforss, influenced by Hobson and Keynes, 'had not found any empirical relationship between low wages and high unemployment. On the contrary, he

[4] Bergström, pp. 133-39.
[5] Don Patinkin, 'On the Relation between Keynesian Economics and the "Stockholm School"', Scandinavian Journal of Economics, Vol. 80, No. 2, 1978.
[6] Sven Anders Söderpalm 'The Crisis Agreement and the Social Democratic Road to Power' in Steven Koblik, ed, *Sweden's Development From Poverty to Affluence*, University of Minnesota Press, Minneapolis, 1975, pp. 265-66
[7] Martin Kragh 'The 'Wigforss Connection': the Stockholm School vs. Keynes debate revisited' *European Journal of the History of Economic Thought*, 2012, pp. 8-10, 17.
[8] Quoted Kragh p. 8.
[9] Kragh, pp. 11-12.

claimed that by means of high wages the purchasing power of society could be increased… Toward the end of the 1920s Wigforss had arrived at a theory of underconsumption, which in its essential points anticipates… Keynes'.[10] Hobson, as much as Keynes, developed analyses which showed that 'enhancing the economic power of the working-class consumer was… a constructive and transformative measure, not a cause of further economic disorder'.[11]

It is however also evident that Wigforss's thinking was moving on the same lines as some of the Swedish economists with whom he associated on the Unemployment Committee, established by the bourgeois government in 1927, whether or not Wigforss developed his ideas ahead of those economists.[12] In particular, Bertil Ohlin had argued in 1927 that wage reductions were undesirable because they reduce confidence and investment and, therefore, provoke a vicious circle. Ohlin also argued in 1930 for public works as a measure against cyclical unemployment, and was well aware that an English-language school of economists, of whom Keynes was the most prominent, shared such views while what he called a 'Vienna School' including Mises, Hayek, and Lionel Robbins, strongly disagreed.[13] Gunnar Myrdal also wrote in 1932 about the vicious circle – and must have been familiar with English Liberals.[14] Dag Hammarskjöld, too, was well aware of the English Liberal prescriptions for countercyclical spending.[15] These prescriptions had been outlined in Keynes's *Britain's Industrial Future* (1928), Keynes and Henderson's *Can Lloyd George Do It?* along with Lloyd George's own *We Can Conquer Unemployment*. Ohlin was one of a number of Swedish economists with whom Keynes was in touch during the 1920s, and the two had some important discussions about the relationship between purchasing power and demand, as well as other theoretical questions.[16] Ohlin would later serve as a Liberal member of the Riksdag and it is thus not surprising that his thinking was along similar lines to that of Keynes. When a professor at Copenhagen in 1927, Ohlin wrote a pamphlet advocating loan-financed public works, justified not least in terms of a multiplier. In 1929 Ohlin wrote about the British Liberal unemployment programme in his regular columns in a Stockholm newspaper, and in 1932 and 1933 he was discussing Keynes and other English economists in the same newspaper.[17]

In short, although there has been some debate about the relative influence on Wigforss's thinking of the younger Swedish economists compared to that of the English Liberals, it seems only sensible to conclude that both Stockholm and Cambridge shaped Wigforss's

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[10] Leif Lewin, 'The Debate on Economic Planning' in Koblik, ed, pp. 284-85.

[11] Noel Thompson, 'Hobson and the Fabians, two roads to socialism in the 1920s', *History of Political Economy*, 26 (1994), p. 214. On Keynes, see D. E. Moggridge, *Maynard Keynes: An economist's biography,* , Routledge, London and New York, 1992, p. 461.

[12] C G Uhr, 'Economists and policymaking 1930-1936: Sweden's experience' *History of Political Economy*, vol 9, no 1, 1977.

[13] Bent Hansen, 'Unemployment, Keynes, and the Stockholm School' *History of Political Economy* vol 13, no 2, 1981.

[14] Bent Hansen, 'Unemployment, Keynes, and the Stockholm School'

[15] Eskil Wadensjö, 'The Committee on Unemployment and the Stockholm School' in Lars Jonung, ed, *The Stockholm School of Economics Revisited,* Cambridge University Press, Cambridge, 1991, pp. 113-17. Bo Gustafsson, in his 'Comment' on this contribution, emphasises that many of the economists associated with the committee were conservative, and that this conservatism strongly influenced the committee's reports. In fact Gustafsson suggests that the committees were established to give the appearance of bourgeois governments' concern while not being intended to lead to concrete action. Bo Gustafsson, 'Comment', in Jonung, ed, pp. 124-28.

[16] Don Patinkin ' On the Relation between Keynesian Economics and the "Stockholm School" pp. 135-37.

[17] Otto Steiger 'Bertil Ohlin and the origins of the Keynesian Revolution' *History of Political Economy* vol 8, no 3, 1976.

thinking, as well of course as his own observation of the Swedish economy. Wigforss himself later recalled that there was a very positive dynamic between himself and the younger economists, which complemented the influence of the English Liberals and the Fabians.[18]

Wigforss laid out his views at some length in *The Economic Crisis* in 1931, where again he emphasized the vicious circle of deflation and falling confidence, of reduced purchasing power and reduced demand as wages fall. Like Keynes, Wigforss argued that an all-round fall in real wages does no one any good, and that in a crisis of confidence entrepreneurs are reluctant to invest. Like Keynes he rejected Say's law, at least in the short term, and like Keynes he argued that in a crisis fiscal policy is the preferred took to stimulate the economy because monetary policy is too indirect. Wigforss also outlined the idea of the multiplier.[19] This, indeed, was significant because the multiplier provided a greater justification for counter-cyclical spending on public works than the employment of those directly engaged or even the provision of useful infrastructure.[20]

A key factor in the SAP's political success after 1932 was the parliamentary agreement with the Agrarian party. This agreement, known as the 'cow trade', provided price support and some protective measures for Swedish farm producers against foreign competition (the SAP thus abandoned its traditional defence of free trade as cheapening workers' food). In return, the Agrarians accepted counter-cyclical public works spending. In 1932 leading SAP politicians were openly advocating a farmer-labour coalition, and 'a great effort was made to illustrate the connection between the agricultural crisis and unemployment within industry, to show that workers and farmers were dependent on each other's buying power'.[21] This, too, represented however a substantial revision of earlier SAP programmes which advocated land nationalisation and implied that smaller farmers would gradually disappear as agricultural concentration increased.[22] Indeed, it 'was in agricultural questions that the SAP had to make perhaps the most extensive ideological reassessments during the first three decades of its existence'.[23] The leading figure in the party's rethinking of agricultural policy was Per Edvin Sköld, who perceived that small-scale family farming was, or could be, highly efficient if linked with producer co-operatives, such as prevailed in Denmark and the Netherlands (and, indeed, New Zealand). More generally, too, debates around agrarian policy in Britain and Germany, as well as the single-tax doctrines of Henry George, shaped thinking.[24]

We can, therefore, identify significant local and British influences on the development of SAP thinking in the decade before 1932, with a significant dimension being the parallel thinking of politicians and some of the Stockholm School economists.

