MACROECONOMIC AND STRUCTURAL POLICIES:

ECONOMIC POLICY IN POST-WORLD WAR II AUSTRALIA

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Mainstream economists' conception of an activist role for government is oriented predominantly at the 'macroeconomic' level. If the profession conceives of a role for government in the 'microeconomic' sphere, it is generally a negative role, oriented towards destroying the impediments to the free operation of 'the market' – hence ‘microeconomic reform’. The macro-micro divide is essentially a policy-market divide.[1]

The bias towards the primacy and capacity of macroeconomic policy remains in the current environment. This bias is inconsiderate of three intrinsic weaknesses.

First, there is inevitable unequal structural impact of all ‘macroeconomic’ instruments on different sectors of the economy. Successive cash rate reductions have been recently introduced by the Reserve Bank of Australia, despite their manifest unsuitability for the desired task of reflation and their adverse structural impact (as on the housing market). Budgetary policy continues to be seen as an essentially macroeconomic instrument, in spite of the discriminatory impact of its application.

Second, public structural interventions, complemented by focused private sector initiatives, are the motor force of national economic development –

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[1] This manufactured dichotomy is analysed at length in Jones (1993).

Jones, E. (2021)
‘Macroeconomic and Structural Policies:
Economic Policy in Post-World War II Australia’
Journal Of Australian Political Economy
No. 88, pp. 98-123.

an axiom little understood by countries suffused with liberalist ideology. Regardless of ideology, structural interventions inevitably persist, but their application, for lack of a strategic vision, tends to be reactive and pragmatic, even potentially corrupt.

Third, structural and macroeconomic policies are more effective when used conjointly. However, Australian institutional culture inhibits such acknowledgment. This is the principal issue to which this article is addressed. Its detailed investigation of economic policy ambitions in the decades immediately following the Second World War challenges the received wisdom that macroeconomic stabilisation policy was responsible for the post-war boom and near-full employment. Moreover, it points to the origins of the dominant view of economic policy in an ahistorical and ideologically influenced mindset which has narrowed and distorted the perspective of policy makers and commentators alike.

Constructing an economic development regime in 1945

The period immediately following World War II provides an opportunity to confront the necessary interaction and tension between macroeconomic and structural perspectives. From the experience of this period came the evolution of later policy structures and the subsequent narrowing and cementing of conceivable and acceptable policy frameworks.

In 1945, a 'developmentalist' mentality prevailed under a Labor Government, after economic depression and war (*cf.* Macintyre 2015). The federal public service had been invigorated with skilled personnel. There was the will and seeming capacity to offset decay and disadvantage in myriad sectors – farming, industrial renovation, urban/regional disparity, housing in general, basic public infrastructure and social welfare.

‘Full employment’ was one powerful catch cry. The iconic *Full Employment in Australia* embodied this vision (Parliament of the Commonwealth of Australia 1945). Its vision is essentially that of a Keynesian-style government-backed aggregate expenditure to fit requirements, where public capital expenditure supplements expected private capital expenditure,[2] coupled with attempts to stabilise

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[2] A National Works Council was created in July 1943 as a vehicle to prepare a priority list of public infrastructure projects, to be drawn on if and when needed at short notice.

(agricultural) export revenues. This was to be supplemented by a new vehicle that matched jobs with personnel and also facilitated training. Thus, the Commonwealth Employment Service was created in January 1946; the Commonwealth Reconstruction Training Scheme for returned services personnel had been in place since January 1944. The White Paper was complemented by the 1945 *Banking Act*, which committed the restructured Commonwealth Bank to the pursuit of full employment.

The White Paper was heretical by the standards of the 1930s Depression era when deflation was the acceptable prescription for economic recovery. Yet the document was essentially macroeconomic in orientation. It was weak on structural matters – how priority resources allocation was to be achieved – a weakness it compensated for by a professed commitment to work through any blockages, buoyed by a pervasive optimism.

