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Learning from full employment history: The 1945 Australian White Paper in practice

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Abstract

The part played by unemployment in the rise to power of Hitler weighed on the minds of leaders in Western democracies. There was a determination to create a world in which large-scale unemployment was abnormal and at worst only a temporary phenomenon. The war had shown that this was possible in a community united to pursue a common goal and the aim was to create such a community in a world free from the horrors of war, by creating communities in which the welfare of every person was important. Australia was remarkably successful in achieving this for 30 years. Its success depended on governments responding to any sustained increase in unemployment by undertaking large increases in public sector expenditure supported by accommodating monetary policy and tax cuts if desirable. In bad times as well as good, there was a determination to ensure that both the incomes and prices paid for necessities by the less well-off did not force anyone to live in poverty. The biggest obstacle to achieving this today is the growth of neoliberalism with its emphasis on 'freedom' or giving individuals the ability to act as they please with minimal constraints and an ideological commitment to small government.

JEL Codes: E02, E61, N1, N4

Keywords

Australia, economic history, macroeconomic policy, unemployment, White Paper

Introduction

In 1945, the Australian Employment Minister introduced the White Paper *Full Employment in Australia* into the Commonwealth Parliament. The first sentence of the text is '[f]ull

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employment is a fundamental aim of the Commonwealth [i.e. federal] Government'. The initiative for the White Paper came from the then Prime Minister, Curtin, who on a visit to England discovered the British Paper in which the Government committed itself to making a high level of employment a policy goal. The White Paper in Australia in 1945 was ahead of its counterpart in the UK. The opening statement, that full employment is a fundamental aim of the Australian Government, is rather more forceful than the opening statement in the British *Economic Policy White Paper* which inspired it. That White Paper began with the words: '[t]he Government accept as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war'.[1]

The theory underlying the policy was fairly rudimentary, and based on the *General Theory*, with a dash of Marxian economics thrown in,[2] but it was remarkably successful in maintaining full employment. Its essential underlying principle can be summed up as follows:

> [t]he essential condition of full employment is that public expenditure should be high enough to stimulate private spending to the point where the two together will provide a demand for the total production of which the economy is capable when it is fully employed. (White Paper Clause 23, first sentence)

It was to be the theoretical underpinnings of macroeconomic policy in Australia for about the next 30 years. The ideas in early drafts of the Australian White Paper were based on two addresses by key Department of Postwar Reconstruction member HC Coombs (1981: 48–49). In that sense, he was the principal author of the White Paper, but he was assisted by a small number of research staff. They all saw Keynes' *General Theory* as providing the theoretical underpinning for their work. Although the authors considered that they were simply applying the economics of Keynes' *General Theory* to the conditions of post-war Australia, what they wrote was essentially what is now called post-Keynesian economics. Clause 36 from the White Paper is a good example of this:

> The Commonwealth Government believes that the greatest single contribution to the stability of private capital expenditure will be the assurance that total spending will be maintained at high and stable levels. Furthermore special plans will create new opportunities for private capital expenditure. For example, the Commonwealth and State Governments are agreed on plans for a substantial expansion of house building activity as soon as the war permits. Building is an important element of private capital expenditure and industries associated with it should be on a firm basis.

The next section of this article examines macroeconomic policy in Australia from 1945 to 1975. When considering the theory underlying this policy, Coombs' publications are particularly valuable. He was a member of the Commonwealth Advisory Committee that advised on economic aspects of fighting the war. The committee then provided the theoretical structure underlying measures not only for the transition from a war economy to one for a country at peace but also for post-war economic problems more generally. Then from January 1949 to July 1968, he was Governor of the Reserve Bank of Australia (or its predecessor the central banking section of the Commonwealth Bank). Many of his speeches while Governor were published as pamphlets. While the year and occasion of any speech referenced are given, all page numbers refer to his book of essays (Coombs, 1971) which is a much more convenient source for most readers. Coombs' (1981) Part 2 is also helpful. Arndt and Corden (1963) is a good reference to illustrate what Australian economists in general were publishing in the 25 years after 1945. Peter Kriesler (1995) is a good reference for those wishing to follow up on issues raised in the final section on lessons for today.