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[18] Donald Winch, 'The Keynesian Revolution in Sweden' *Journal of Political Economy*, vol. 74, no 2, 1966, pp. 170-72.
[19] Kragh, pp. 16-18, 24.
[20] Wadensjö, p. 116; Otto Steiger, 'Comment', in Jonung, ed, pp. 130-32. In fact, many years earlier Wigforss had read the Webbs' 1909 minority report on the English poor law, which had strongly advocated public works spending in times of unemployment, and in Sweden Knut Wicksell had made similar suggestions. Wigforss had advocated the inclusion of such policy in the party's 1919 programme. C. G. Uhr 'The Emergence of the "New Economics" in Sweden: A Review of a Study by Otto Steiger', *History of Political Economy* vol 5, no. 1, 1973, pp. 246-48.
[21] Sven Anders Söderpalm 'The Crisis Agreement and the Social Democratic Road to Power' in Koblik, ed, *Sweden's Development*, p. 267
[22] Clas-Erik Odhner, 'Workers and Farmers Shape the Swedish Model: Social Democracy and Agricultural Policy' in Klaus Misgeld, Karl Molin, and Klas Åmark, eds, Creating Social Democracy: A Century of the Social Democratic Labor Party in Sweden, pp. 178-79.
[23] Odhner, p. 181.
[24] Odhner, pp. 185-92.

The New Zealand Labour Party

The evolution of the New Zealand Labour Party's economic policy before it took office in 1935 has not been discussed in great detail. While the broad trend from Second International Marxism to Keynesianism is generally understood, there is an orthodoxy that explicitly or implicitly suggests that the party's policy was constrained by the Marxist shibboleths espoused by Harry Holland, parliamentary leader from 1918 until his death in 1933. In this view Holland's ideological rigidity prevented the party from winning office.[25] Studies of Labour after 1935 do not usually analyse the intellectual bases of government policy. The biographer of Walter Nash, finance minister 1935-49, wrote that in 1935 'The Red Flag had been furled, replaced by Nash's cornucopia of pink candyfloss'.[26]

The argument advanced in this section is that Labour parliamentarians engaged in significant rethinking of economic policy during the 1920s, and some at least were more creative in their economic thinking than they are usually given credit for. None of them had formal training in economics (indeed few Labour parliamentarians had more than a primary school education; they were self-taught, and once in parliament made good use of the Parliamentary Library).

Certainly Holland, with a long career as a militant socialist journalist on both sides of the Tasman behind him, could treat parliament to an exposition of Marxist orthodoxy. In 1920 he informed members that

> all written history from the breakup of primitive tribal communism to the present day is a history of class struggles.... From the helots of Ancient Greece to the indentured Indians in Fiji; from Strongbow to Easter Week in Ireland; from the massacre at Peterloo to the massacre at Amritsar; from the feudal robber barons on the Rhine to the reign of Kaiser William – the story is fundamentally one of class struggle.... the class interests and the class organization of the employers called the trade-unions into existence, and those trade-unions expressed the recognition by the workers of the class war that was being waged against them, so today the presence of the Labour party is not the outcome of a class war created by the workers of the country, but it is the organized recognition of the class war which the economic system you uphold has rendered inevitable.... The workers, through the Labour party, seek to substitute a system that will abolish classes and make class warfare impossible.[27]

The rest of that speech was a litany of protest, as were many of Holland's contributions to debate. But there was more to Holland's thinking than unreconstructed Marxism, and there was much more to the parliamentary Labour party than its leader (the 1919 election had returned eight Labour members, and in 1922 this increased to seventeen, in a chamber of 80). A fuller understanding of the party's economic thinking requires us to look at what other Labour members were saying as well. Broadly, radical socialism was increasingly supplanted by a mixture of underconsumptionist thinking and developmentalism. Over the course of the 1920s, it is possible to discern some of the major influences in parliamentarians'

[25] See P. J. O'Farrell, *Harry Holland: Militant Socialist*. Australian National University Press, Canberra, 1964.
[26] Keith Sinclair, *Walter Nash*, Auckland University Press, Auckland, 1976, p. 112.
[27] New Zealand Parliamentary Debates (NZPD) 1920 vol 186 pp 99-100 (Holland)

thinking. Embryonic underconsumptionist thinking appeared in a 1920 speech by the Christchurch MP Edwin Howard: 'the workers had produced too much goods. They had stocked those shops and stores with goods, and the goods were lying there, and the men were idle because boots and clothing had been piled up and the men had not the means to buy them back. Why? Because the system says that for every three pairs of boots produced you get back a pair of boot-laces'. Referring to Edward Bellamy's parable of the water tank, Howard maintained that the solution was for the workers to take control of the means of production and distribution.[28] Developmentalism was evident in observations by the future prime minister, Michael Joseph Savage, that a state bank ought to be established 'to use the public credit for the public good' and make finance available at reasonable cost to farmers and manufacturers for necessary development. Dan Sullivan, who would be minister of industries and commerce from 1935 until 1947, advocated in 1920 the development of iron smelting based on the North Island's ironsands, and a pulp and paper industry.[29] Sullivan was 'not prepared to agree that New Zealanders should be hewers of wood and drawers of water or merely growers of food. We want our people to be able to write and produce books, beautiful furniture, and all the other products of art and secondary industries, in order that they should have the opportunity of developing every special attribute and of attaining to the highest possible standard of technical civilization'.[30]

During 1921 the short post-war boom became a brief but nasty depression. Orthodox economics held that such circumstances should be met by wage reductions, and indeed the Arbitration Court imposed such reductions over the dissent of the workers' representative.[31] While one Labour MP criticised wage cuts simply because they imposed hardship on the workers, Edwin Howard cited the British banker and former Chancellor of the Exchequer, Reginald McKenna, on the deleterious effects of a tight monetary policy. Howard relied on the views of the Swedish economist Gustav Cassel to warn against deflation, arguing that stability was more important. In the middle of the 1921-22 depression, Howard again quoted Cassell to the effect that 'One of the main causes of the present serious depression of trade, and the unparalleled degree of unemployment, was the efforts which had been made to increase the internal value of money and force prices down'. Cassel, no leftist, nevertheless advocated gradual adjustment rather than a shock.[32]

Increasingly, Labour MPs argued that low wages were undesirable not merely because they disadvantaged the working class, but because they provoked a vicious circle of falling demand, diminished production and rising unemployment. To the extent that employers advocated wage cuts, then, they were acting against their own best interests. As the Dunedin MP James Munro put it in 1921, it was 'an economic fallacy, set on foot by the employers and farmers of this country, to reduce wages at the present time. Reduce wages and you immediately reduce the purchasing-power of the people. Reduce that purchasing-power from an economic standpoint and it immediately kicks along the line to the retailer, the manufacturer and every producer'.[33] His colleague James McCombs cited the Liberal

[28] NZPD 1920 vol 186 p 160 (Howard). Bellamy's story can be found at http://en.wikisource.org/wiki/The_Parable_of_the_Water-Tank

[29] NZPD 1920 vol 186 pp 213-15 (Savage); pp 188-93 (Sullivan).

[30] NZPD 1923 vol 203 p 315 (Sullivan).

[31] Indeed the Workers' Representative, Jack McCullough, resigned in protest.