Long essays on impending difficulties by H. C. Coombs (1944) and Douglas Copland (1944) were delivered to a January 1944 forum. Coombs highlights the remarkable successes of war-time controls, claiming that there is no alternative but to apply those lessons to managing the peacetime economy. Copland outlines in detail the components of a better post-War world, also emphasising the necessity for transitional controls. Both acknowledge the strains that will ensue, but optimism covers for evasion on the institutional mechanisms by which the desired structural changes and stability are to be achieved.[3]

By late 1947 rampant expansion had set in train inflationary pressures.[4] A self-conscious 'macroeconomic' policy fraternity was being established (the central bank within the Commonwealth Bank, Treasury, sections of the Department of Post-War Reconstruction), but it was neither coherent nor ultimately influential. Calming an over-heated economy was evidently

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[3] Macintyre (2015: 260) captures perfectly the authors' mentality: 'Aware of the magnitude and complexity of post-war problems, the participants in the summer school nevertheless thought them amenable to rational solution. They appealed to past experience of an unplanned economy to justify their plans and the knowledge of economic management built up during the war to demonstrate their feasibility.'

[4] Inflation increased from 2.5% in mid-1947 to almost 11% in mid-1949, fell back to 7-8% during late 1949 to late 1950, when the Korean War Wool boom drove it to over 20% during mid-1951 to mid-1952 (RBA, *Consumer Price Index, Historical Series*, Table g01hist).

not the top priority. Full employment was evidently now being seen as a realistic aim, even at the expense of some inflation (*cf.* Coombs 1948).[5]

There was also a deep concern for the structure of the economy. Shortages of labour, materials and equipment exacerbated inflationary pressures, confronting the policy makers with the inextricable inter-relatedness of the 'aggregate' economy and its structure. Was capital being used appropriately? Was it possible to channel scarce resources away from areas considered lower priority? Who was to decide these questions and through what mediums? Powerful extant war-time controls provided potential means for influencing the structure of the economy in desired directions.

In practice, the institutional machinery formally devoted to post-War determination of priorities lacked the coordination, authority and central direction that the same set of competent public servants had achieved during the War. At base, a consumption goods boom took scarce resources from infrastructure needs that the authorities deemed to have priority.

The fundamental problem was the difficulty of devising and imposing a strategic sectoral policy, implicitly exposing an institutional structure and embedded political culture that inhibited such procedures.

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 (CIAC), created in November 1941 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 1944, a joint meeting

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5 Coombs (1948) acknowledges that inflationary pressures follow from the priorities accorded to economic development and social investment, implicitly a result of conscious contemporary political objectives. Gerald Firth (one author of the White Paper) delivered a paper in 1951, claiming that, with the Full Employment commitment, anti-inflation macroeconomic deflation had acquired a potential 'electoral cost' for the political class and thus could not be implemented as economists would wish (Firth 1977). This perception accurately reflects the altered priorities of the post-War period, held by the Labor Government and the bulk of its advisors. Comfortably heeled, abstractly minded economists were then out in the cold. It took the elevated Korean War boom inflation, in conjunction with new Treasury dominance, to alter the priorities.

was held by the Secondary Industries Commission (SIC) and the CIAC, following which the CIAC agreed to send to the SIC applications oriented to post-war conditions.[6]

In April 1945, G. M. Shain, CIAC Chair, wrote to J. K. Jensen, SIC Chair, requesting assistance in developing formal criteria for discrimination in capital issues approval. Jensen, caught unprepared, replied that he was wary 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 was wary of privileging incumbents on grounds of market demand: rather, applications should be considered on grounds of potential efficiency and viability, and to let competition take its course.[7]

Disappointed, Shain turned to Prime Minister (and Treasurer) Ben Chifley in May for support. 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 [and those 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.[8]

Shain requested that his Committee be informed as to 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 sections of the Department of Post-War Reconstruction (DPWR) – the Economic Research Division and the Secondary Industries Division (SID, the research arm of the SIC). A combined presentation went to Chifley under the signature of H.C.

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

7 Shain to Jensen, 27.4.45; Jensen to Shain, 11.5.45. *ibid*.

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

Coombs, DPWR Director-General, in September 1945.[9] Surprisingly, Coombs considered 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 for types of industry considered 'of prime importance to the national economy' was construction, especially housing and 'building materials of all kinds'. The list also included: durable consumer goods and textile goods which are import-substituting; all transport equipment and components; goods for export; and investment promoting regional development. The list was too fulsome to be helpful.

Twelve months passed with little 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, SID Director, expressing concern about the continued expansion of secondary industry.[10] Was employment being drawn into enterprises of 'doubtful permanent value'? An investigation was necessary to indicate the forms of industry 'to which we might look for continued development'.