Instead of a conventional conclusion, a final section will outline the lessons for policy design today that can be drawn from the success of the White Paper inspired policy in the 30 years following 1945.

The first draft of the White Paper was circulated with a request for comment among departments concerned with economic policy. Significant changes resulted and Curtin himself made changes reflecting his concern to mollify state governments that might otherwise prove to be uncooperative. Several redrafts followed and others were added to the drafting committee, including a Treasury representative. Compromises were made in order to produce a unanimous report. Not surprisingly, the final text was what Curtin wanted rather than what Coombs and others had originally envisaged. The Paper was presented to Parliament and approved unanimously, though without any noticeable enthusiasm. Coombs felt that too much had been left out for fear that it could raise problems with the states. This was a needless fear in his view because state governments would not want to antagonise the Commonwealth, the major source of their income.

Macroeconomic policy and the Australian economy, 1945–1975

Macroeconomic policy in the 30 years after 1945 was remarkably successful not only in maintaining a very low level of unemployment but also in achieving a low level expected trend rate of inflation. Aggregate demand policy measures were such as to create a widespread belief that the government both could and would keep brief any departure from full employment. This created a climate of expectations, or 'animal spirits' which ensured that departures from full employment were actually brief. Perhaps surprisingly, when priority was given to keeping unemployment low, not only were recessions short-lived, but there was also success in reducing high rates of inflation when they occurred. In part, this was probably due to high productivity growth which was due to substantial increases in both physical and human capital. The first of these increases was to counter years of neglect during the 1930s and when the Australian economy was on a war-time footing. The second occurred because of the government provision of support of higher education for ex-service men and the significantly large number of well-educated migrants fleeing from Russian-occupied homelands. Probably none of these could have continued indefinitely, but they set patterns of government expenditure which could have – and to some extent did continue – continued, despite the Fraser Government's commitment to 'fighting inflation first'.

Moreover, macroeconomic policy in this period was not just remarkably successful but was so despite predictions that it would have a very limited life. When the draft document was circulated to policy departments, one response was that 'to encourage the belief that it is within the Government's power to maintain a long-term high level of

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employment was to manufacture political dynamite [because this was beyond the Government's power]' (Coombs, 1981: 51). This view was not unique: '[g]enerally there was scepticism about the kind of "compensating public works" policy which had been advocated in the United Kingdom' (Coombs, 1981). Nevertheless, Coombs and the others who advocated such a policy prevailed. Clause 43 of the White Paper states that

> In determining the level of public capital expenditure account must be taken … of the part which public capital must play in maintaining full employment. Should a decline in spending threaten to leave resources idle, governments must be prepared to employ those resources in accelerating and expanding their own programmes for national works … Similarly, when private spending is tending to expand some reduction may be made in public capital spending.

Coombs was not only successful in including this approach in the White Paper. In various roles as a public servant, he succeeded in persuading governments of different political persuasions to use this approach. In this respect, a comment by Janet Coombs is enlightening: '[d]ad was always a Keynesian economist and usually able to persuade governments of both persuasions of his recommendations, giving different reasons [to each]'.[3]

Of course, the timing was ideal for the introduction of the White Paper policies. At the end of the Second World War, memories of the depression of the 1930s were still strong. There were fears that, unless policy measures were taken to prevent it, large-scale unemployment might reappear. However, at least in English-speaking countries, there was confidence that economists now knew what to do to prevent this. Moreover, Australia had no dip in real gross national product when the economy changed from producing for fighting a war to producing for peace. There was a small blip in unemployment in 1946–1947.[4] However, this blip was actually a remarkable success. According to the 1947 census, there were a little more than 3 million people in the workforce in that year. There were probably a similar number for all of the first few years after the Second World War. Yet a million men and women were shifted from defence forces and war-oriented civilian activity to peace-time activities (Coombs, 1994: 6).[5]

