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Macroeconomic Policy and Industrial Structure:

Contested Parameters of Economic Policy in Post-World War II Australia

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Abstract

The use of macroeconomic policy in Australia has generally been inconsiderate of the unequal sectoral impact of macroeconomic instruments. The period immediately following World War II provides an opportunity to confront the interaction and tension between the purely macroeconomic and structural perspectives on appropriate policy. The six-year period from 1945 to the high inflation of 1950/51 and the repressive macroeconomic measures in 1951/52 provide an excellent case study in the evolution of policy instruments for the control of the Australian economy during the long boom. The particularities of the policy-making environment in Australia, rather than any preconceived theoretical schema, played a large role in that evolution. The notion has seeped into the textbooks that macroeconomic policy, specifically in a Keynesian mould, was responsible for the boom. That interpretation neglects the myriad structural policies of the period, and the pragmatic evolution of both structural and macroeconomic instruments from experience of their use in practice.

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Introduction

Economists' conception of an activist role for government is oriented predominantly at the 'macroeconomic' sphere. In so far as the profession conceives of a role for government in the 'microeconomic' sphere, it is a negative role, oriented towards destroying the impediments to the free operation of 'the market'. The macro-micro divide is essentially a policy-market divide.

The use of macroeconomic policy in Australia has generally been inconsiderate of the unequal structural impact of macro instruments on different sectors of the economy. Economists are aware that, for example, deflationary measures through interest rate hikes will impact unduly on mortgagors, farmers, and so on. Such knowledge has not detracted from the ready use of deflationary measures when it was judged, by reliance on macroeconomic indicators, that deflation was in order.

The period immediately following World War II provides an opportunity to confront the interaction and tension between the purely macroeconomic and the structural perspectives. The period was one in which a 'developmentalist' mentality prevailed, after years of depression and war. Private sector activity escalated, supported by public works that had been deferred.

By late 1947 expansion had set in train inflationary pressures. Policy instruments had been re-cast and expanded, and a self-conscious 'macroeconomic' policy fraternity established (Commonwealth Bank, sections of Post-War Reconstruction, Treasury). Inflationary pressures, rather than unemployment, were to be the first test of these instruments.

There was also a concern for the *structure* of the economy. Shortages of labour, materials and equipment exacerbated inflationary pressures, placing the inter-relatedness of the 'aggregate' economy and its structure before the policy-makers. Questions were asked of the economic structure. Was the economy developing in a proper manner? Was capital being used appropriately? Was it possible to channel scarce resources away from areas that were considered not high priority? Who was to decide these questions and through what mediums?

A set of powerful controls provided instruments to implement the answers to such questions. These controls were hangovers from the War but had been maintained pragmatically but assertively to facilitate a smoother transition to peace. Most controls were essentially discriminatory, providing potential means for influencing the structure of the economy in desired directions.

Douglas Copland foresaw the dilemmas that would arise during reconstruction. Delivering a paper, in January 1944, Copland noted:

“If we wish to avoid the inflationary effect of excessive demand, and to promote a level of investment and distribution of income that will raise living standards in the transition period, and allow the foundations of a permanent structure to be built upon these ideals, we must continue to use controls which have served their purpose so well during the war. It will not be easy to maintain so virtuous a policy.” (Copland, 1944: 139)

Copland was prescient about the difficulty. The controls were formally available, but one finds apprehension regarding their assertive application in peace-time.

The six-year period from 1945 to the high inflation of 1950/51 and the repressive macroeconomic measures in 1951/52 provide an excellent case study in the evolution of policy instruments for the control of the Australian economy during the long boom. The particularities of the policy-making environment in Australia, rather than any preconceived theoretical schema, played a large role in that evolution.

The determination of industry priorities: desirable but elusive

The matter of structural priorities was confronted immediately with the cessation of hostilities. The transition was felt keenly by the Capital Issues Advisory Committee. Its function had been to restrict approval for capital issues to enterprises engaged in the war effort. During 1944, requests were received from firms planning for post-war conditions, for which the Committee was ill-prepared. In April, a joint meeting was held by the Secondary Industries Commission (SIC) and the Advisory Committee (CIAC), following which the CIAC agreed to send to the SIC applications oriented to post-war conditions.¹

In April 1945, G. M. Shain, Chair of the CIAC, wrote to J. K. Jensen, Chair of the SIC, requesting assistance in developing formal criteria for discrimination in capital issues approval. Jensen was caught unprepared. Jensen replied that he was wary of the prospect of constructing an ‘orderly plan’ for selective industrial development. Reluctantly, Jensen offered ‘motor vehicles, wool, and the cotton and rayon industries as affording ‘the best prospects of appreciable expansion’. Jensen noted that he would be reluctant to start taking account of market demand when considering requests for capital permission, preferring not to privilege incumbents; rather to consider each case on grounds of potential efficiency and viability, and to let competition take its course.²

Disappointed with Jensen’s response, Shain turned to Prime Minister (and Treasurer) Chifley in May, indicating the large number of requests for capital approval, and an anticipated “rush of rehabilitation and expansion proposals in the near future”. Shain noted that:

“[T]he time is fast approaching when my Committee will need some information on broad lines as to the types of industry which the Government considers are of prime importance to the national economy [also those which are considered to be ‘relatively unimportant’]. ... It is realised that the furnishing of the desired information presents difficulty, but having regard to the fact that some control over investment is contemplated in the early reconstruction period, it has occurred to my Committee that the Ministry of Post War Reconstruction might be in a position to proffer the desired advice”.³

Shain also requested estimates of the total likely capital requirements of secondary industry “for any period ahead ... if an orderly plan is to be developed for the apportionment of

available material and financial resources in a manner which accords with Government economic policy".

The request was belatedly passed to the Economic Research Division and the Secondary Industries Division (the research arm of the SIC) of the Department of Post-War Reconstruction. A combined presentation went to Chifley under the signature of H. C. Coombs, Director-General, in September 1945.⁴ Coombs was cautious regarding the task and the division of responsibilities, considering it "impracticable at this stage to lay down hard and fast rules for the operation of the Capital Issues Control." Rather, Post-War Reconstruction offered "suggested broad lines of policy for your consideration".