Contemporaneously, the Commonwealth Bank (in its central banking capacity) entered the field. The Governor, H. T. Armitage, wrote to the Treasury Secretary in November 1946 requesting that directives be given for 'advances policy'.[11] Armitage noted that labour and resources were in short supply, 'in large part' due to meeting consumption needs. The Bank was concerned with whether current demand and production were distorted by transitional factors. Would the level of production in some industries survive the restoration of overseas competition?

The Bank noted that public works had already been cut back for the sake of private investment. As private investment and production had tacitly been accorded higher priority, the government needed to examine the private sphere. 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.

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9 Coombs to Chifley, 25.9.45. *ibid.*

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

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

A December 1946 memorandum from Treasury on the Bank's request brought the Commonwealth Actuary W. C. Balmford to the forefront in January 1947. Balmford was effectively the Treasury representative on the CIAC. Balmford found Coombs' feedback to date unhelpful.

The CIAC continued to process capital issue requests on its own terms, 'doing the best we can from such indications of government policy as become available'.[12] The CIAC had denied capital to groups designated as undeserving, notably the large retail traders. 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. Ironically, the 'competent research staff' would inevitably involve SID personnel who he was simultaneously denigrating.

Balmford's perception that the SIC (the advisory body) and the SID (the new 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.[13] There was already a functioning cooperative arrangement between CIAC and SID – the latter provided to CIAC detailed reports on specific manufacturing companies

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[12] W. C. Balmford, CIC Chair, to Secretary to the Treasury, 6.1.47, A571/158: 1946/3926 Part 2.

[13] Breen to Balmford, 31.5.45. MP61/, 2/300/79.

applying for capital issue approval. Breen had attempted to get feedback on CIAC decisions arising from SID advice but received no feedback on the criteria by which CIAC judged the applications.

Apart from intra-bureaucratic tension, Balmford claimed that the current practices of CIAC 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. Balmford's January 1947 memo implied 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 incorporated in the 7-page Agendum 'Direction of Private Investment', tabled at the Investment and Employment Committee's (IEC) first meeting on 3rd February 1947.[14] The IEC, comprising key Ministers with employment responsibilities, was conceived as the pre-eminent vehicle to oversee implementation of the Government's commitment to full employment.[15] The Ministerial Committee was to be assisted by a Working Committee of senior bureaucrats.

The 'Direction of Private Investment' paper highlighted that much employment growth was in the manufacturing sector. The concern was that consumer durables (especially refrigerators) were doing extremely well. Would such manufacturing expansion 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 (*cf.* Commonwealth Bank of Australia 1949: 21).

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

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

Consumer goods industries were flourishing, following years of deprivation. A potent combination of factors – family formation, released savings and the growth of consumer credit (notably hire purchase) – facilitated the realisation of latent demand. By contrast, the production of some basic materials (coal and steel) was constrained by locational factors, labour and housing shortages, and previous union workplace gains.

Chifley himself was cautious regarding discriminatory action. At the February 1947 IEC meeting, he emphasised 'the great importance of caution in handling any suggestion to private enterprise for a deferment of new investment'.[16]

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 required significant data and presumed a familiarity with 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'. The estimate that several months would be sufficient to perform the task displayed much optimism. The necessary infrastructure was in place but not sufficiently empowered to facilitate a task of considerable scope.

The Agendum's ambitions were being undermined before the meeting was finished. The SID was the natural fulcrum for an investigation into secondary industry, but it was distrusted by Treasury officer Fred Wheeler. Wheeler, IEC Secretary (and advisor to Chifley), directed that Balmford would be put in charge to prevent the investigation falling under the control of the SID. Wheeler was supposed to have written letters to the SIC, the CIAC 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. It transpired at the first meeting of the IEC Working Committee in June that he had not done so.[17]

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

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

In the meantime, the SID was acting on the prescriptions outlined in the February Agendum. In early March, the SID's F. L. McCay submitted 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, using data from the Bureau of Statistics, were developing separately their own priorities. In April, S.G. McFarlane, Treasury Secretary, expressed apprehension to Balmford 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'.[18] He stated that 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. Balmford stated that he did not have time to coordinate the investigation. Effective control passed to Wheeler, whose apparent dominant concern was to inhibit the investigation and to contain the influence of SID. Repetitive discussions ensued regarding delineation of the parameters of a study. There was little discussion of the document tabled from the Bureau of Statistics.[19] 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 – for example, chemicals and new segments of plastics, cotton textiles (vulnerable to import competition), engineering, agricultural implements (volatile) and furniture.