There were two major slumps between 1945 and 1975 which presented real challenges. The responses to these differed and led to contrasting outcomes. The first occurred in 1951–1952. In the previous year, there had been a tremendous boom, largely due to a rise in the price of wool. The value of wool exports rose by 347 million pounds in 1950–1951 compared to a national income of 3129 million pounds. This was due to a price rise rather than a large increase in the amount produced. One of the effects of the Korean War was that the price of wool in 1950–1951 was double the price in 1949–1950. Under the Bretton Woods arrangements, the Australian exchange rate was tied to the pound sterling and other major currencies. Hence, this ensured a large increase in national income in Australia. The next year the value of wool exports fell by 314 million pounds, precipitating a major slump. There were no official quarterly national income and expenditure accounts in this period but judging by the (lagged) changes in unemployment and other data with a cyclical pattern, the fall in economic activity started around the middle of 1951 and continued until at least the end of 1952. On an annual basis, current value gross national product deflated by the consumer price index (CPI) fell by 14% in 1951/1952 and was virtually unchanged in 1952/1953. If composite indexes are used, the story is much the same – or almost exactly the same – if the most popular of such indexes (a combination of the CPI and the food and basic materials wholesale price index) is used.

The unemployment rate lagged behind the change in deflated national income and product. The number of persons receiving unemployment benefits started to rise, though slowly in the first half of 1952, then rapidly to peak at the end of that year and started to decline in 1953. The Federal Government acted promptly as soon as there was a significant rise in unemployment, mainly through fiscal policy but also through aggressive relaxation of monetary policy. Tax rates were cut in 1952–1953, but the main weapon of fiscal policy was government expenditure. Including special grants to the states to support public works, total Federal Government expenditure increased by virtually one-third in 1952–1953. This was in current value terms but the rate of inflation, though still high, had fallen to around 10%.

Due to H. C. Coombs, monetary policy was relaxed even before these increases in expenditure. Under the institutional arrangements current at the time, the central bank required commercial banks to lodge money in Special Accounts with the Commonwealth Bank (a special section of the Commonwealth Bank acted as the central bank until 1960). Money in these accounts was in effect frozen and could not be used to support lending. Over the financial year 1951–1952, the amount in Special Accounts was more than halved. This was the first time the value of the holdings in Special Accounts had declined in any year. The Commonwealth Bank also purchased government securities on the open market and relaxed constraints on overall lending in the directions it could give to private banks under the Banking Act. Further relaxations in these directions were made in October 1952. There were also further, fairly modest, reductions in the amount held in Special Accounts and the Commonwealth Bank increased its lending to local government and semi-governmental authorities.

The boom in 1950–1951 was accompanied by a very high rate of inflation. When the stance of monetary policy started to be relaxed, inflation was still over 20% (as measured by the CPI). Despite the early and aggressive relaxation of monetary policy and the very expansive fiscal policy, the CPI was only 3.9% higher in June 1953 than its value in June 1952. In part, this was due to the federal and state arbitration and conciliation systems which generally increased minimum award wages in line with (lagged) rises in the CPI. Usually the most important feature of this policy was that it was retrospective so that award wages were always catching up. Also, it was not monolithic, which gave the system some flexibility, which was useful at times. For example, when the national body abolished indexation in 1953, it was retained in Western Australia. The inflation, which was the concern of the national body, had indeed been very high in the previous year. However, the tribunal in Western Australia ascribed this to massive changes in the terms of trade which were already being reversed.[6]

These monetary and fiscal policy initiatives kept the rise in the unemployment rate small and remarkably brief. Over the years 1945–1975, the unemployment rate averaged about 2%. At its peak at the end of 1952, it was probably barely 1 percentage point above that and then fell rapidly, so that in 1953–1954, it was below its average value. There was some reduction in private expenditure on fixed capital equipment but not much. The big falls were in export income in 1951–1952, and inventory investment in 1952–1953. A widely held belief that departures from full employment would be brief was a self-fulfilling prophecy.