[32] NZPD 1921 vol 191 p 315 (Bartram); pp 324-32 (Howard); 1922 vol 196 p 752 (Howard). Howard relied on the *Economist*, presumably in the Parliamentary Library, for access to both McKenna and Cassel's thought. For a summary of Cassel's views see Lars Magnusson, 'Gustav Cassel, popularizer and enigmatic Walrasian' in Bo Sandelin, ed, *The History of Swedish Economic Thought*. Routledge, London and New York, 1991.

[33] NZPD 1921 vol 191 pp 430-31 (Munro).

parliamentarian Chiozza Money, a former protégé of Lloyd George, and the Liberal soap manufacturer and philanthropist Lord Leverhulme in similar vein, but also saw low wages as a barrier to economic modernisation. As McCombs quoted Money, ‘Low wages are a curse to the employer, and a curse to the industry in which they are paid. While men and women can be bought cheaply the employer does not worry about efficiency’.[34]

McCombs emerged during the 1920s as the party’s principal economic thinker. In 1922 he warned of the vicious circle of deflation: ‘unemployment creates unemployment by causing panic, causing people to tie up their purse-strings in fear of the disaster or the slump that was supposed to be overtakin the Dominion’ and in addition wage cuts and public service layoffs mean ‘the loss of spending-power to those families who are deprived of their wages... That in turn affects wholesalers, retailers, and manufacturers’.[35]

It is evident that McCombs, at least as much as any other parliamentarian, kept abreast of current economic debates. In 1928 he delivered a lengthy speech on the importance of demand in the economy.[36] Increasing production, advanced by conservative ministers as the solution to the country’s economic problems, was nonsense if demand was not increased at the same time. ‘There can be no effective demand... unless there is effective purchasing-power.... Effective demand must precede production’. This speech was heavily informed by the work of two American economists, not now well-remembered: William Foster and Waddill Catchings. They had written a number of books advancing underconsumptionist analyses, and their 1925 *Profits* was in the Parliamentary Library.[37] For Foster and Catchings, expanded income had to be matched by increased income for consumers, otherwise ‘depression, unemployment, reduced production, and lowered standards of living’ would result. They too warned of the vicious circle of retrenchment.

> Reduced wages means reduced customers’ income; reduced income means reduced payments; reduced payments means still lower prices, leading to further curtailment of output. Thus society itself recedes farther and farther from its economic goal… A reduction in wages is no panacea for trade depression. On the contrary, it aggravates the position by lessening still further the effective demand of the people, who have a great unsatisfied consuming-capacity. What is wanted when trade is bad is to increase the volume and purchasing-power. We can only look with hope, therefore, for a solution of the problem of unemployment to schemes which will permanently raise wages or, in other words, the effective demand of the working class.[38]

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[34] NZPD 1921 vol 191 pp 610-11 (McCombs). Money’s career as a politician and an economist and statistician was colourful and perhaps erratic; in 1918 he left the Liberal Party and stood, unsuccessfully, as a Labour candidate. Martin Daunton, ‘Money, Sir Leo George Chiozza (1870–1944)’, *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online edn, Sept 2010. [http://www.oxforddnb.com/view/article/55929, accessed 6 Feb 2014].
[35] NZPD 1922 vol 196 p 646 (McCombs).
[36] NZPD 1928 vol 218 p 209 (McCombs)
[37] William Trufant Foster and Waddill Catchings, *Profits*. Boston and New York: Houghton Mifflin, 1925. That *Profits* was in the Library was confirmed by McCombs: NZPD 1931, vol 227, p. 166 (McCombs). We may note that Profits had some very significant consequences for Anglo-American economic thought. Foster and Catchings had established the Pollak Foundation to promote their ideas, and went so far as to offer a prize of $5000 for the best essay that controverted their arguments. Hayek read Profits and was far from impressed. Lionel Robbins, recently appointed to a Chair at the London School of Economics, read Hayek’s criticisms and invited Hayek to give some lectures at the LSE. The rest, as they say, is history. See Bruce Caldwell, *Hayek’s Challenge: An intellectual biography of F A Hayek*, University of Chicago, Chicago, 2005, pp. 171-72.
[38] Quoted by McCombs, NZPD 1928 vol 218 pp 210-11.

Foster and Catchings, if now seldom cited, were a significant influence on the New Deal, and Keynes himself recognised some affinities between their analyses and his own work.[39]

As the Great Depression worsened, McCombs developed underconsumptionist analyses at some length. In 1931 he buttressed his contention that it was idiotic to reduce wages in a depression by quotations from figures as diverse as Henry Ford, Reginald McKenna, and J. M. Keynes as well as, again, Foster and Catchings. Clearly at this point McCombs had read Keynes's *Treatise on Money* as well as Keynes's journalism in the Liberal periodical *The Nation* which he quoted against 'half-baked economists, such as we have in New Zealand, like Professor Tocker and others'. Tocker, like other economists based at the Canterbury University College, consistently advocated deflation as the proper response to recession; McCombs's invective extended to describing Otto Niemeyer as 'a mere message-boy' in comparison to McKenna. McKenna had echoed Keynes in suggesting that 'there are times when, judged by the interests of the general economic welfare, thrift many be carried to excess. The present crisis is one of underconsumption'.[40] In 1932 McCombs quoted 'possibly the greatest economist in the British Empire, John Maynard Keynes' that if a single producer cuts wages and others do not follow suit, then that producer gets a greater share of trade but 'if wages are cut all round, the purchasing-power of the community as a whole is reduced, and no one is further forward'.[41]

James McCombs – who began his political activism as a left-wing Liberal – has always been portrayed as being on the 'moderate' wing of the New Zealand Labour Party. Usually courteous and reasoned in speech, his image was far from that of the socialist firebrand.[42] What is striking, though, is that the analyses he developed of New Zealand's economic problems and the appropriate solutions to them were increasingly shared by that old Marxist Harry Holland, not to mention others usually identified with the 'militant' wing of the party. I suggest that Holland began to move in the direction of revisionism as a direct consequence of the 1925 general election. Having increased its parliamentary representation from eight to seventeen in the 1922 election, Labour expected great things in 1925. Instead, the appealing and youthful moderate conservative Joseph Gordon Coates led the incumbent Reform Party to its greatest victory, and Labour lost five seats. It was small consolation that Labour's share of the popular vote increased slightly over 1922, from 24 to 27%; New Zealand parliamentary elections during the 1920s were bedevilled by the combination of three major parties and a simple plurality voting system.