Foremost on the list of industries considered "of prime importance to the national economy" was construction, especially housing. Thus "building materials of all kinds" were considered the highest priority. The list also included: durable consumer goods and textile goods which are import-substituting; transport equipment of all kinds, including components; goods for export; and investment promoting regional development. The primary list was fulsome, but the authors ran the risk of being considered unhelpful if offering too selective a list.

Capital Issues Control found Coombs' reply unhelpful, and continued to process capital issue requests on its own terms, "doing the best we can from such indications of government policy as become available".⁵ Twelve months were to pass with little apparent progress in the cooperative delineation of priorities.

Coombs remained concerned about structural imbalance but was without a vehicle to make effective that concern. In September 1946, Coombs wrote to Harold Breen, Director of the Secondary Industries Division (SID), expressing concern about the continued expansion of secondary industry.⁶ Was employment being drawn into enterprises of 'doubtful permanent value'? Coombs thought that an investigation into that sector would indicate the forms of industry 'to which we might look for continued development'.

The Commonwealth Bank also entered the field. The Governor, H. (Hugh) T. Armitage, wrote to the Treasury in November 1946, requesting that directives be given for advances policy.⁷ Armitage noted that labour and resources were in short supply, and that this was 'in large part' due to meeting consumption needs, including durable consumer goods. The Bank was concerned with whether current demand and current production was distorted by transitional factors. Would the level of production in some industries survive the restoration of overseas competition?

The Bank noted that the public works programme had already been cut back for the sake of private investment. As private investment and production had tacitly been accorded higher priority than public works for scarce resources, the government needed to examine the private sphere. Is there over-production in some industries, under-production in others? As a basis for an advances policy consistent with general government policy on industrial development, the Bank requested a comprehensive review of industry and directives on industrial priorities.

A December 1946 memorandum from Treasury on the Bank's request brought W. C. Balmford, the Commonwealth Actuary (a Treasury office), into the discussion in January

1947. Balmford was Chair of Capital Issues Control, the executive arm of the CIAC in its post-war incarnation.⁸ Balmford noted that the Control Committee had denied capital to groups designated as undeserving, notably the large retail traders (apparently for reasons of financial structure). Balmford continued:

"We, nevertheless, feel that over-investment is undoubtedly taking place in some fields of industrial activity, (e.g. plastics and refrigerators) but there is no one who is sufficiently informed to offer an authoritative opinion. The Secondary Industries Commission and the corresponding [Secondary Industries Division] seem to be proceeding on the assumption that secondary industries should be developed at all costs regardless of the consequences".

Balmford requested a concerted attempt to find solutions from 'those most capable', to take the burden from the shoulders of Capital Issues:

"There is much to be said for an investigation into those activities which can be properly and fully developed in Australia at once, those which should proceed cautiously and those which should be definitely deferred. I feel that the physical and manpower resources of the country would be better concentrated in certain approved lines rather than frittered away in useless or, at any rate, expensive endeavours."

Balmford claimed that a workable solution required both competent research staff and a powerful ministerial backing. An authoritative and properly-managed effort was necessary, but Balmford's request was peculiar in that the 'competent research staff' would inevitably involve SID personnel whom he was simultaneously denigrating.

Balmford's perception that the Secondary Industries Commission (the advisory body) and the Secondary Industries Division (the bureaucratic arm) supported an unconstrained expansion of the manufacturing sector was unwarranted. Breen, SID Director, had written to Balmford in May 1945, offering cooperation on the basis of the SID's developing survey work, but without effect.⁹ Ironically, there was already a functioning cooperative arrangement between Capital Issues Control (CIC) and SID – the latter provided to CIC detailed reports on specific manufacturing companies applying for capital issue approval.¹⁰ Breen had attempted to get feedback on CIC decisions on the firms for which the SID provided advice. The Division belatedly received approval information, received only a small sample of refusal information, and no feedback on the criteria by which CIC judged the applications.

Apart from intra-bureaucratic tension, a fundamental principle was troubling Balmford. Balmford claimed that the current practices of Capital Issues Control were a half-way house and the worst of all options. The Government should come up with explicit and coherent measures for discrimination or it should dismantle the Control machinery. He was pessimistic about the implications, implying that the problem was probably insoluble.

"Industry is to some extent capable of looking after itself and unless we have a clear policy we may be doing people an injustice. If we are to say 'no' to a new venture because the field of its proposed operations is already covered, then we are favouring the existing and possibly less efficient concerns. How can anyone determine beforehand which is going to succeed - the most promising ventures have been failures, and vice versa?"

A vehicle for deliberating on structural imbalance?

These concerns with structural imbalance were generalised in the Agendum ‘Direction of Private Investment’, tabled at the Investment and Employment Committee meeting on 3rd February 1947.¹¹ The Investment and Employment Committee (IEC), comprising key Ministers with employment responsibilities, was conceived as the pre-eminent vehicle to oversee the implementation of the Government’s commitment to full employment.¹² The Ministerial Committee was to be assisted by a Working Committee of senior bureaucrats. The Committee’s establishment was long in gestation, the February 1947 meeting being its first formal gathering. Under the aegis of the IEC, senior bureaucrats and ministers grappled with the conceptual and administrative dilemmas of making a ‘full employment’ vision operational.

The Agendum demonstrated that much employment growth was in the manufacturing sector, indeed in sections of manufacturing. The concern was that consumer goods (consumer durables; refrigerators, in particular, were singled out) were doing extremely well. There was a fear that certain manufacturing expansion might not be sustainable once global war-time shortages were overcome. By contrast, basic industries were not keeping up with the raging demand – iron and steel, building materials, coal, and so on. Basic materials were suffering from shortages in materials and labour. This complaint would continue to be echoed through the late 1940s (c/f Commonwealth Bank of Australia, 1949: 21). The document noted that “difficulty is being experienced in maintaining essential services such as health, and transport and arrears of maintenance on many public utilities are not being undertaken”.