If the size of a slump is measured by the highest value that the unemployment rate reaches in the trough, the second major slump in 1961–1962 was the biggest slump since the 1930s. With the benefit of hindsight, numerous commentators have argued that the end of the upwards trend in the economy was a self-inflicted disaster, but the original decisions to tighten monetary and fiscal policy, which precipitated the slump, did not appear all that inexcusable at the time. The fault was the tardiness to recognise the effect of these decisions and to take prompt action to correct them.

In a move designed to reduce inflation in February 1960, the Federal Government removed nearly all the import restrictions still in place. This was generally welcomed. Export prices were rising (or so it was thought), unemployment was falling and the economy was growing at a satisfactory rate. However, export prices actually fell by 4% in February 1960 and continued to fall for another 11 months. On the other hand, imports in current value terms rose more than expected.

Unemployment was still falling when the budget was brought down in August 1960 and the fact that changes in unemployment lag those in real output was unfortunately overlooked. Moreover, at around 4% inflation was a little high. The budget was a tight one. Unusually small increases in expenditure were combined with a rise of 5% in the rate of personal income taxation. Supplementary measures in November made economic conditions much worse. The most important of these was probably an increase in the sales tax on cars from 30% to 40% since many people believed, correctly as it turned out, that the increase could not be permanent and postponed buying a car. Moreover, there were also changes to tax laws which had the effect of increasing monetary tightness. It was later realised that the boom had peaked before November 1960 and that month passed into mythology as a byword of government incompetence.

We now know that the boom had reached its peak in June 1960. Deflated GDP barely rose in the September quarter. Seasonally adjusted, it fell by 1% in the December quarter and did not begin steady growth again until the December quarter of the following year. Nevertheless, while on a year-by-year basis output did not fall, there was a decline in its rate of growth which fell in both the years 1960–1961 and 1961–1962. This decline was sharp enough to warn that more vigorous action to stimulate the economy was needed.

The tax increase on cars was removed in February 1961 and the budget for 1961–1962 gave a substantial boost to the economy. However, this was not a dramatic one, despite the rising level of unemployment. There was a widespread belief that the federal government had failed badly in its conduct of macroeconomic policy. The then Prime Minister, Menzies, was only just returned to government in the 1961 election and felt it necessary to set up a Committee of Economic Enquiry (usually known as the Vernon Committee after the name of its chairman) to placate the voters.

Macroeconomic policy was made much more expansionary by supplementary measures taken in February 1962. These cut both personal and indirect tax rates and authorised additional government expenditure. Monetary policy was relaxed in 1961–1962 but, despite the consequent fall in interest rates, this had no effect until the following year. A large part of this was because of uncertain expectations about the immediate future.

Deflated gross private fixed capital formation did fall by around 3% in 1961–1962 but bounced back to rise by over 8% in the following year. Unemployment was still low in the middle of 1961 but then rose rapidly and subsequently fell slowly. The unemployment rate peaked in 1962 somewhere between 3% and 3.5% but did not fall to an acceptable rate by the standards of the time until the middle of 1964.

Overall, macroeconomic policy was less successful in keeping this slump short than it had been in 1952 and 1953. The contrast between the dramatic fiscal policy in 1952/1953 and the delay until February 1962 for anything approaching this epitomises why this was the case. Companies and individual business women and business men held off investing in 1961–1962. Deflated gross private investment in fixed capital actually fell in that year, but it surged substantially after the measures of February 1962.