Part of the party's strategy after 1925 was to appeal to farmers. Standard discussions of the party's agricultural policy development in the later 1920s emphasise the retreat from land nationalisation (rhetoric which, it should be noted, had been quite widespread among radical Liberals in the later 1880s and early 1890s). Labour's retreat from nationalisation was accompanied, however, by an explicit attempt to convince New Zealand farmers that they had a vital interest in high wages for urban and industrial workers. Thus in 1926 Holland

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[39] Meir Kohn,'Foster and Catchings and the Pollak Prize Essays: A Window on the Monetary Theory of the 1920's'' Haney Papers in Economics no. 87-10. Dartmouth College, Hanover, NH 1987.
[40] NZPD vol 227, 1931, pp 166-75 (McCombs). On A. H. Tocker see John Singleton, 'Albert Hamilton Tocker (1884-1964) in J. E. King, ed, *A Biographical Dictionary of Australian and New Zealand Economists*. Edward Elgar, Cheltenham, 2007.
[41] NZPD vol 231 1932 p 340 (McCombs).
[42] Jean Garner. 'McCombs, James', from the Dictionary of New Zealand Biography. Te Ara - the Encyclopedia of New Zealand, updated 30-Oct-2012
URL: http://www.TeAra.govt.nz/en/biographies/3m3/mccombs-james. See also Barry S. Gustafson, *Labour's Path to Political Independence*. Auckland University Press, Auckland, 1980.

called for industrial development not only to modernise the New Zealand economy but also to expand the domestic market for farm produce. His colleague H. T. Armstrong made the same point, referring to the weakness of the British market for New Zealand meat and dairy exports.[43] In 1932, Armstrong repeated his view that 'the best customer of the farmers is New Zealand itself' and therefore farmers had no interest in constraining domestic demand. Moreover, Armstrong pointed out, increased production had not been matched by overseas demand; this meant New Zealand had a direct interest in higher living standards overseas. This perspective would inform the Labour government's advocacy of full employment as an international obligation after 1943.[44]

In 1927 Dan Sullivan noted the general trend to farm mechanisation and the resulting increased output in other countries as well as New Zealand. It followed that not only did farmers need to pay more attention to the domestic market, but also to competing on quality rather than bulk. Linked to this was an increasing emphasis, in Labour thinking, on the importance of cheap credit for farm development, ideally provided by a state bank. Michael Joseph Savage went so far in 1927 as to declare that 'the biggest question in front of the country at the moment' was farm finance, and Holland waxed indignant about the predations of middlemen – particularly Tooley Street, the dairy-marketing centre in London - upon farm profits.[45]

Holland's thinking, then, had changed significantly well before the Great Depression. At the opening of the parliamentary session in 1932 Holland condemned the wage cuts of 1932 not only as morally wrong but as economically damaging. He called for increased investment, and echoed Keynes's views on saving as hoarding. No doubt aware of what was being proposed in Sweden, Holland urged the expansion of public works at normal wages and severely criticised the government's reduction of such spending by £4m which, again, created a vicious circle. So far as farmers were concerned, Holland foreshadowed the need to develop new markets beyond Britain, not only in the Commonwealth but elsewhere, and advocated price stabilisation for primary producers with guaranteed prices based on a five year moving average.[46]

Later that year Holland returned to advocating substantial public works, and quoted Keynes's observations that 'the idea that a public-works programme represents a desperate risk to cure a moderate evil is the reverse of truth. It is a negligible risk to cure a monstrous anomaly' and 'to bring up the bogey of inflation as an objection to capital expenditure by the State is like warning a patient who is wasting away from emaciation of the dangers of excessive corpulence'. Again, too, Holland emphasised the importance of state control of monetary policy through a central bank, and he quoted a text on banking by an English banker, Walter Leaf, on the virtues of what would now be called Quantitative Easing.

For Holland the government's view that the New Zealand economy would not improve until prices in the British market increased was simply a counsel of passivity. Drawing on the writings not only of Keynes but also of Hobson he again attacked deflationary policies in the middle of 1932. Hobson had recently called for the stimulation of consumer demand as an essential first step in economic recovery, for without that even expanding the money supply

[43] NZPD 1926 vol 209 pp 671-73 (Holland); p 718 (Armstrong).
[44] NZPD 1932 vol 231 p 255 (Armstrong).
[45] NZPD 1927 vol 212, pp 147-56 (Holland); p 182 (Savage); pp 323-28 (Sullivan).
[46] NZPD 1932 vol 231 pp 167-78 (Holland).

would be of little use for producers would have little reason to invest.[47] Holland finished by quoting Keynes:

> If we carry 'economy' of every kind to its logical conclusion, we shall find that we have balanced the budget at nought on both sides, with all of us flat on our backs starving to death from a refusal, for reasons of economy, to buy one another's services… It is often said by wiseacres that we cannot spend more than we earn. That is, of course, true enough of the individual, but it is exceedingly misleading if it is applied to the community as a whole. For the community as a whole it would be much truer to say that we cannot earn more than we spend. Prices cannot rise, output and employment cannot increase, unless the first stimulant comes from the side of increased spending.[48]

Little in these two major speeches differed from the direction in which the Labour government would actually move after 1935. Harry Holland would not live to see that government. He died in October 1933, at the age of 65.[49] It is clear from this discussion of the development of Holland's thinking, and that of the party more generally, that the view of Holland as an unyielding Marxist, better suited to the politics of protest than government, is a simplistic caricature.[50]

James McCombs also died in 1933, and his place as the party's leading economics specialist was taken by Walter Nash, who would be in parliament from 1929 until 1968. Nash, like McCombs, is generally portrayed as a moderate and benign figure – a portrayal no doubt reinforced by the fact that Nash was a devout Anglican all his long life and, indeed, preferred the language of Christian Socialism to that of the barricades. Nash would be finance minister from 1935 until 1949, and prime minister between 1957 and 1960.

In his first parliamentary speech, Nash dealt at some length with unemployment, urging that policymakers take an active approach to managing the transitions between old and new industries. Nash went on to advocate equitable distribution as an essential corollary to greater production, and believed that taxation policies should have a major role in facilitating that equitable distribution. The present order, he said, leads to 'this astonishing paradox: that because more is created someone has to have less'. Yet greater production had to be matched by expanded consumption, and Nash quoted Hobson's observation that 'distribution of income more equal and more favourable to the workers would mean that the rising standard of living would keep taut the sinews of production. The difficulty that we are suffering from is unequal, unfair, and unwise distribution of the product'.[51] In 1932 Nash would refer to the work of the Macmillan Committee, which the British Labour government had established in 1929 to inquire into the British financial system. Keynes was a dominant figure in the committee.[52] It seems that Nash's source for the Macmillan Committee's views was the *International Labour Review*, but in any event he emphasised the Keynesian view that

[47] Hobson was writing in the *Manchester Guardian Weekly*, 8 July 1932. One assumes the Parliamentary Library subscribed to this periodical.
[48] Holland's second major speech is NZPD 1932 vol 233 pp 59-71.
[49] Holland suffered a fatal heart attack after insisting on following the cortege of the late Māori King, Te Rata, up Taupiri Mountain, near Hamilton, a circumstance that is still recalled within Waikato Tainui today.
[50] One of which the present author has been as guilty as anyone.
[51] NZPD 1930 vol 224 pp 44-48 (Nash).
[52] D E Moggridge, *Maynard Keynes*, pp. 481, 490-95, 507-18.

increasing spending power among the mass of consumers was the essential remedy for the depression. Conversely, general cuts in real wages were highly damaging.[53]

