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978-1-107-69286-2 - Australia in the World Crisis 1929-1933: The Alfred Marshall Lectures Delivered in the University of Cambridge October and November 1933

Douglas Copland

Excerpt

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DIARY OF THE AUSTRALIAN CRISIS

This diary of events in the Australian Crisis is not exhaustive. It is prepared for the convenience of students who attended the lectures and for readers not familiar with the order of events. A more comprehensive statement for the period July 1930 to November 1932 will be found in the *Commonwealth Year Book*, No. 25, pp. 841-5.

1929

August Heavy fall in wool prices at Sydney sales. Long-term external borrowing had ceased and temporary relief was obtained in 1929 by issues of treasury bills of £10 m. on the London market and bank overdraft in London. Dissolution of Parliament after defeat of Government on proposal to abandon Commonwealth Arbitration Court.

October Defeat of Bruce-Page Government at General Election and formation of Scullin (Labour) Government.

November Legislation empowering Commonwealth Bank to mobilise gold reserves.

December Beginning of heavy exports of gold reserves. Exchange rate on sterling at £1. 10s. 0d. % premium.

1930

March Heavy increase of import duties, imposition of tariff embargoes and rationing of imports. Exchange premium at £6. 6s. 3d. %. (Raised on March 24th from £3. 16s. 3d. %.)

June Economists' Statement on Economic Position—First Manifesto.

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July— Visit of Sir Otto Niemeyer, representing Bank of
August England. Statement to Premiers' Conference on severely deflationary lines. Melbourne Agreement to balance budgets. Commonwealth sales tax of 6% imposed.

September Formation of Exchange Pool. Outside market for exchange increasing and rate rising. Memorandum of Messrs Giblin, Dyason and Copland to Acting-Commonwealth Treasurer—A Plan for Economic Adjustment.

October Victory of Labour at New South Wales elections, and formation of Lang Government. Exchange premium at £8. 15s. od. % and outside rate still rising above official rate.

November Commonwealth budget policy inconsistent with Melbourne Agreement, despite efforts of Treasurer. Special super-tax of 7½% on income from property.

1931

January Economists' Statement—Second Manifesto. Declaration of 10% cut in real wages by Commonwealth Arbitration Court in Basic Wage Case.

January Premiers' Conference, Canberra and Melbourne.
 TO Treasury Officers' Report on Budget and Economic Position.
February

The Lang Plan enunciated.

Mr Theodore proposes policy of restoring 1929 price level.

Decision of Loan Council to balance budgets in three years by economies and taxation of interest. Exchange premium on initiative of Bank of New South Wales rises rapidly and is finally fixed at £1 10s. od. %.

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- March* Statement of inflationary policy by Mr Theodore.
TO Letter of Chairman of Commonwealth Bank to
April Loan Council fixing limit of advances to Govern-
 ments at £25 m. abroad, then reached, and
 £25 m. internal.
 Reply by Mr Theodore (Chairman of Loan
 Council) strongly criticising bank policy.
- May* Appointment of Committee of Economists and
 Under-Treasurers (the Copland Committee) to
 advise Sub-Committee of Loan Council.
- May 25* Report of Copland Committee.
TO Premiers' Conference enunciates the Premiers'
June 11 Plan.
 Amendment of Commonwealth Bank Act.
 Reduction in bank advances and deposit rates.
- July—* Reduction in treasury bill rate from 6% to
August 4%.
 Internal Conversion loan.
 Revision of Commonwealth Budget.
- August—* Premiers' Conference to review budget pro-
September gramme.
 Decision to convert compulsorily dissentients
 from Conversion loan holding 3% of total sum.
 Britain abandons gold standard.
- October* Commonwealth Government decides to grant
 bounty of 4½*d.* per bushel to wheat growers.
- November* Further reduction in bank deposit rates.
 Economists' Statement on Devaluation—Third
 Manifesto.
 Dissolution of Commonwealth Parliament.

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- 4 *Diary of the Australian Crisis*
- December* Control of Exchange assumed by Commonwealth Bank.
 Exchange premium fixed at £1. 5s. od. %.
 State legislation for rent and interest adjustment completed.
 Defeat of Commonwealth Government at elections.
- 1932
- January* Formation of Lyons Government.
 Letter from Chairman of Commonwealth Bank to Prime Minister calling attention to growth of floating debt.
 Premiers' Conference, Melbourne.
- February* Commencement of tariff revision; removal of prohibitions on imports.
- March* Further reductions in bank deposit rates.
 The Financial Agreements (Commonwealth Liability) Act affirms liability of Commonwealth for State Debts.
 The Financial Agreements Enforcement Act giving Commonwealth powers to attach State revenues.
- April* Report of Committee of Experts (Wallace Bruce Committee) appointed to make a "Preliminary Survey of the Economic Problem".
 Premiers' Conference, Melbourne.
- May* Mr Lang dismissed by Governor of New South Wales.
 Formation of Stevens Ministry.
 Defeat of Victorian Labour Government at elections.
- June* Defeat of New South Wales Labour Party at elections.