The Agendum states: “For various reasons some industries whose products are in urgent demand have found difficulty in attracting labour and securing necessary equipment and materials, while others which serve less essential needs have made rapid progress.” It appears that consumer goods industries were flourishing because they were responding to manifest demand after years of deprivation. A potent combination of factors – family formation, released savings and the growth of consumer credit institutions (especially hire purchase) - facilitated the realisation of latent demand. The production of some basic materials (coal and steel) was constrained by locational factors and, in particular, housing shortages. Coal production was subject to constraints due to union conventions regarding employment and hours. For consumer goods, at least, the price mechanism itself was catering to what the policy-makers called ‘less essential needs’.

Moreover, Chifley displayed a cautious mentality regarding discriminatory action. At the February IEC meeting, Chifley emphasised “the great importance of caution in handling any suggestion to private enterprise for a deferment of new investment”.¹³ Here were reflections of a ‘free enterprise’ culture facing an impasse.

The Agendum recommended that there should be a comprehensive investigation of the nature of ‘the present expansion of secondary industry’. Decisions ‘as to policy on the control of investment could not therefore be taken’ without it. The extent of the investigation (output, uses) required significant data, and presumed a deep understanding of input/output processes (the conceptual apparatus for which had yet to be adequately developed). It was reasonably ‘considered that the complexity and importance of the problem required an approach of this

kind', and that 'any investigation of this kind would of course entail considerable work'. However, the estimate that several months would be sufficient to perform the task displayed much optimism and certain naivete. Some of the necessary infrastructure was in place, but it was not of the scope nor sufficiently institutionally entrenched to facilitate the task.

The Agendum's ambitions were being undermined even before the meeting was finished. The SID was the natural fulcrum for an investigation into secondary industry, but it was distrusted by some Treasury officers. Fred Wheeler, secretary to the IEC, directed that Balmford would be put in charge to prevent the investigation falling under the control of SID. Moreover, Wheeler was supposed to have written formal letters to the SIC, the CIC and the Commonwealth Bank facilitating flow of information on the labour market, and to instigate closer liaison between the Commonwealth Employment Service, the SID and the Bank; but it transpired at the first meeting of the IEC Working Committee in June, four months later, that he had not done so.¹⁴

In the meantime, the SID was acting on the prescriptions outlined in the February Agendum. F. L. McCay, of the Economic Policy Research Branch, became the key facilitator for the SID. In early March, McCay submitted a draft terms of reference for the investigation to Treasury. It outlined the assumptions necessary regarding the general economic backdrop. McCay also emphasised the intent of an investigation to be 'both practicable and useful'.

At this stage, the Bank's Leslie Melville in conjunction with Treasury officers, and using data from the Bureau of Statistics, appeared to be developing separately their own priorities. In April, S. G. McFarlane, Treasury Secretary, in a letter to Balmford, expressed apprehension about the potential scale of such an inquiry (reflecting Wheeler's preferences) and recommended concentration on those industries whose 'expansion appears to be abnormally rapid and threatens to be unstable'.¹⁵ A report would be desirable before the meeting of the Loan Council in July.

An Inter-Departmental Committee of senior people was created to manage the investigation. The Committee met on 3 June, but the discussion was perfunctory. The process was effectively rudderless, as Balmford immediately stated that he did not have time to coordinate the investigation and had played no role to date. Effective control passed to Wheeler, whose dominant concern appeared to be to inhibit the investigation and to contain the influence of SID. Repetitive discussions ensued regarding delineation of the parameters of a study. Surprisingly, there was little discussion of the document tabled from the Bureau of Statistics.¹⁶ Given data limitations, the document was a competent contribution to the problem. The Bureau forwarded a list of sectors that had expanded rapidly and had sizeable employment and were worthy of investigation – for example, chemicals and plastics (new segments), cotton textiles (vulnerable to import competition), engineering, agricultural implements (highly volatile) and furniture.

It was decided that a Working Sub-Committee be established, consisting of representatives from Capital Issues Control, SID, the Bank and the Department of Labour and National Service. The Committee also decided on certain industries for 'immediate investigation' – plastics, textiles (excluding woollens), wireless equipment, refrigerators, farm tractors, and

electrical motors in fractional horsepowers. The list did not vary dramatically from the Bureau's suggestions, but was undefended.

After the meeting, Melville called Wheeler, expressing a desire to be Chairman of the Sub-Committee, and that it include a Treasury representative. Melville was installed as Chairman, without consultation. Yet Breen, Director of SID, understood that the SID was to be 'the spear-head and the executive body', so there remained unresolved issues of responsibility and authority for the carriage of the project.

The information problem and its politics

The Working Sub-Committee duly met on 12 June under Melville, and further deliberated on subjects for inquiry. Farm tractors and flax (representative of the textile group) were singled out (without defence), although the longer list appeared to be still under consideration.

There was an ancillary running battle over information. The Bureau's April document was conscientious, but the SID was critical of its weaknesses. The Bureau's figures for industry-specific changes were based on the 1944-45 census, because the 1945-46 figures had not been processed, so post-war changes had not been incorporated. The SID was also critical of the Bureau's classification – in particular, chemicals and metals and engineering were areas in urgent need of re-appraisal.¹⁷ The SID possessed a 'hands-on' familiarity with secondary industry, born of close war-time contact and conscientiously maintained after the War. Information quality deserved cautious appraisal by the interested parties, but some policy-makers wanted instant answers and accuracy was impossible in the circumstances. Wheeler kept lobbying in committee for containment of the investigation to existing data. This meant a trust in the Bureau's data and approach that was undeserved.

Nevertheless, the SID had good relations with the Bureau, and resolved to choose one of the Bureau's highlighted industries, cotton textiles, for intensive study. This study was seen as a pilot for investigations into other industries, and a meeting was planned for 15 July to discuss it.