It was decided that a Working Sub-Committee be established, consisting of representatives from CIAC, SID, the Commonwealth 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

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

19 *Survey of Private Investment: Note on Current Trends in Factory Output and Employment*, 29.4.47. *ibid*.

electrical motors in fractional horsepowers. The list varied little from the Bureau's suggestions but was undefended.

Melville was installed as Chairman by Wheeler, without consultation. Although of high repute, Melville was essentially a mainstream economist in orientation, his expertise being predominantly in finance. Breen, SID Director, 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 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, the 1945-46 figures having not been processed, so crucial post-war changes had not been incorporated. The SID was also critical of the Bureau's classification – chemicals and metals and engineering were areas in need of urgent re-appraisal.[20] The SID possessed a 'hands-on' familiarity with secondary industry, born of close wartime contact and conscientiously maintained after the War. Wheeler lobbied in committee for containment of the investigation to such out of date data.

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 as a pilot for investigations into other industries. 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 orientation of bank advances and of capital raised in the market. This was an entirely reasonable concern. 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. It is possible that the data was never collected.

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[20] Classification of Australian Secondary Industry, n.d. MP188/1, 2/6/519.

On July 4, the Acting Treasury Secretary sought to reassure Chifley that the manufacturing industry inquiry was intended to serve merely a fact-finding purpose.[21] This was curious advice, given previous concern. It was also inappropriate, given that the Commonwealth Bank was formally committed to using the information for adjusting its advances policy.

Surprisingly, 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 CIAC and to the Industrial Finance Department (small business lender) of the Commonwealth Bank. SID's brief was on technical management and cost efficiency of applicants. The SID considered that it was not its responsibility to decide who will fail and who will succeed in an industry. 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.[22]

With Wheeler's recalcitrance 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.[23] The Working Committee agreed that, as a substitute, the SID should prepare a detailed report on a number of key industries. These the SID proceeded to produce.

Another four months went by, and the IEC met on 6 November. As the Bank was impatient to tackle inflation, a Bank Advisory Council memo on appropriate measures was on the agenda. One criterion 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' – vague, and without acknowledgment of previous work. The Committee agreed that a factual basis for a selective advances policy remained essential, and that a fresh start should be made with the secondary industries investigation proposed at the February

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21 A571/158, 1946/3926 Part 2.

22 Breen to Chifley, 16.7.47. *ibid*.

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

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 also considered other anti-inflationary measures, such as discriminatory taxes (sales, export), and currency appreciation, but dismissed them as impracticable.

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

> 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.[24]

As the SID was the research arm of the SIC, Jensen immediately handed the job to Breen. Breen (who had been seriously ill) handed responsibility to his deputy, Bernard Hartnell. Hartnell, with fresh eyes, 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.[25]

Hartnell supported an earlier Coombs' objective for a 'Central Policy Organisation' but which was in abeyance, not least because of Coombs'

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

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

perennial absence overseas. Treasury's Randall pointed out that the IEC was its *de facto* replacement. The activities of the IEC and associated committees were an attempt to establish 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 IEC meeting of 6 November 1947 had given the Bank approval for the general thrust of the policy, but 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 economy,[26] 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.[27] Overdraft facilities (formally oriented to short-term borrowing for trading imbalances) 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 –
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> (1) where the production is not essential to the Australian economy;
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> (2) where the added capacity is likely to increase production above ultimate demand;

[26] MP188/1: 2/6/519.

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

> (3) where production is likely to be uneconomic in the long run because of excessive costs, or other factors.

The policy directive was 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 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. 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.[28] 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'.[29] In other words, it is appropriate that the revived SID investigation be allowed to die quietly.

Wheeler's intervention received *de facto* support from unexpected quarters. In March, the maverick J.T. Lang, Independent Labour Party Member for Reid, inquired of the House:

> 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.[30]

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

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

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

Although hyperbolic, Lang's judgement is apt regarding the vacuousness of the section 1(c) guidelines. The selective guidelines relating to 'essentiality, relation to ultimate demand and long-term implications' were unworkable, and would have probably led to arbitrary practices on the part of bank managers. Chifley's reply 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.[31]

The investigation into secondary industries 'imbalance' by the SID (renamed the Division of Industrial Development (DID) in January 1948) was 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.[32] The August 1948 IEC meeting highlighted that ambivalence had replaced an earlier assertiveness regarding a selective dimension to advances 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 judgment 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.[33]

The DID continued to produce the industry-specific reviews, albeit presumably for general edification.[34] The outcome of the selective dimensions of the Bank's policy directive in practice is unknown – officialdom evidently eschewing to highlight its existence. The annual Reports of the Bank make only one brief mention of the existence of a selective dimension (Commonwealth Bank of Australia 1948: 28). The

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

32 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.