Nash was always impressed with the significance of scientific and technological modernisation, and argued that as economic centralisation was in any case inevitable, the state should shape and guide economic development.[54] Nash's belief in state oversight of economic activity was strongly shaped by the British Fabians. Rational planning meant, as G. D.H. Cole had argued, that there should be a national investment board which would direct the investment of surplus capital for added production rather than speculation. Cole's argument paralleled Keynes's views about the desirability of directing investment.[55] Nash was well aware of the importance of foreign trade to the New Zealand economy, but it did not follow that New Zealand's recovery depended on the British. That, for Nash, was 'pure, unadulterated drift'. New Zealand, Nash believed, could control its own destiny if policymakers took more responsibility for economic management. This would mean 'different monetary methods; more control; more order; more investigation'. Instead of '"Less Government in business" we require a policy of "More Governnment in business." We require more control; more order'. By 1932 Nash was clear on the need for a state-controlled central bank which would control foreign exchange receipts and payments, as well as manage internal monetary policy.[56]

It bears emphasising that Nash did not advocate autarky. In 1933, in his speech in the budget debate, he delivered fifteen 'affirmations' which would guide the party's economic policy. The first affirmation made it clear that 'Economic self-sufficiency and isolation will not accord with the economic and social progress of the Dominion' and indeed Nash believed that 'economic self-sufficiency is dangerous to peace'. Economic planning was both inevitable and desirable, and 'must provide for the full utilization of the natural resources of the Dominion, and their distribution to ensure the maximum living standards'. National control of credit and currency were essential to a planned economy, but New Zealand's planned economy would be more successful 'if world trade is regulated through negotiation and co-operation'.[57] In office from the end of 1935 Labour emphasised planning, redistribution, investment for its own sake and as a means of stimulating demand, and sought also to manage New Zealand's trading position.

The Australian Labor Party

On the face of it the ALP was an early and remarkable success story, forming federal governments in 1904 and 1908 and establishing a majority government (the first majority 'labour' government in the world) in 1910 under Andrew Fisher. Much of the legislation

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[53] NZPD1932 vol 231 pp 247-50 (Nash).
[54] Walter Nash, *Financial Power in New Zealand: The case for a state bank*, New Zealand Worker, Wellington, 1925.
[55] NZPD 1930 vol 224 pp 330-34 (Nash). Keynes's view is most famously summarised by his observation, in the *General Theory*, that investment was too important to be left to the speculative whim of the stock market. It was in that context that Keynes made his famous observation that 'Speculators may do no harm as bubbles on a steady stream of enterprise' but the reality is that speculation predominates and 'When the capital development of a country becomes the by-product of the activities of a casino, the job is likely to be ill-done' Keynes's observation is in the *General Theory*, p. 159. Nash cited Cole's comments to the latter's 1929 book, *The next ten years in British social and economic policy*.
[56] NZPD 1932 vol 233 pp 86-90 (Nash).
[57] The affirmations are given in 1933 vol 237 pp 246-47 (Nash).

enacted by the Fisher governments, however, could easily have been enacted by a progressive Liberal administration such as governed in New Zealand from 1891 until 1912. Indeed, there were close similarities.[58] Early ALP platforms highlighted White Australia, old age pensions, arbitration, and compulsory military training. The first majority ALP government of 1910-1913 included a graduated land tax to encourage small farm subdivision, extension of arbitration, a maternity allowance, invalid and more generous age pensions, and the establishment of the Commonwealth Bank with sole right of note issue. There was, also, railway expansion and ‘a vigorous defence programme’.[59]

The First World War was disastrous for the ALP. In 1917 the already fractious party split over conscription, and the pro-conscriptionist right wing formed a new Nationalist party with the conservative opposition. The ALP would not form another government until 1929. Pushed by a wave of industrial militancy, the party adopted the classical socialisation objective in 1919 and strengthened it in 1921.[60] Key parliamentary figures, however, were unconvinced about the socialisation objective, and in any case the 1919 version ‘still bore the marks of a radical populist heritage’ with its continuing references to ‘an Australian sentiment [and] White Australia’.[61] There was, perhaps, a tactical reason for adopting the objective: to reduce the impact of the split on the left represented by the new Communist Party.[62]

In opposition during the 1920s the party’s economic policies differed little from the developmentalism, protectionism and social liberalism that had driven its approach under Fisher. Along with a reasoned criticism of conservative governments’ enthusiastic London borrowing, for much of the 1920s the left of the party emphasised populist denunciations of the ‘money power’.[63] As Love points out, this was often ‘to personify abstract relationships, which could then be explained in terms of malicious intent’.[64] Only at the end of the 1920s, and in government, did the ALP begin to espouse reflationary policies justified in terms of underconsumptionist thinking, and the 1929-31 government under James Scullin was operating in very difficult circumstances. The Scullin government’s response to the depression was for some time rather hesitant, but when the Treasurer, E. G. Theodore, did move towards reflationary policies the Senate and the banks – including the government-owned Commonwealth Bank – were thoroughly obstructive and ultimately destroyed the government. Following another split, the ALP spent the 1930s in opposition and only later in the decade did Keynesian thinking begin to make a significant impact.

The ALP’s approach to the Commonwealth Bank had always been cautious. As far back as the 1890s labour politicians had advocated a state bank of issue which could expand credit in times of recession, and direct investment to economically and socially desirable ends. When the Fisher government established the Commonwealth Bank in 1911, however, this was

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[58] See, for instance, Marian Sawer, ‘Andrew Fisher and the Era of Liberal Reform’, *Labour History*, 102, May 2012, 71-86.
[59] Stuart Macintyre, ‘The First Caucus’ in John Faulkner and Stuart Macintyre (eds) *True believers: the story of the federal parliamentary Labor Party*. Allen and Unwin: Sydney, p. 19; Ross McMullin, *Light on the Hill: The Australian Labor Party 1891-1991*, Oxford University Press, Melbourne, 1991, p. 75.
[60] McMullin, pp. 126-27.
[61] Peter Love, *Labor and the Money Power: Australian Labour Populism, 1890-1950*, Melbourne University Press, Melbourne, 1984, p. 83.
[62] This is suggested by John Robertson, *J. H. Scullin: A Politicial Biography*, University of Western Australia Press, Nedlands WA, 1972, pp. 64-66.
[63] Robertson, J H Scullin, pp 77-80, 111-14.
[64] Love, p. 109.

without any central banking powers and indeed without any power being conferred on the Treasurer to direct the bank. A radical element in the party advocated central banking powers – holding gold reserves, managing the federal debt, and issuing credit. In the end the Commonwealth Bank was simply a state-owned bank operating alongside the other banks, and while Fisher's biographer praises his 'moderation and his political acumen' the ALP was quite unable, in 1929-31, to bend the bank to the government's will.[65] Fisher's Commonwealth Bank was 'an ordinary bank the only special function of which was that it would carry out the financial transactions of the Commonwealth government'.[66] By 1921 the ALP platform called for the Commonwealth Bank to be endowed with central banking powers, and there was general agreement within the party that 'government control over the financial system was a fundamental prerequisite for a reconstructed social order'. The conservative Bruce-Page government in 1924 conferred some central banking powers on the Commonwealth Bank, particularly note issue, but did not take the power to direct the bank in the exercise of these functions.[67]

The ALP seemed to have devoted relatively little time in opposition during the 1920s to reviewing its approach from first principles, and once in government, confronted by the rapidly worsening depression, the Scullin government of course had little opportunity for reflection. Often its thinking is inferred from policy and thus this discussion deals with political events as much as intellectual sources. Pressure of circumstances explains much about the Scullin government's fate, but the prime minister and treasurer, in particular, were inconsistent in their approach.