At the June meeting of the Working Sub-Committee, Breen raised the issue of the direction of capital – he wanted to know the purposes of bank advances and of capital raised in the market. This was a reasonable concern, but one that was being addressed reluctantly. Melville claimed that the Bureau of Statistics and the Bank were preparing for the collection of data on bank advances 'according to purposes, industries and classes of borrower'. These were promised to Breen, but it is improbable that this data would have been divulged externally as banking data was considered highly sensitive by the Bank. Indeed, it is unlikely that the data was even collected. .

Moreover, on July 4, The Acting Treasury Secretary sought to reassure Chifley that the manufacturing industry inquiry was intended to serve no more than a fact-finding purpose.¹⁸ This was a curious approach, given the concern with which the inquiry was mooted in February. It was also inappropriate, given that the Commonwealth Bank was formally committed to using the information for the adjustment of its advances policy.

Complications also arose from SID's perspective. Breen wrote to Chifley, fearing that the new investigations threatened existing SID operations. The SID proffered advice to the Capital Issues Committee and to the Industrial Finance Department of the Commonwealth Bank. SID saw its brief as commenting on technical management and cost efficiency of applicants. A recent request from the CIC directed the SID to consider the production and consumption aspects; the presumption was that granting of capital raising rights would result in over-expansion in the industry. The SID considered that it was not its responsibility to decide who will fail and who will succeed in an industry if all appear reasonably efficient. Moreover, the SID was developing a comprehensive information base on manufacturing industry, for which trusted links with industry personnel was an important source. Faced with industry rumours that the SID was to be used as a vehicle for Commonwealth Bank directives on discriminatory advances policy, Breen was apprehensive that industry contacts would withdraw cooperation.¹⁹

With Wheeler's lassitude and SID apprehension, the July meeting of the Sub-Committee was not held. At the IEC Working Committee meeting in late July, Wheeler intimated that the Committee to supervise the secondary industries investigation would have to be formally disbanded.²⁰ The Working Committee agreed that, as a substitute, the SID should prepare a detailed report on a number of key industries. These the Division proceeded to produce.

Information: an impasse on need versus capacity to supply

Another four months passed, and the IEC met on the 6 November. As the Commonwealth Bank was impatient to tackle inflation, a Bank Advisory Council memo on appropriate measures was on the agenda. One of the criteria for an advances policy agreed to by the Committee was 'discouraging expansion in industries with productive capacity that was likely to become excessive in relation to eventual demand' – a vague criterion, and without acknowledgment of previous work. The Committee agreed that a factual basis for a selective advance policy remained essential, and that a fresh start should be made with the secondary industries investigation proposed at the February meeting. The Chairman (Chifley) acknowledged the necessity for SID's assistance and hoped that its assistance could be obtained 'without betraying any confidences', to ensure maintenance of industry links. The Committee considered other anti-inflationary measures, such as discriminatory taxes (sales, export), and currency appreciation, but dismissed them as impracticable.

Wheeler then wrote to another senior Bank official, E. B. Richardson, on the 17th November, noting that the Bank could not take responsibility for coordination of the investigation (in spite of him having previously organised this arrangement). Following Chifley's direction, Wheeler suggested that responsibility for advice on a 'selective advance policy' be handed to John Jensen, Chair of the SIC. A Treasury-drafted letter (probably by R. J. Randall) was sent to Jensen under Chifley's name. Several sentences are important:

"Since excessive spending power is at the root of the trouble we have decided that, amongst other things, bank advance policy has to be tightened up. ... But a tightening of bank advances is something that has to be handled very carefully. *It cannot be done on an overall basis because that would affect sound and unsound industries alike.* It has to be selective in a very realistic way. The Commonwealth Bank has to be on sure ground in what it does and keep right down to the facts all the time."²¹[emphasis added]

As the SID was the research arm of the SIC, Jensen immediately handed the job to Breen, who should have been given it in the first place. Breen (who had been seriously ill) handed responsibility for the exercise to his deputy, Bernard Hartnell. Hartnell had been in Geneva for much of 1947, working on Australia's contribution to the International Trade Organisation. Hartnell had not been well instructed on what had transpired in the previous twelve months. He was, however, acutely aware of the issues. Hartnell expressed concern at: "the complete lack of cohesion between a number of bodies, all of which had an interest in the promotion of industrial development but which were following independent lines of their own. [B]oth the Secondary Industries Commission and the Tariff Board were directly concerned in the furthering of secondary development but there was no organic connection between them. Again Import Licensing proceeded on a basis of decisions as to what was essential or non-essential, without reference to standards necessarily recognised by anyone else."²²

Hartnell supported an earlier Coombs' objective for a 'Central Policy Organisation' but which was in abeyance, not least because of Coomb's perennial absence overseas. Treasury's Randall pointed out that the Investment and Employment Committee was its *de facto* replacement. The activities of the IEC and its associated committees were an attempt to establish a modicum of co-ordination from the ground up. Within that framework, Hartnell replied that the process would have been enhanced if the Bank had gone 'further than they had done so far in getting classified information from the Trading Banks'.

The I&EC meeting of 6 November had given the Bank approval for the general thrust of the policy, but (as noted) the Committee also reiterated the need for a 'factual basis for a selective advance policy'. Towards this end, SID personnel were researching the conceptual underpinnings of the 'essentiality' of any industry to the Australian economy²³, while also developing the industry-specific reviews.

The Commonwealth Bank initiative on selective advances policy

Within two weeks, the Bank had acted on its own. On 21 November the Bank issued an elaborate directive addressed to the restraint of advances.²⁴ Overdrafts were to be denied or to be liquidated if they were to finance or were financing capital expenditure. There was also a significant selective dimension. The building and building materials industries were to be supported; the booming rural sector should be pressured strongly to reduce its overdraft exposure; hire purchase was to be made available to finance industrial equipment but not consumer purchases. These specific instructions were complemented by a generic selective instruction (section 1(c)):

"Banks should not finance new enterprises, or the expansion of existing enterprises –
 (1) where the production is not essential to the Australian economy; or
 (2) where the added capacity is likely to increase production above ultimate demand; or
 (3) where production is likely to be uneconomic in the long run because of excessive costs, or other factors."