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

34 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, given continuing steel shortages. Copies in MP252: S8.

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 Commonwealth 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.

Structural policies in practice

The policy debates in the late 1940s highlight that economic policy instruments were not derived ready-made from some theoretician's cookbook. Rather, much was initially attempted with grand intentions, but the instruments evolved pragmatically.

In the face of an over-heated economy, some 'macroeconomic' instruments received consideration – including tax increases, currency revaluation and interest rate increases – but were ruled infeasible, each because conflicting with other priorities.[35] Thus, greater demands were made on other instruments, notably use of the rekindled war-time measure, Statutory Reserve Deposits, to reduce the scale of bank credit advances.

In confronting what economists have subsequently conceived as macroeconomic problems – unemployment, inflation, balance of payments difficulties – policy makers were then acutely conscious of their structural dimensions. 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'.[36] Similarly, the Bank claimed that 'generally restriction of

35 The priority then accorded to interest rates was that they were to be kept low to finance the War-generated national debt, and also as an inducement to increased private capital expenditure and home purchases.

36 Advance Policy, Memorandum for Advisory Council, 3.10.47. Reserve Bank of Australia archives, RBA S-a-66.

credit is a blunt instrument not a sensitive tool'.[37] Moreover, the Bank's sensible orientation was not inconsistent with trends overseas.[38]

For such insightful bureaucrats, the use of discriminatory instruments was 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'.[39]

However, disparate elements combined to ensure that discriminatory interventions involved an elaborate, problematic and ultimately unrewarding process. First, there was the technical problem of adequate information, tackled only gradually and accorded low priority.

Second, the fragmented division of responsibilities within the bureaucracy (coupled with formally conscientious consultative procedures) implied that initiatives would be developed haltingly and perennially stalled. Inter-bureaucratic rivalry compounded the effects of fragmentation. Treasury's Wheeler had administrative responsibility for the Investment and Employment Committee deliberations but was the least sympathetic to structural solutions to macroeconomic problems.[40] This perspective was dramatically enhanced after 1950, given the almost hegemonic authority of Treasury over economic advice following bureaucratic restructuring under the Menzies government (Weller and Cutt 1976: 23).

Third, there was dependence on private agents for implementing some discriminatory policies, the demands of private profit conflicting with the 'national interest'. This is pertinent to the dependence of the central

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

38 A 1948 paper by English banking expert R. S. Sayers addressed precisely 'the swing away from the traditional "quantitative controls" and towards "selective credit policies"' (Sayers 1948: 20; quoted in Robinson 1986).

39 Randall to Wheeler, 5.12.47. A571/158: 1946/3926 Part 2. Randall, later Treasury Secretary (1966-71), was a then 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.

40 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.

banking arm of the Commonwealth Bank on the private trading banks for the bulk of credit availability and direction, but also to the government's dependence on BHP for a needed expansion in steel production.

Fourth, there was the political dimension – the difficulty of governments defending discrimination in favour of particular constituencies.

Fifth, there was the philosophical dimension, embodied in cultural mores and institutional structures and practices. A representative concern, embodying the political and philosophical dimensions, was articulated by Balmford in late 1948 when the impatience of would-be investors was mounting over continued capital issues control and the legal authority for its continuation was tenuous.[41]

A deeply rooted philosophical liberalism (*c/f* Rowse 1978) was (and is) manifest in a wariness of hands-on structural discrimination in Australia.[42] Herein is the tangible workings of *laissez-faire* as an embedded ideology – endlessly discussed and praised as a principle but rarely analysed sociologically in its substantive and comparative impact.

In particular, the 'planners' post-War ambitions foundered on two rocks. First was Australia's highly imbalanced federalism. As H.V. Evatt noted at the January 1944 Post-War Reconstruction forum (Evatt, 1944), the question of:

> how far the present Constitution permits national planning and action, in time of peace, over such matters as employment, production, consumption, the prevention of monopoly and exploitation and the provision of social benefits […], the present Constitution gives to the Commonwealth no direct authority, or a direct authority so divided with the States as to be quite inadequate.