Nevertheless, even in the years 1960–1962, by the standards of today, macroeconomic policy was very successful. More generally, Australian macroeconomic policy over the years 1945–1974 was a resounding success. This success was based on three specific policies. The first and most fundamental was an aggressive fiscal policy, which was quick to respond to any rise in unemployment with measures that included large increases in government expenditure. This was supported by expansionary monetary policy, which was not concerned about what would now be described as 'printing money'. Third, throughout all stages of the business cycle, there was an effective income policy. Together these three ensured that in the period from 1945 to 1974, there was a strong and sustained increase in animal spirits through policy measures that had visible success. Unfortunately, all three are largely or completely lacking today.

Lessons for today[7]

The White Paper was, of course, a document of its time and ignored issues such as gender balance in the workforce.[8] We accept that this will require appropriate changes in policy discussion today but will not attempt to do that in this article. A second *caveat*: what follows only outlines the lessons. A whole paper could be written on each major point. For those who would like a guide to the relevant literature, Nevile and Kriesler (2002) is one good place to start and many of the other chapters in the book which includes this reference may also prove helpful. Some indication of the costs of not adopting the changes set out below can be found in Nevile (2002).

We argue that radical reform is needed at two levels. One is that the almost complete deregulation of the international financial system in the Western world must be reversed.

The international financial system in its present form is both conducive to global financial crises and accentuates the effects if such crises are triggered by other factors. Global financial crises follow a typical pattern, and it will be helpful to quickly review what was different from this in 2007–2008. Usually, global financial crises are preceded by a period of increasing asset prices. Business balance sheets improve as a result of the increased value of their assets. The resulting improved business confidence encourages investment. Banks, at the same time, are increasingly happy to lend money for these investments. Financial crises are often precipitated by banks reassessing their liabilities and requiring repayment of large loans. Businesses, in order to meet those demands, start selling assets, reducing their prices. This leads to re-evaluation of the balance sheets of companies, with many more being driven into serious debt problems, leading to further sales of assets, and to significant asset price falls (Minsky, 1985; see also Harcourt, 2001).

While there were other contributing factors, in 2007–2008 there were two important differences. First, households, as well as firms, went into significant debt, and second, there was an accumulation of so-called 'toxic assets' associated with subprime mortgages. The role of credit rating agencies exacerbated the second factor. The new and very complex instruments were given triple-A ratings, although in fact they were anything but triple A. When it became apparent that, despite the credit rating agencies' statements to the contrary, the assets held by many enterprises were in fact worth substantially less than their current valuation and that many financial institutions were heavily exposed to such assets, the whole house of cards came tumbling down (Kriesler and Nevile, 2009). Indeed, Keynes' (1973 [1936]) own explanation of what occurs in a financial crisis could have been written as a description of the events of 2007/2008:

> It is the nature of organized investment markets, under the influence of purchasers largely ignorant of what they are buying and of speculators who are more concerned with forecasting the next shift of market sentiment than with a reasonable estimate of the future yield of capital-assets, that, when disillusion falls upon an over-optimistic and over-bought market, it should fall with sudden and even catastrophic force. (pp. 315–316)

In 2000, a Special Session of the United Nations (UN) reviewed and appraised the implementation of the commitments and programme adopted by the World Summit for Social Development. As part of the preparation for the meeting, 30 experts from around the world were invited to speak at a UN seminar on how the values underlying social development and those of the market economy fit together. I attended that seminar and predicted that the lack of regulation in the global financial system, together with the belief that the market itself was better able than any intervention by government to cure problems as they arose, was a recipe for a severe crisis in the whole world economy. The seminar as a whole agreed with this prediction and in fact went further arguing that reversal of the deregulation of the financial system was necessary for the health of society and not just of that of the economy. For many reasons, the emphasis on free markets at any cost, which had become the mantra of highly paid participants in the finance sector, is both self-serving and bad economics.[9]