The policy directive was predictably leaked to the Press. Governor Armitage was appalled, accusing the banks of treachery (Schedvin, 1992: 137). The central banking arm of the

Commonwealth Bank had been given a more powerful mandate in the Banking Act of 1945, but the culture that underpinned the selective advances policy was nurtured during the War, when the trading banks were *de facto* arms of the state.²⁵ Armitage was mindful of the loyalty of the British trading banks to the Bank of England, expecting the same from the Australian banking community.

At the IEC meeting in February 1948, Melville referred to the advances policy with the presumption that a sound basis for selectivity in the expansionary manufacturing sector was still dependent on the results of the work of the SID.²⁶ Yet Wheeler had advised Chifley's office in January that "we were inclined to think that the Treasurer would not wish to do anything to revive the recent Press controversy over the Commonwealth Bank's advance policy".²⁷ In other words, it is appropriate that the revived investigation be allowed to die quietly.

Wheeler's intervention was certainly compatible with the political atmosphere. In March, J. T. Lang, Independent Labour Member for Reid, inquired of the House regarding the intelligence of the selective criteria outlined above:

"How is the local bank manager to decide whether or not any particular business is essential to the Australian economy? How is he to ascertain the ultimate demand for production? If he decides to play safe and observe the strict letter of the objective, he will refuse every request for an overdraft. The effect of this directive is to create a black market in money. Instead of paying the ruling bank rate of interest, new firms will be driven to other kinds of lenders. ... This ban on new enterprise will protect the older, established business concerns from competition. It will assist the growth of monopolies, and destroy the incentive to produce. By attempting to remove all elements of risk from business, it will entirely destroy enterprise."²⁸

Although there is hyperbole in Lang's statement, his judgement is apt regarding the vacuousness of the guidelines. The selective guidelines, as worded, were unworkable, and could only have led to arbitrary practices on the part of bank managers. In reply to Lang, Chifley side-stepped the issue of selectivity, referring only to the need to restrict bank advances in the aggregate in the face of severe inflationary pressures.²⁹

The investigation of the SID (renamed the Division of Industrial Development (DID) in January 1948) into secondary industries 'imbalance' appears to have been killed off. No more is heard of it in the activities of the IEC and its Working Committee, which continued for the life of the Chifley Government.³⁰ The August 1948 IEC meeting exposed that ambivalence had replaced an earlier assertiveness regarding a selective dimension to advance policy:

"[The discussion] recognised that difficulties would arise if any attempt were made to detail industries to which advances for new equipment could not be made, while at the same time some doubts were expressed as to the degree of cooperation that could be expected from the trading banks if instructions were limited to general lines of policy. It saw though that Bank managers might not be equipped to express a judgement for interpreting such policy – that their judgment may rather be limited to the credit worth of the applicants for accommodation, than the desirability of the enterprise in the national interest."³¹

Structural policies in practice

The fine detail of policy debates in the late 1940s highlights that economic policy instruments were not derived ready-made from some theoretician's cookbook, as is implied in the ready attribution of the 'Keynesian' label to the period. Rather, the instruments evolved pragmatically. Some key 'macroeconomic' instruments received consideration – including tax increases, revaluation and interest rate increases – but were ruled infeasible for a variety of reasons. As a consequence, greater demands were made of other instruments.

Moreover, in confronting what economists have subsequently conceived as 'macroeconomic' problems – unemployment, inflation, balance of payments difficulties – the policy-makers were conscious of their structural dimensions. Discriminatory instruments were viewed as not merely desirable by default, because of the unpalatability of various macroeconomic instruments, but because they were appropriate. Thus the Bank claimed: "A selective policy would be what we should like to have, but if a selective policy is not possible [because of inability to get agreement on the 'essentiality' of various industries], we are obliged to consider other methods, which are less satisfactory ...".³² Similarly, the Bank claimed that "... generally restriction of credit is a blunt instrument not a sensitive tool".³³ It is noteworthy that the Bank's orientation was not out of kilter with trends overseas.³⁴

Finally, it was believed that the use of discriminatory instruments was not merely appropriate, but an integral dimension of an effective macroeconomic policy apparatus. As Richard Randall noted astutely in a Treasury memo, "to frame [a Central Bank] advance policy meant the framing of an industrial policy, the two being really different aspects of the same thing".³⁵

However, disparate elements combined to ensure that discriminatory interventions involved an elaborate and often problematic process. First, there was the technical problem of adequate information, which was only tackled gradually and ultimately accorded low priority. Second, the fragmented division of responsibilities within the bureaucracy (coupled with its conscientious consultative procedures) implied that initiatives would be developed haltingly, and sometimes stalled. Inter-bureaucratic rivalry and competing visions compounded the effects of fragmentation. In the context of the late 1940s, Treasury, through Wheeler, had administrative responsibility for the Investment and Employment Committee deliberations, but was the least sympathetic to structural solutions to macroeconomic problems.³⁶ This Treasury perspective was enhanced after 1950, given the greater authority of Treasury over economic advice following bureaucratic restructuring under the Menzies government.

Third, there was the difficulty of dependence on private agents for the implementation of some discriminatory policies, given that the demands of private profit would often conflict with the 'national interest'. This is pertinent to the dependence of the Commonwealth Bank on the trading banks for credit availability and direction, but also to the government's dependence on BHP for an expansion in steel production, then in short supply.