The Government attempted to enhance Commonwealth powers in the '14 Powers' referendum, long in preparation, held in August 1944 (Macintyre 2015: 253*ff.*). The referendum was lost. Desperate, the Government made

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

42 The halting character of discriminatory actions under the Chifley and Menzies Governments contrasts with those (for example) of contemporary West German (*cf.* Shonfield 1965: chs. XI and XII) and Japanese governments (*cf.* Yamamura, 1967). With authoritarian political cultures in both countries and acquiescence of the US in Cold War mode, there followed systematic determination of sectoral priorities as a vehicle for industrial reconstruction.

a half-hearted referendum attempt again in May 1948 to gain permanent Commonwealth control over prices, rents and capital issues (Macintyre 2015: 440). The proposals were decisively rejected in all States. This process and outcome highlight that liberalist values were not merely institutionalised and passive, but actively re-asserted.

Second, the ‘planners’ faced the erection and expansion of a propaganda network painting their prospective better world as dystopian. The movement began in October 1942 when Melbourne businessmen established the Institute of Public Affairs. The propaganda escalated in response to the January 1944 Post-War Reconstruction forum, ready to battle against the ‘14 Powers’ referendum and have a decisive influence on the outcome. Curiously, ‘individual freedom’, not at risk, was emphasised rather than States’ rights. By 1949, with ready material from Chifley’s ill-judged attempt at banking sector nationalisation, the propaganda machine was extensive and hysterical (Macintyre 2015: 147; 261*ff*.; 440). It was essentially dishonest, but it fed into the liberalist meme of the sanctity of ‘individual freedom’, even that of democracy itself.

Policy pragmatism prevails

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 by default, because of the experienced difficulty of effecting well-thought discriminatory actions. The culmination of this process was the 1951-52 Treasury-induced ‘horror budget’, leading to stagnant output during 1951-53.

Discriminatory actions and controls continued to be used pragmatically. The impediments to discriminatory action prevented it from being applied coherently. Capital Issues control remained in place, administered on the CIAC’s own terms. The Commonwealth Bank pursued a qualitative advances policy after November 1947 without advice from other informed sources. Dollar import licensing was in place continuously, of necessity; so too 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 (as above), 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 reestablish controls, hiding behind defence preparations imperatives (capital issues control, materials stockpiling, etc.; *cf.* Boyd and Charwat 2014) and from economic necessity (comprehensive import licensing).

Much of the character and outcomes of these discriminatory actions and controls were inadequately documented by their practitioners (and subsequently by scholars). Discriminatory policy is a delicate process with a capacity to offend non-favoured constituencies and an in-built reason for lack of transparency. What discriminatory policy has been documented has been inadequately analysed.[43]

There is only a sketchy documentation of the Commonwealth Bank's qualitative advances policy, and no record of any overall evaluation of its implementation or effect.[44] The operation of other discriminatory policies is similarly oblique. For example, in the four Labor post-War years between December 1945 and November 1949, the CIAC approved 1758 applications for an issued capital total of £224 million; and 3296 applications for mortgages or other charges of £82 million.[45] Information is lacking on the scale and 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 CIAC did not use its powers to constrain expansion of the manufacturing sector, the main issue of controversy in early IEC deliberations.[46] However, Balmford felt confident that the CIAC had inhibited issues of an unsavoury nature (stock 'watering' or those unequally favouring management) and had exercised a deterrent effect on ill-considered and speculative offerings.

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43 An exception has been the almost pathological attention to tariff protection and rural sector support, contextually disconnected from the plethora of structural policies (Jones 2016).

44 Schedvin's official history of central banking mentions selective advance policy only tangentially (1992: 202, 233, 320). 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 until the early 1960s – in particular, regarding hire purchase finance, housing finance and rural sector finance.

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

46 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).

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.[47] Whether the quotas were appropriate is unknown.

In spite of these discriminatory policies (or because of their partial and imperfect application), substantial structural imbalance remained into the 1950s. Basic materials remained in severe shortage – building materials, coal, iron and steel, some capital equipment – whereas some consumer items production had expanded dramatically. This imbalance was documented by Copland (1949), a phenomenon he depicted glibly as a 'milk bar economy' (p.4). There had been substantial expansion of the engineering and chemical sectors. Production of some basic commodities had expanded since 1939 (Copland acknowledges coal), 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.