Confronted with unemployment around 12 per cent at the end of 1929, the Scullin government's main remedy was tariff protection – perhaps understandably since, as McMullin points out, the Commonwealth Bank would have shown 'stern resistance' to any attempt to use monetary policy, but the government had a free hand in tariffs.[68] Although Scullin had spoken in terms of expanding public works 'in times of general industrial depression', the government moved only slowly to attempt reflationary policies. Partly this was because the necessary loans were almost impossible to raise.[69] The Treasurer, Theodore, had as a Queensland state minister espoused orderly marketing of primary produce, development funded by overseas loans, and social reform. He had shown no signs, however, of understanding the significance of aggregate demand, for in 1922 he endorsed wage cuts as a response to the postwar recession.[70] His later opposition to the conservative government's intended weakening of the arbitration system, while based on the importance of protecting wage levels, seems not to have been based on the principles of maintaining purchasing power, but simply a notion of fair shares.[71] In any case, so late as the end of 1929 Theodore was 'dismissive' of caucus radicals' advocacy of a note issue or, as it would now be called, quantitative easing.[72] Theodore repeated his dismissals of credit expansion during the first half of 1930, describing it as 'foolish', and he continued to advocate a relatively tight fiscal

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[65] David Day, *Andrew Fisher, Prime Minister of Australia* HarperCollins, Pymble NSW, 2008, p. 252. See also Love, *Labor and the Money Power*, ch. 2, and Robin Gollan, *The Commonwealth Bank of Australia: Origins and Early History*. Australian National University Press, Canberra, 1968.
[66] Gollan, p. 107.
[67] Love, p. 85
[68] McMullin, p. 157.
[69] Robertson, J H Scullin, p. 197.
[70] McMullin, p. 134.
[71] Ross Fitzgerald, *Red Ted: The life of E. G. Theodore*, University of Queensland Press, St Lucia, 1994,, pp. 225-26.
[72] McMullin, p. 158.

policy.[73] His first budget, at the end of 1929, was ‘quite traditional’, meeting a severe deficit by tax increases and severe reductions in public works spending.[74] The only deviation from orthodoxy was weakening Australia’s adherence to the gold standard, in persuading the private banks to take Commonwealth notes in exchange for part of their gold holdings, so that loan repayments could be made in London without excessively depleting the money supply.[75]

But by April 1930 the government was prepared to establish a central bank, Theodore having realised that, as he put it, ‘the lack of means for the mobilization of our credit resources has been a serious defect in our monetary system within recent months’.[76] The new reserve bank would hold statutory minimum deposits from the private banks, and oversee their London assets. Even though this was a ‘strictly orthodox’ approach to central banking, the private banks secured the co-operation of the conservative majority in the Senate to vote the bill down.[77] It seems that the private banks’ opposition was based partly on the prospect of real competition from the Commonwealth Bank shorn of its (minimal) central banking responsibilities, and partly fear that the ALP might in time use the reserve bank to expand credit.

Due to controversy about his private investments, Theodore was out of the Cabinet from July 1930 to January 1931 and his biographer suggests that during these months he reflected deeply on the Australian economy.[78] Certainly it seems that by 1929, influenced by one of his Queensland business associates, Theodore was reading Keynes and this associate was instrumental in getting an early copy of the *Treatise on Money* to Theodore in 1930.[79] While Theodore’s enforced leisure was no doubt useful for the clarification of his thinking, the government as a whole drifted in his absence and that of the Prime Minister, the latter being overseas for some months. This was hardly opportune, for the Depression was worsening and in the Melbourne Agreement of August 1930 the state premiers, the Commonwealth Bank, most influential economists, and the acting Treasurer himself, Joseph Lyons, accepted Niemeyer’s prescription of severe retrenchment.[80]

Reactions to the Melbourne Agreement did bring forth discussions of the merits of reflation. It seems that Theodore had rapidly become a convert, for in late October he was associated with a caucus motion that the Commonwealth Bank be required to create sufficient credit to meet federal government requirements, accommodate banks and other financial institutions in their own credit expansion ‘for productive purposes in primary and secondary industries’ at no more than 5 per cent, and provide £20m for state and federal public works. Moreover, wages should be stabilised at 1929 levels. By now, Theodore was arguing that deflation created a vicious circle.[81]

Theodore’s changing views had not only been shaped by reading Keynes. Robert Irvine, a former professor of economics at Sydney University, had been in contact with Theodore

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[73] Bruce McFarlane, *Professor Irvine's economics in Australian labour history, 1913-1933,* Australian Society for the Study of Labour History, Canberra, 1966, p. 22.
[74] Fitgerald, p. 233 and generally 233-36
[75] McFarlane, Irvine’s Economics, p. 19.
[76] quoted Fitzgerald, p. 238.
[77] C. B. Schedvin, *Australia and the Great Depression,* Sydney University Press, Sydney, 1970, p. 172 and pp 172-75.
[78] Fitzgerald, pp. 277-78
[79] Fitzgerald, pp. 223, 278.
[80] Fitzgerald, 279.
[81] Fitzgerald, pp. 280-83; McFarlane, Irvine’s Economics, pp. 59-60.

since September 1930. Irvine's economics were hetereodox; in the early 1920s he had been influenced by Douglas Credit ideas, and he espoused ideas of industrial democracy and economic planning as well as Hobson's underconsumptionist analysis.[82] Some of Irvine's discussion of the Depression emphasised the need to maintain confidence so that entrepreneurs would continue to invest, and he supported ministerial direction of a reserve bank.[83] In short, 'Irvine's acquintance with [underconsumptionist] literature, and, more importantly, his acceptance of its inherent truth explain how he was able to reach aspects of Keynes's ideas years before Keynes'.[84]

All this was a direct challenge to the acting Treasurer, Joseph Lyons, who continued to press for fiscal balance through tax increases and spending cuts as well as continued parity with sterling and, therefore, the gold standard. Theodore's views carried the caucus. Lyons then appealed by cable to Scullin who, from London, repudiated the creation of £20m credit, arguably the most important part of the package.[85]

Scullin, unfortunately, was prone to vacillation. Having repudiated Theodore's views in October 1930, he reinstated Theodore as Treasurer in January 1931. Theodore continued to call for credit expansion, openly advocating 'a judicious release of purchasing power' to increase aggregate demand and enjoying increasing support within the wider party.[86] By now Theodore was quoting Keynes on the evils of a general reduction in real wages and declaring that 'It is this stimulus in trade; it is this active buying and selling of goods and commodities that is so much needed in Australia today'. New legislation would empower the government to require the Commonwealth Bank to make a fiduciary note issue.[87] The final Theodore Plan of March 1931 'presented a direct challenge to Niemeyer's orthodoxy by offering the promise that gentle inflation might stimulate business activity and revive employment and, at the same time, allow Australia to meet its debt obligations'.[88]

The machinations within the ALP, particularly the New South Wales branch, are largely beyond the scope of this paper but during the southern autumn of 1931 the party split twice: a faction loyal to the populist demagogue New South Wales premier, Jack Lang, walked out. Lang's own plan, as well as reducing interest rates and substituting a nebulous 'goods standard' in place of the gold standard – echoes of Douglas Credit? – was that Australia should pay no more interest to London until the Australian debt to Britain had been renegotiated on the same terms as the British had renegotiated theirs with the United States. Lang's biographer suggests that this was not advanced as practical politics, but as a play for power within the federal party.[89] Lang's proposal was not quite the repudiation that it was often called, but Scullin, with his commitment to fiscal probity would not hear of it.[90] On the right, fiscal conservatives including Lyons also split. Lyons soon joined the right-wing opposition and was prime minister by the end of the year.