Fourth, there was the political dimension – the difficulty of governments defending to particular constituencies discrimination in favour of other constituencies. Fifth, there was the important philosophical dimension, embodied in cultural mores and institutional practices. In particular, philosophical liberalism was manifest in a wariness of hands-on structural

discrimination.³⁷ Balmford's January 1947 letter exposes a liberalist mentality. So also does the view emanating from the SIC and the SID/DID that controls should not be used to privilege incumbents for the sake of market stability. Perhaps the most considered statement embodying the political and philosophical dimensions was made by Balmford in late 1948 when the impatience of would-be investors was mounting over continued capital issues control and the legal authority for continuation was tenuous.³⁸

There were two parallel consequences of this environment. The use of macroeconomic instruments gradually evolved with increasing disregard for their structural effects. This practice developed partly by default, because of the experienced difficulty of effecting some discriminatory actions. The culmination of this process was the 1951-52 'horror budget' (to be repeated in the repressive Treasury-induced measures of 1960 and 1974). However, discriminatory actions and controls continued to be used. The impediments to discriminatory action did not prevent such action from taking place; rather they prevented it from being applied more efficiently and effectively.

Capital Issues Control was in place until the election of the Menzies Government, and administered on terms of its own making. The Commonwealth Bank pursued a qualitative advances policy after November 1947 with inadequate advice from informed sources. Dollar import licensing was in place continuously; so also were export controls on certain rural and mineral commodities. Rent and some price controls survived until 1948 when, following a failed referendum over Commonwealth powers, they were handed to the States. Rationing of 'essentials' survived – sugar (until 1947), meat (1948), petrol, butter and tea (1950). The Menzies Government dismantled many of these controls after its election in December 1949, only to re-establish controls in the face of defence preparations (capital issues control, materials stockpiling, etc.) and economic necessity (comprehensive import licensing).

Much of the character and outcomes of these discriminatory actions and controls were inadequately documented by their practitioners, and that which has been documented has been inadequately analysed. Part of the reason for the latter is that economic historians have predominantly been interested in macroeconomic policy, and the relevance of 'Keynesian' doctrines to policy developments.³⁹ Part of the reason for the former is that discriminatory policy is a delicate process with a natural capacity to offend non-favoured constituencies - there is thus an inbuilt reason for lack of transparency.

There is only a sketchy documentation of the character of the Commonwealth Bank's qualitative advances policy, and no record of any overall evaluation of its implementation or effect.⁴⁰ The DID continued to produce the industry-specific reviews, but they were not intimately linked to Bank policy.⁴¹ The annual Reports of the Bank make only one brief mention of the existence of a selective dimension (Commonwealth Bank of Australia, 1948: 28). Under Coombs as Governor, the Bank had monthly meetings with the managers of the major banks, and queries regarding the tangible application of the criteria in specific instances indicated a formal concern from bank senior management. But there was evidence that Bank criteria were being used as a cover for bank-determined decisions on particular applications; more generally the Bank was not intrusive in monitoring the banks' behaviour. Bank documents indicate that advance policy was intended to complement capital issues policy; with the ending of capital issues control in late 1952, advance policy was also formally

supposed to be terminated. However, the Bank persisted with a selective dimension at least into the early 1960s – in particular, regarding hire purchase finance, housing finance and rural sector finance.

The operation of other discriminatory policies is similarly oblique. For example, in the four Labor post-War years December 1945 to November 1949, Capital Issues Control approved 1758 applications for an issued capital total of £224mn., and 3296 applications for mortgages or other charges of £82mn.⁴² However, we do not know the scale or character of refusals that would allow us to judge the significance of the overall enterprise. Ironically, the significance of proposed investments in the manufacturing sector in the monthly lists of approvals highlights that the CIC did not use its powers to constrain expansion of the manufacturing sector, the issue of controversy in early IEC deliberations.⁴³ But Balmford felt confident that the CIC had inhibited issues of an unsavoury nature (for example, stock ‘watering’ or those unequally favouring management) and had exercised a deterrent effect on ill-considered and speculative offerings. Interestingly, the CIC had the support of the stock exchanges.

Dollar import licensing was another significant control mechanism for which no substantial evaluation was produced. But the procedure does appear to have been administered with a modicum of efficiency, under an inter-departmental committee that met regularly, decided on budget totals, allocated quotas, and distributed reports on its activities.⁴⁴ Whether the quotas were appropriate is unknown.

In spite of these discriminatory policies (or perhaps because of their partial and imperfect application), substantial structural imbalance remained in the late 1940s and into the 1950s. Many basic materials remained in severe shortage – building materials, coal, iron and steel, and power, as did some capital equipment. This imbalance was represented by Copland as a ‘milk bar economy’, a label that has been reproduced indiscriminately (Copland, 1949). The label is inaccurate. There had been a substantial expansion of the engineering and chemical sectors. Production of many basic commodities had expanded dramatically since 1939, but demand had increased even faster. The Australian economy was undergoing a dramatic qualitative transformation to a deeper level of industrialisation that influenced all sectors of the economy; strains were inevitable. Key commodities were in short supply for specific reasons; but general structural imbalance was compounded by the policy environment described above, which channelled and constrained the policy instruments available and the efficiency of their utilisation.

The ambiguity regarding structural policies is captured in an exchange between a senior Minister and a senior public servant early in the life of the new Coalition Government. In May 1950, R. G. Casey, Minister for National Development and for Works and Housing, inquired of G. P. N. Watt, Treasury Secretary:

“... if there remains any machinery or control by which investment can be directed into channels that the Government believes to be useful and necessary, and discouraged from directions which are unnecessary – i.e. into basic industry as against luxury industry.”

Treasury replied that there was little available of this nature. “At present some control over the direction of investment is being exercised by the Commonwealth Bank through its bank advance policy.” Sales tax is used, but of restricted application as only a limited number of

luxury items are subject to the maximum rate of 25%. In addition, “the present dollar import policy tends to discriminate to some degree in favour of basic or essential industries.” Finally, the States exercise some control over the allocation of building materials. Watt concluded with “I would say that there is no other machinery of controls which could be used to direct investment”.⁴⁵

Casey received from Treasury an answer both glib and deceptive.⁴⁶ The Coalition Government embarked upon a number of dramatic discriminatory interventions – particularly supporting development of the rural and resources sectors, symbolised by an enlarged and re-fashioned Snowy Mountains Scheme. Casey (and his successor, John Spender) was a major protagonist behind this strategic thrust, for which Treasury’s 1950 admonitions were misleading prattle.