Domestically, a shift in emphasis from monetary to active fiscal policy stimulus is essential. It must include substantial public investment in both physical capital and human capital, which should be financed by borrowing, usually by 'borrowing' from the Central Bank (often referred to as 'printing money'). This will increase the future productivity of workers employed as a result by maintaining or even increasing their skills. It will also reduce the numbers of unemployed. Both these things will increase the productivity of the economy and raise living standards. The consequent increase in GDP will raise taxation revenue even if tax rates remain unchanged, and hence the ability to reduce the public debt, if that is thought desirable. This should continue at all stages of the cycle in economic activity in a counter-cyclical manner and, more controversially, this should be financed by 'borrowing' from the Central Bank. In times of economic activity above the full employment level, temporary increases in taxation rates could be necessary to free resources for public sector investment, since this type of public expenditure should be maintained, though not increased during booms. Throughout the whole upswing, income policies will probably be necessary. In the medium term and longer, appropriate public sector investment will be self-financing.

The policy package we suggest assumes that there will be infrastructure projects with specifications drawn up and planning permission granted so that they are ready to be brought forward if needed. Even so, major infrastructure projects probably will take time to be fully operational. However, when unemployment is severe, they are important. They can be targeted at some particular groups of workers, in particular workers in the construction industry whose jobs are usually among those most at risk except in the mildest of recessions. When a slump occurs and major projects are not yet fully operational, small construction projects can be increased. Moreover, expenditure does not have to be on physical infrastructure, only on things that will increase future productivity in the economy or some part of it. Increasing the skills of the workforce (or human capital) is at least as important as increasing physical capital. Carefully chosen projects can both provide jobs for people dismissed because of a recession and also enable valuable additions to our standard of living; no 'schemes to make work for work's sake', to quote the White Paper. For example, much of the administrative work in organising a project to ensure all children are immunised against measles, scarlet fever and whooping cough could be done by providing federal funds to employ people who lose clerical jobs – in practice probably mainly jobs at the less skilled level. If, in a recession, private sector schools and state schools have to reduce or freeze teacher numbers, teachers could be employed in federally funded positions. More and better quality education will add to the productivity of employed workers in the future as well as reducing the numbers of unemployed. Anything that will increase the productivity of the economy and raise living standards will also increase taxation revenues as long as there is no downward change in tax rates. A similar argument applies to expenditure designed to reduce global warning which will reduce the need for government expenditure in the future. Here it is expenditure at a global level that is important. Australia should argue strongly for this. Our influence should not be underestimated, especially among nations in East Asia and the Pacific. However, the more Australia is doing itself to counter the causes of climate change, the more effective will be our efforts to persuade other nations to do the same.

With respect to the remuneration to be paid to workers that our policy prescriptions draw into the government sector, even if often only for relatively short periods of time, we have followed a lead given by Philip Harvey[10] and advocate that they be paid the going rate for the job that they are doing, including the appropriate wage and associated conditions for casual workers if they are employed on that basis.

Some time ago, the Australian Treasury put forward an argument which implies that the type of fiscal policy we envisage is not sustainable in the longer run. The argument can be countered at two levels. The fundamental counter to it is that, as set out above, the expenditure we advocate is self-financing and therefore by definition sustainable. However, even if we ignore this and examine the Treasury's arguments on their own terms, these arguments are not convincing even as a worst-case scenario. The Treasury argued in the 2010 Budget Paper No. 1 Statement 3 that achieving a budget surplus on average over the cycle in economic activity is a key element of a sustainable medium-term strategy because it will ensure that there are no constraints due to heavy loads of