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[82] See, generally, McFarlane, Irvine's Economics.
[83] McFarlane, appendix III.
[84] Peter Groenewegen and Bruce McFarlane, *A history of Australian economic thought*, Routledge, London and New York, 1990, p. 166.
[85] Fitzgerald, pp. 280-83.
[86] McFarlane, Irvine's Economics, p. 22.
[87] Fitzgerald, p. 292; McMullin, pp. 166-69.
[88] Love, Money Power, p 112.
[89] Bede Nairn, *The 'Big Fella': Jack Lang and the Australian Labor Party 1891-1949*, Melbourne University Press, Melbourne, 1986, p. 223.
[90] Robertson, JH Scullin, p. 308.

With Theodore's reflationary plan failing to pass the Senate and the Commonwealth Bank threatening to deny the government its operating funds 'Scullin felt that he now had no alternative but to acquiesce in the deflationary Niemeyerism preached by the conservatives'.[91] Theodore now switched back and agreed with Scullin, and the result was the Premiers' Plan of mid-1931 which cut pensions and public sector wages by 20 per cent, increased taxes, reduced interest rates, and gave concessions on mortgages. Scullin and Theodore's hope was that an ALP government would apply deflation more compassionately than a conservative government; this was illusory for the ALP government fell before the end of the year.

In the wake of the 1931 splits the ALP had again to rebuild, and by the later 1930s it seems that in terms of economic thinking a more disciplined approach was evident. Some important recent works in the history of Australian economic thought analyse the thinking, and influence, of professional economists.[92] For the purposes of this paper it is important to emphasise that most prominent Australian economists supported, indeed developed, the 1931 Premiers' Plan, which has been described as 'an orchestrated mix of cost-cutting, fiscal austerity and a modest form of monetary expansion'.[93] The economists – Copland, Dyason, Giblin, Shann, Melville – are credited with advising moderate relation from 1932 onwards, which is implicitly to admit that their advice of 1931 was harmful, or at least over-enthusiastic.[94] If Schedvin, writing over forty years ago, was thoroughly critical of the economists, recent work has attempted to rehabilitate them. This debate is tangential to the present paper, but Millmow's recent work has reinforced the importance for ALP thinking of the 1936-37 Royal Commission on Banking. After Scullin's resignation as party leader, he was replaced in 1934 by the Western Australian John Curtin, who called for such a commission during the 1934 election campaign. The conservative government agreed to such a commission because the Country Party was also complaining about the banks; the ALP caucus reviewed its approach to monetary policy in 1936 and declared that the aim of such policy should be to use 'the real wealth of Australia to ensure a maximum standard of living consistent with the productive capacity of the Commonwealth through national control of its credit resources and the establishment of an efficient medium of exchange between production and consumption'. Purchasing power was at the centre of the analysis.[95]

Such views were becoming more acceptable among academic economists, whose acceptance of Keynesian ideas was however neither rapid nor uniform. The great significance of the Royal Commission for ALP policy development is that the party's nominee, Joseph Benedict Chifley, had been Defence Minister in the later months of the Scullin government. For many months, therefore, Chifley was exposed to new currents in economic thinking. Millmow suggests that the eleven economists who gave evidence to the Commission broadly agreed, and their position was reflected in the Commission's 'key finding that "[t]he Commonwealth Bank should make its chief consideration the reduction of fluctuations in general economic activity in Australia, thereby maintaining such stability of internal conditions as is consistent with the change which is necessary if economic progress is to take place".'[96]

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[91] McMullin, p. 174
[92] Notably William Oliver Coleman, Selwyn Cornish and Alfred Hagger, *Giblin's Platoon: the trials and triumph of the economist in Australian public life,* ANU E-Press, Canberra, 1986, and Alex Millmow. *The Power of Economic Ideas: The Origins of Keynesian Macroeconomic Management in Interwar Australia 1929-1939*, ANU E-Press, Canberra, 2010.
[93] Millmow, p. 1.
[94] see Schedvin, Depression, pp 219, 252 for this argument.
[95] Love, p. 145.
[96] Millmow, p. 214.

Of at least equal importance, as Millmow also shows, was that the *General Theory* was being discussed off the galley proofs in Australia early in 1936. A key figure in these discussions was the young economist Ronald Walker, who had studied at Cambridge in the early 1930s and moved in the circles around Keynes. By 1936 Walker was lecturing at Sydney, committed to Keynesian prescriptions, and he gave lengthy testimony to the Commission. Walker argued that monetary policy should not just be about price stability but also 'the avoidance or mitigation of depressions' and indeed that the second was more important. He also gave the Commission the straight Keynesian doctrine on why across the board wage cuts were a bad idea.[97]

If the eleven economists who appeared before the Royal Commission on Banking broadly agreed with each other, Millmow suggests that three in particular emphasised Keynesian doctrines. Walker 'favoured the use of monetary and fiscal policy working in tandem, though he felt only the latter would be effective in tackling a slump'.[98] W. B. Reddaway, from Melbourne, had been a research student under Keynes and argued bluntly that 'monetary policy should be targeted at maintaining a high level of employment and income. Public works was an effective antidote to a depression while a budgetary surplus was apposite in boom conditions'. J L K Gifford, slightly older, from Queensland, was even more ardently Keynesian, and 'attracted Chifley's attention by advocating massive credit creation to counter a slump'.[99]

All this must have reinforced Chifley, who would become Treasurer when the ALP returned to government in 1941. During the war years Walker would be deputy director-general of the Department of War Organisation of Industry. His contemporary, Nugget Coombs, who had done his PhD at London on central banking, and who with Walker had been in a discussion group working through the *General Theory* in the later 1930s, was Director of Postwar Reconstruction.[100] Both were members of the Financial and Economic Advisory Committee, an ad-hoc group established in 1938 to advise ministers. Chifley was 'renowned [for his] willingness to listen to, and seek advice from, his senior civil servants'.[101]

The Commission explicitly advocated countercyclical expansion of credit. The final report maintained that

> The general objective of an economic system for Australia should be to achieve the best use of our productive resources…This means the fullest possible employment of people and resources under conditions that will provide the highest standard of living. It means, too, the reduction of fluctuations in the general level of economic activity.[102]

While most discussion of Chifley's role has, perhaps understandably, emphasized his dissenting opinion on bank nationalisation, he subscribed to that view of the aims of economic policy. That aim, however, 'required that an intelligently managed central bank,