A partial cause for this divergence was the fact that the Coalition Government did not create a permanent substitute for the Department of Post-War Reconstruction. There was thus no institutional vehicle for the broader strategic vision that had characterised the activities of Post-War Reconstruction and other proactive Departments of the immediate post-war era, such as Labour and National Service. Treasury filled the vacuum.

During this period, Treasury influenced but did not dictate the developmental process. The importance of the Treasury (in conjunction with the Commonwealth Bank) in providing the dominant bureaucratic voice in the evolution of respectable economic opinion has served to distort an understanding of the complex character of the policy process.

The creation of a new conceptual idiom

The complexity of the evolution of the parameters of policy instruments after 1945 deserves emphasis because it has been ignored in conventional interpretations of post-war policy. A substantial literature, both official and academic, has arisen centred on an idiom of an aggregate macroeconomic perspective.

Leading the way was a federal Treasury survey of the economy in 1956, the first of a continuing series (Commonwealth of Australia, 1956). The document displays a quintessentially macroeconomic perspective. The economic problem is conceived as a matter of matching aggregate demand with aggregate supply, while keeping costs under control. The growth experience of the decade since 1945 is described as “a spontaneous movement” (p.13). “But apart from that general belief [that the economy ought to grow], it would be difficult to say that the movement has had any single source of inspiration, energy or sponsorship” (p.14). It is acknowledged that “Governments have had a leading part in some sectors, such as immigration and basic development, and they have endeavoured generally to promote a context of favourable economic conditions” (p.13).

Yet by juxtaposing events against the absence of a (meaningless) ‘general plan’ of government, the character of the period has been obliterated – the strategic vision, the problems faced, the difficulties surmounted and the failures. There is a Hayekian flavour to Treasury’s evaluation. It is remarkable that senior Treasury officials, given their intimate experience, could sanction this misleading representation of the immediate past. It is, of

course, reasonable that a document produced in the mid-1950s exhibit a more benign attitude towards matters of structure, when many of the earlier problems had been resolved successfully. However, it is inexcusable to imply that a ‘growth’ *zeitgeist* provided the *modus operandi*. It is also inexcusable to ignore the continuing policy dilemmas concerning structure – the resource demands of defence; the controversial issue of whether defence *materiel* should be sourced locally or from the superpowers; the priorities being pursued under the comprehensive import licensing regime; Commonwealth policy towards State government imperatives for public works; the continuing shortage of steel driven by the divergence of the public interest from the private interests of BHP⁴⁷; policy towards the automobile and cognate industries with which a significant multiplier effect was associated; and so on. The multi-faceted problems facing the post-war policy-makers were of substantive general significance; however, the Treasury had written them out of history overnight.

An academic example of the new macroeconomic emphasis is the 1963 volume, *The Australian Economy*, which carried an authoritative aura with its inclusion of the cream of Australia’s economists. There is a token sectoral representation – agriculture attracts a separate chapter, but structural policy has been reduced to a discussion of competition and tariff policies (the latter an ahistorical excursion by Max Corden). Public Investment gets three pages. Import licensing is marginalised; the economic implications of defence preparation ignored. The elements that underpinned successive governments’ developmentalism (public investment, sectoral subsidies, decentralisation, etc.) are seen through a refracted lens or are ignored.

The contemporaneous and authoritative Vernon Report embodied a ‘macro-micro divide equals policy-market divide’ that was being replicated in the textbooks. Government controls occur at the non-discriminating aggregate level, and the market dictates the allocation of resources. In an introductory survey of ‘the pattern of post-war development, the Report’s interest in controls was restricted to a brief listing of price controls, without discussion of their impact. The Report immediately moved to the abstract:

“Resources within the private sector in a free economy tend to be allocated in accordance with the expected profitability of various kinds of production. Movements of relative prices and costs help to control the composition of output by influencing demand, profitability, and hence production.” (Committee of Economic Inquiry, 1965: 11).

Such stylised representations have been interpreted by later generations as accurate reflections of historical processes; the historical record has thus been constructed implicitly to suit intellectual interests. We get competition at the microeconomic level (enforced by competition policy at the margin), and we twiddle the knobs at the macroeconomic level. The process of economic policy making has been narrowed and rendered mechanistic and antiseptic.

A by-product of this intellectualising of policy history has been the notion that macroeconomic policy, specifically in a Keynesian mould and from *a priori* principles, was responsible for the post-war boom, and especially in the long-term maintenance of near-full employment. From the perspective of Keynesians, the period is generally looked upon as a golden age in which the policy-makers got the techniques and the ethics right.⁴⁸ As we have since fallen from grace, the period is looked upon with nostalgia. Whether nostalgia is

warranted depends upon having a more accurate rendition of the period. That requires a better understanding of the myriad structural policies of the period (and the forces that channelled such policies), and the pragmatic evolution of both structural and macroeconomic instruments from experience of their use in practice.

¹ Minutes of joint meeting, 27.4.44. National Australia Archives, series MP61/1: item 2/300/79.

² Shain to Jensen, 27.4.45; Jensen to Shain, 11.5.45. *ibid.* Jensen's letter was probably authored by Bernard Hartnell, Senior Research Officer, SIC.

³ Shain to Chifley, 21.5.45, A571/158, 1946/3926 Part 2.

⁴ Coombs to Chifley, 25.9.45. *ibid.*

⁵ W. C. Balmford to Secretary to Treasury, 6.1.47. *ibid.*

⁶ Coombs to Breen, 24.9.46, A9790/1: 112.

⁷ Armitage to Secretary to the Treasury, 19.11.46. A571/158: 1946/3926 Part 2.

⁸ See n.5.

⁹ Breen to Balmford, 31.5.45. MP61/1, 2/300/79.

¹⁰ The SID had assumed the consultative role first established with the Secondary Industries Commission in April 1944. The reports were typically comprehensive, covering both potential viability of the firm (technical, managerial, etc.) and the character and prospects of the relevant industry.