The myopia regarding structural policies is captured in an exchange early in the life of the Coalition Government. In May 1950, R.G. Casey, Minister for National Development and 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.

Watt replied that there was little available of this nature, noting: 'At present some control over the direction of investment is being exercised by the Commonwealth Bank through its bank advance policy.' In addition: 'the present dollar import policy tends to discriminate to some degree in favour of basic or essential industries.' He further noted that a sales tax hit luxury items and that the States exercised 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'.[48]

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47 See, for example, MP208/1: 5/80/608.

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

Treasury's answer was ill-informed, deceptive and irresponsible. Apart from temporary control measures, the Coalition Government embarked upon a number of dramatic discriminatory interventions – particularly those supporting development of the rural sector, symbolised by an enlarged and re-fashioned Snowy Mountains Scheme (assisted by a series of US dollar loans from the World Bank after August 1950), and of the resources sector – exports from which increased dramatically following the 1957 Trade Treaty with Japan.[49] Casey and his Ministerial successor, William Spooner, were major protagonists behind these priorities, for which Treasury's 1950 admonitions were misleading prattle.

The Coalition Government declined to create a permanent substitute for the Department of Post-War Reconstruction. There was thus no institutional vehicle for the broader strategic vision that had been envisaged for that Department in 1945. Treasury readily filled the vacuum.

During this period, Treasury channelled but did not dictate the developmental process. The importance of the Treasury as the dominant bureaucratic voice for respectable economic opinion has served to distort an understanding of the complex character of the policy process.[50]

The creation of a new conceptual idiom

The complexity of the evolution of the parameters of post-1945 policy instruments deserves emphasis because conventional interpretations of post-War policy ignore it. A substantial literature, official and academic, has arisen on an idiom of an aggregate macroeconomic perspective.

Leading the way was a federal Treasury survey of the economy in 1956, 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 absurdly described as 'a

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49 The new Department of National Development, after several years of inaction, was transformed *de facto* into a department of mineral resources under geologist Harold Raggatt.

50 *Cf.* Cornish (2002) for an exaggeration of the contribution of Treasury and its Secretary, Roland Wilson, in particular. Cornish notes (p.30): 'It is sometimes suggested that Wilson's reputation has been overestimated because of the favourable circumstances that existed during these halcyon days.' This author concurs with such detractors.

spontaneous movement' (p.13). 'But apart from that general belief [in economic growth], 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).

The character of the period has been obliterated – the strategic vision, the problems faced, the difficulties surmounted and the failures. It is remarkable that senior Treasury officials, given their contemporary experience, could sanction this misrepresentation of the immediate past.

This macroeconomic straitjacket facilitates neglect of policy dilemmas, ongoing during the 1950s, concerning structure – the resource demands of defence preparation; the priorities pursued under the comprehensive import licensing regime; the particular developmentalist imperatives of State governments; the continuing shortage of steel driven by the private interests of BHP; and policy support for the automobile and cognate industries with which a significant multiplier effect was associated.

An academic example of the new macroeconomic emphasis is the 1963 volume, *The Australian Economy* (Arndt and Corden 1963), which included the cream of Australia's economists. There is a token sectoral representation – agriculture attracts a separate chapter, but industrial policy has been caricatured by restriction to an ahistorical excursion on tariff policy by the theoretically oriented Max Corden. Public investment gets three pages. The perennial balance of payments problem gets three chapters, whereas long-term trade policy is marginalised. 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', apparently already entrenched in the textbooks. Government controls occur at the non-discriminating aggregate level, and the market dictates the allocation of resources. Thus (Committee of Economic Inquiry 1965: 11):

> 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.

Such stylised representations have probably been interpreted by later generations of students as accurate reflections of historical processes, but the historical record has been re-written implicitly to suit intellectual and ideological interests. The process of economic policy making has been dramatically narrowed and rendered mechanistic and antiseptic.

A by-product of this intellectualising of policy history has been the notion that macroeconomic stabilisation policy was responsible for the bounty of the post-war boom, especially in the long-term maintenance of near-full employment.[51] However, macroeconomic stabilisation policy rode the wave – the high tide itself has been taken for granted (Jones 1989). An accurate rendition requires a better understanding of the myriad structural forces and policies of the period that underpinned development, and the evolution of the parameters of macroeconomic instruments driven by experience of their use in practice and channelled by the reigning liberalist ideology.

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51 A detailed latter-day representation of this vision is in Keating (2014).

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