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[97] Selwyn Cornish 'Sir Edward Ronald Walker' in J E King, ed, pp. 295-300; see also Cornish, 'Edward Ronald Walker', *Economic Record*, vol 67, no. 196, 1990 p 63.
[98] Millmow, p. 215.
[99] Millmow, p 216.
[100] Selwyn Cornish 'Sir Edward Ronald Walker' in J E King, ed, pp. 295-300; see also Cornish, Economic Record, 1990 p 63.
[101] Greg Whitwell, *The Treasury Line*, Allen and Unwin, Sydney, 1986, p. 65.
[102] quoted Millmow p. 212.

under government direction, had to regulate the volume of credit and currency'.[103] This was precisely the reason why the first Act which the Labour government in New Zealand had parliament enact, in 1936, nationalised the Reserve Bank of New Zealand and brought it under ministerial direction.[104] Neither Lyons nor his immediate successor, Menzies, were inclined to move in that direction but it was an early priority for Chifley as Treasurer. Chifley's minority report on bank nationalisation explicitly echoed Keynes's strictures about casino economics - that the control of investment is too important to be left to the market because it is short term, speculative and so on. Chifley's dissent declared that it was impossible to see 'any well ordered progress being made in the community under a system in which there are privately-owned trading banks which have been established for the purpose of making a profit' and more 'private banking systems make the community the victims of every wave of optimism or pessimism that surges through the minds of financial speculators'.[105]

If the ALP was a later exponent of reflation and Keynesian economics, for reasons we have seen, it would not be too much to say that the Royal Commission gave its future Treasurer and prime minister an extended tutorial in Keynesian approaches. The *General Theory* provided a sophisticated justification for the direction in which ALP politicians were hoping to move anyway: in that work 'reformist Labor had at last found a respectable theory'.[106]

Conclusions

Ideas matter. This is of course not to indulge in intellectual determinism, but the way in which social democratic parties developed their thinking is an important part of understanding their history. One thing that is clear is that politicians, as well as economists, thought about their national economies; economic thought is not the economic thought is not the sole domain of professional or trained economists.[107]

It is clear that a corpus of literature informed social democratic policy development in the inter-war decades. Much of this, for the Swedish party, was indigenous, in the Swedish language, but much of it was also in English, and that literature also influenced the New Zealand and Australian parties. Keynes's pre-*General Theory* writings were of considerable importance, but J A Hobson was also widely discussed and quoted, and so were Fabians, particularly the Webbs and G D H Cole. We have also noted now-forgotten work such as that of Foster and Catchings which, nevertheless, was at the time influential. Underconsumptionist analyses predominated in this literature and a crucial dimension was that 'coherent economic arguments were developed to justify government spending not merely (in timeworn fashion) as a humanitarian response to emergency, but also as a proper strategy of national macroeconomic management'.[108]

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[103] Millmow, p. 212.
[104] Walker, at least, thought that the New Zealand legislation went a little far: *Sydney Morning Herald*, 23 Jul 1936 p 6.
[105] quoted Love, *Labor and the Money Power*, p 148.
[106] Love, p 150.
[107] A point emphasised by Kragh, p. 2.
[108] Margaret Weir and Theda Skocpol, 'State Structures and the Possibilities for "Keynesian" Responses to the Great Depression in Sweden, Britain, and the United States' in Peter B. Evans, Dietrich Rueschemeyer, Theda Skocpol, eds, *Bringing the State Back In*, Cambridge University Press, Cambridge and New York, 1985, p 108.

Keynes wrote in 1936 that 'The idea that we can safely neglect the demand function is fundamental to the Ricardian economics, which underlie what we have been taught for more than a century'. Ricardo, in fact, had dismissed the demand function from economics and thereafter it 'could only live on furtively, below the surface, in the underworlds of Karl Marx, Silvio Gesell, or Major Douglas'. That classical economics 'translated into practice, was austere and often unpalatable, lent it virtue. That it was adapted to carry a vast and logical superstructure, gave it beauty. That it could explain much social injustice and apparent cruelty as an inevitable incident in the scheme of progress, and the attempt to change such things as likely on the whole to do more harm than good, commended it to authority'.[109] As Sheri Berman has argued at length, the new social democratic politics was precisely about the primacy of politics against the determinism of Marxism and the determinism of classical economics. Ernst Wigforss was influenced not only by Fabians and Liberals but by the American philosopher John Dewey's *Human Nature and Conduct* which argued that human nature is not fixed or given but can change and be changed.[110] Walter Nash though in similar terms: that the 'security' which his party espoused was not an end in itself but, by removing the fear of poverty and depression, would moderate individualism and inspire people to work for the common good.[111]

Whereas the Swedish and New Zealand parties had managed to develop workable responses to the Great Depression while out of office and drive major policy reform from 1932 and 1935, respectively, the ALP was not so fortunate. Certainly the dice were loaded against the ALP, especially the situation with the banks and the Senate. But there is little to suggest that leading figures in the party had, during the 1920s, moved beyond developmentalism and tariff protection in their thinking about managing a dependent economy. Certainly it seems that Theodore and Scullin were late converts to underconsumptionist analyses and prescriptions of the sort espoused by Swedish and New Zealand social democrats before 1930. It might not be too much to say that the ALP was, in 1929, the prisoner of its social liberal past. As a reformist social liberal party under Fisher, the ALP had achieved much before 1914. It was the party's misfortune that social liberalism was inadequate to the circumstances of 1929-31 and perhaps subconsciously Labor ministers were for some time reluctant or unable to move beyond what had worked in the past. Perhaps understandably in the circumstances, Scullin and Theodore were rather erratic in their thinking in 1929-31, or at least in their utterances.

When the ALP did, later in the 1930s, develop its thinking in light of Keynesian analyses, this was in a climate where the mainstream of the Australian economics profession was moving in the same direction. This is not to suggest that the ALP, by 1941, had adopted a new economic orthodoxy; it is clear that Ben Chifley, Treasurer from 1941, was however much in tune with younger economists like Walker and Coombs. The importance of the 1936-37 Royal Commission on Banking, in giving Chifley extended opportunity to reflect on economic policy, is clear.[112]

If Chifley benefitted from his exposure to economists' thinking in the later 1930s, it seems clear that Ernst Wigforss benefitted similarly from the new thinking that the younger

[109] General Theory, pp. 32-33.
[110] Kragh, p. 9.
[111] Budget, 1937, Appendices to the Journals of the House of Representatives (New Zealand) 1937 B-6, p. 25.
[112] It is unfortunate that neither biography of Chifley (L. F. Crisp, *Ben Chifley*, Longman, London, 1960, and David Day, *Chifley*, HarperCollins, Sydney, 2007, devotes extensive discussion to his experience on the Royal Commission.

generation of the Stockholm School were undertaking in the 1920s. Yet Wigforss's own extensive reading in economics, particularly English Liberals and Fabians over many years, was equally important in shaping the SAP approach. New Zealand Labour parliamentarians, in the 1920s and early 1930s had less access to economists. The New Zealand university establishment was small, and such economics professors as did have positions were generally orthodox. What emerges from a close reading of parliamentary speeches, however, is a considerable and increasing engagement with the same English-language literature that was contributing to the SAP debates. What is perhaps noteworthy is that most leading NZLP parliamentarians had no formal education beyond primary school. Nevertheless they took full advantage of the parliamentary library and other avenues for self-education. New Zealand's isolation was only geographical, not intellectual.