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- June*
(cont.) Reconstitution of State Industrial Court in New South Wales.
Victory of Labour Party in Queensland elections.
Commonwealth Court refuses to restore special 10 % cut in basic wage.
Amendment of Commonwealth Bank Act.
Further reduction in bank deposit rates.
- June—*
July Premiers' Conference reviews operation of Plan and agrees to aggregate State deficits of £9 m. for 1932/33.
Three-year special unemployment relief plan of £15 m. agreed to, and works programme of £6 m. for 1932/33.
Budget reform in New South Wales.
- August* Reduction in New South Wales basic wage from £4. 2s. 6d. to £3. 10s. od.
- September* Reductions in taxation and in pensions by Commonwealth.
Removal of remaining prohibitions on imports.
- October* New Commonwealth Consolidated 4 % stock at par.
Premiers' Conference: Controversy over funding proposal.
Decision to raise internal loan of £8 m. at 3 $\frac{3}{4}$ %.
Reduction in treasury bill rate from 4 % to 3 $\frac{1}{2}$ %.
- November* Further reduction in bank deposit rates.
Commonwealth reduces land and income tax, and announces bounties to primary producers, especially wheat growers, of £2.25 m.
New South Wales Conversion loan, £12.36 m., in London, from 5 $\frac{3}{4}$ % to 3 $\frac{1}{2}$ % at 97 $\frac{1}{2}$, maturing 1936/37.

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*Diary of the Australian Crisis***1933***January*

Further reduction in treasury bill rate.

Premiers' Conference, Melbourne, decides to finance loan works from public loans and to fund treasury bills if further loans possible at low rates of interest.

February

Further reductions in bank deposit rate, and in treasury bill rate.

Conversion of New South Wales 4% loan of £9.62 m. in London to 4% at par, maturing 1955-70.

May

Commonwealth Arbitration Court refuses to restore special 10% cut in basic wage but accepts "all items" index number as basis for wage adjustment to cost of living in lieu of food, groceries and house rents index number.

Defeat of Labour Government in South Australian elections.

Victory of Labour Party in Western Australian elections.

Conversion of 6½% State loans of £11.41 m. in London to 3½% at 99, maturing 1937/38.

May—

Premiers' Conference decides to issue internal loan at 3¾% and to fix State deficits for 1933/34 at £8.5 m.

June

Reductions in tariff.

Further reduction in treasury bill rate to 2½%.

Internal loan over-subscribed.

July

Conversion of State 6% loans, aggregating £17.22 m. in London, to 4% at 99, maturing 1943-48.

Surplus of £3.5 m. in Commonwealth Budget for 1932/33.

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- July* Deficit of £8·5 m. in State budgets for 1932/33
(cont.) compared with £9 m. agreed upon and £21 m.
for 1931/32.
- August* Rise in wool prices.
- September* Conversion of £15 m. 6% Commonwealth loans
and £5·95 m. 5¾% State loans in London to
3¾% at 98, maturing 1948–53.
Heavy reductions in Commonwealth taxation
announced in Budget.
Reduction of primage and import duties on
British goods to a maximum of 17½%.

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I

BASIS OF AUSTRALIAN PROSPERITY—

1925 TO 1929

I. Special interest of the Australian Problem

MY predecessor in this Lectureship (Sir Arthur Salter) spoke to you last year about the basic conditions of a planned society. It has fallen to my lot in the past three years to assist in the formulation and carrying out of a plan of swift adjustment of the economic life of a country that was among the first to feel the impact of the great depression that gripped the world from 1930 to, shall we say, 1933. There is much in this experience of Australia of interest both to those who desire to make plans for a new economic order, and to those who wish to bend the existing economic order to the conditions imposed by the depression. It is with the more restricted interests of the latter group that I am most concerned in these Lectures. The grand theme of planning may be left to others, but I may be permitted to make one comment. We had much planning in Australia before 1929, and our critics of 1930 were wise after the event.

Much has happened since 1930. The world has learnt that no economic order was immune from the destructive forces that struck Australia in 1930. The disasters that engulfed one nation after another in quick succession have done more to expose the weaknesses of economic organisation than half a century's logical criticism. If we move out of this depression with nothing but the memory of disorder and suffering, we can scarcely expect the common man to retain his respect for an economic society that cannot offer him continuity of an ordered life.

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10 *Basis of Australian Prosperity—1925 to 1929*

Is there nothing in the experience of the depression that throws light on this old problem? Can we avoid the recurrence of economic and social disorders associated with depressions? If we cannot eliminate the depression, can we mitigate its severity and hasten the recovery? It is because I think that Australian experience in the past three years can throw some light on these questions that I have accepted the invitation to deliver these Alfred Marshall Lectures.

The subject is one that would have engaged the interest of Marshall. It has those elements of quantitative analysis, of experiment, and of deep social significance that would have offered great scope for his constructive genius. One can imagine the extraordinary enthusiasm Marshall would have shown for a people capable of carrying through a bold and unorthodox policy at a time when most other countries either refused to take stern measures, or sought to conceal from their people the facts of the depression. It has been said in reproach that Australia was forced to act. This is not strictly true, and it covers up an important fact. Australia refused to take the half-measures of deflation that are usually recommended to countries in similar difficulties. That was deliberate choice. She also refused to pursue the course of inflation taken by so many nations after the war. That also was deliberate choice. She pursued a middle course that had not hitherto been fully explored. It was the inherent fairness of this course that appealed to people. Marshall would have felt the force of this appeal all the more because it combined a large element of social justice with sound economic effort. The full significance for economic theory of this special feature of Australian policy must be left to those whose vision penetrates deeper than mine. I confine myself largely to an *exposé* of the experiment and will add such comments on broader and more fundamental issues in theory as occur to me. One who has lived through