¹¹ Agendum 5/47, 31.1.47. A571/1: 1947/1907 Part 1.

¹² The IEC's activities are outlined in detail in Robinson (1986) and Angley (1988).

¹³ IEC meeting Minute No.6. A571/158: 1946/3926 Part 2.

¹⁴ IEC Working Committee meeting 4.6.47, Department of Post-War Reconstruction Minutes. A9790/1: 114 Part 1.

¹⁵ McFarlane to Balmford, 24.4.47. A571/158: 1946/3926 Part 2.

¹⁶ Survey of Private Investment: Note on Current Trends in Factory Output and Employment, 29.4.47. *ibid.* The Bureau's Survey made one serious error of judgment – it noted that the motor trades group was experiencing dramatic expansion, but “in the longer run the Australian market is strictly limited and any tendency to expand much further should be regarded with some suspicion”!

¹⁷ Classification of Australian Secondary Industry, n.d. MP188/1, 2/6/519.

¹⁸ A571/158, 1946/3926 Part 2.

¹⁹ Breen to Chifley, 16.7.47. *ibid.*

²⁰ Minutes, IEC Working Committee meeting, 30.7.47. A571/150: 1947/1908 Part 2.

²¹ Chifley to Jensen, 19.11.47. A571/158: 1946/3926 Part 2.

²² Minute of Hartnell/Randall conversation, 2.12.47. *ibid.*

²³ MP188/1: 2/6/519.

²⁴ Advance Policy, 21.11.47. Copy in Breen's papers, MP1038/2: Box 3, Folder 39.

²⁵ This policy was instigated under the Governorship of Hugh Armitage, a publicly-minded but dour administrator, and not under the better-known H. C. Coombs, who succeeded Armitage in January 1949.

²⁶ Draft minutes, 5th IEC meeting, 3.2.48. A571/150: 1947/1907 Part 5.

²⁷ Wheeler to Garrett, private secretary to PM, 16.1.48. A571/158, 1946/3926 Part 2.

²⁸ Commonwealth Parliamentary Debates (CPD), 10.3.48, Vol.196, p.461; extract reproduced in Copland & Barback (1957: 282).

²⁹ CPD, 10.3.48, Vol.196, p.462; extract reproduced in Copland & Barback (1957: 184).

³⁰ IEC concern with structural imbalance in 1948 and 1949 centred purely on the coal shortage, responsible for the belated inclusion of a SID/DID representative (Hartnell) on the IEC Working Committee.

³¹ Minutes, 6th IEC meeting, 10.8.48. A571/150: 1947/1907 Part 6.

³² Advance Policy, Memorandum for Advisory Council, 3.10.47. Records in the custody of Reserve Bank of Australia archives, RBA S-a-66.

³³ Restrictive Credit Policy, Memorandum for Advisory Council, 29.6.50. RBA S-a-66.

³⁴ A 1948 paper by R. S. Sayers, the English banking expert was addressed precisely “to the swing away from the traditional ‘quantitative controls’ and towards ‘selective credit policies’” (Sayers, 1948: 20). I owe this realisation to Marcus Robinson (Robinson, 1986).

³⁵ Randall to Wheeler, 5.12.47. A571/158: 1946/3926 Part 2. Randall, later Treasury Secretary (1966-71), was a rising but still junior Treasury officer in the position of Principal Research Officer. Randall appears to have been the only Treasury officer with a keen sense of the structural dimension of macroeconomic problems.

³⁶ When the Investment and Employment Committee was first mooted by the Department of Post-War Reconstruction, Treasury insisted that it supply the secretariat. Post-War Reconstruction officers were opposed, fearing (presciently) the narrowing of the agenda, but relented to speed up the Committee’s establishment. Coombs to Dedman, 27.9.46. A9790/1: 112.

³⁷ The half-hearted nature of discriminatory actions by Australian governments contrasts with those of contemporary West German and Japanese governments, with different political cultures and (after the acquiescence of the US occupying forces) the systematic determination of sectoral priorities as a vehicle for industrial reconstruction.

³⁸ Balmford to Acting Secretary, Treasury, 25.8.48. Advisory Council Papers, RBA BM-Pb (36th meeting).

³⁹ A separate strand of economic history has centred on structural aspects, but with a narrow emphasis on tariff protection and rural subsidies (‘protection all round’), and with an a-contextual disconnection from the plethora of structural policies pursued by successive governments.

⁴⁰ Schedvin’s official history of central banking mentions selective advance policy only tangentially (1992: 202, 233, 320).

⁴¹ Twenty one industry reviews were produced between May 1948 and June 1950, when the Treasury resisted further issues on cost grounds. The 1950 steel industry review was probably the most significant, in view of continuing steel shortages. Copies in MP252: S8.

⁴² National Security (Capital Issues) Regulations; Summary of Approvals since 4th December 1939, 7.12.49. MP61/1: 2/300/2985.

⁴³ Of approvals for capital issue (for cash subscription over £50,000) during the post-war Labor period, the manufacturing sector accounted for 61-66% of the total in the calendar years 1946, 1948 and 1949 (48% in 1947). Advisory Council Papers, BM-Pb (52nd meeting).

⁴⁴ See, for example, MP208/1: 5/80/608. The Dollar Committee had an ancillary positive effect of some significance. When the Menzies Government arranged a series of dollar loans from the World Bank after August 1950, the complexity of the allocation process was managed with exemplary competence through building on experience arising from the Dollar Committee’s operations.

⁴⁵ Casey to Watt, 8.5.50; Watt to Casey, 19.5.50. A571/158: 1946/3926 Part 2.

⁴⁶ Why Casey did not inquire of his own senior advisors, who were more knowledgeable on these matters, is a mystery.

⁴⁷ The continuing steel shortage is canvassed in MP267/1: 2/176/2056.

⁴⁸ Some economic historians, with closer attention to detail, have highlighted where macroeconomic stabilisation faltered from the ideal (c/f Schedvin, 1992: passim). Nevertheless, both strands have in common an emphatic macroeconomic perspective on the sources of the long boom.

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