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debt on running budget deficits in a slump. The policy of achieving a budget surplus over the cycle is certainly a sufficient condition to avoid constraints of using budget deficits to counter slumps, but it is not a necessary condition as the Treasury strongly implies by calling it a key element in a sustainable fiscal strategy. A much less draconian policy than this would achieve the same end. Given that over the cycle the Australian economy is growing in real terms and even more in nominal terms, achieving slightly less than a balanced budget over the cycle would maintain a constant ratio of debt to GDP after allowing for cyclical effects. Moreover, in the case of Australia, the ratio of debt to GDP is so low that some increases in the ratio could continue for years before the debt to GDP ratio became a problem. As Evsey Domar (1944) showed long ago if appropriate cyclical growth rates are achieved, then debt to income ratios will not expand indefinitely as long as the growth rate in output is greater than the growth rate of debt. This implies that permanent government deficits can be sustained, and that there is no need to balance the budget over the cycle or to achieve a surplus. In 2010, the IMF listed the Gross Debt to GDP ratios for 2009 in the larger advanced economies. Australia had the lowest at 15.9%. The next lowest was for Sweden at 49.9%. No other country had a ratio below 50%. The Treasury appears to have accepted arguments relevant to countries with very high debt to GDP ratio especially those in the Euro zone, where monetary policy and related matters are determined by the European Central Bank. As Sen (2011) has pointed out, this has led to ‘the massive destabilisation of human lives in frantic efforts to stabilise the financial markets’ (p. 2).

However, as argued above, the underlying truth is that, for countries with a central bank, borrowing is only necessary to fund government deficits when output and employment are at levels great enough to cause significant bottlenecks and probably shortages of labour and capital more generally. Also aiding those who become unemployed to keep in contact with the labour market – for example, by improving their job search skills – is desirable for both economic and social reasons. Overall, the key is to increase animal spirits by policy measures that are having some visible success.

Prices and income policies are essential. By and large, they have a limited life since sooner or later some of the relevant parties find ways around a policy’s restrictions and take advantage of them. Generally speaking, successful prices and income policies in Australia fudge the distinction between the formal situation as set out in a policy document and the reality of what actually happens. For example, union leaders negotiating with the first Hawke government formally agreed to using the CPI to allow for the effects of inflation in determining the minimum wage in 1982, although all the parties knew that for technical reasons it underestimated the real price rise. In return, the government promised big increases in the social dividend, that is, spending on education, health and other types of expenditure that would help union members.

A fourth lesson is the point that fiscal policy is as important in the longer run as it is in a slump. There is increasing acceptance of this among academic economists, and Aschauer (1989) argues that public capital expenditure crowds in private expenditure. This has only been accepted at the political level in a very selective way. Moreover, the large majority of neoclassical economists, the dominant school in economics today, still maintain the opposite, with monetary policy promoted as the tool of choice, despite the fact that they simultaneously believe that the lags in monetary responses are long and variable. More importantly, they hold a version of neoclassical growth theory that is not only absurd but has been roundly rejected by the principal authors of that theory. This is, of course, the insistence that measures to increase aggregate demand in a recession have no effect on the longer run levels of income and output. Swan explicitly rejected this in his 1956 paper and, while Solow was somewhat ambiguous in 1956, he forthrightly rejected it in later life, as, for example, in Solow (2000).

Finally, the most important point in the long run is the threat to democracy in Australia posed by the current neoclassical orthodoxy and especially its obsession with monetary policy. A quotation about the situation in Europe from a Nobel Prize winning economist will serve to counter the charge that this is far-fetched:

> There are profound issues to be faced about how Europe's democratic governance could be undermined by the hugely heightened role of financial markets … Stopping the marginalisation of the democratic tradition of Europe has an urgency that is hard to exaggerate. European democracy is important for Europe – and for the world. (Sen, 2011: 1–2)

Really finally, one more quotation this time from right-wing conservative commentators who argue at a little length for 'equality of opportunity'. But 'equality of opportunity' here is understood as mostly formal. It is the equality Anatole France described as '[t]he majestic equality of the law, which forbids rich and poor alike to sleep under bridges, beg in the streets, and steal loaves of bread' (from Chapter 7 of his novel *The Romance of the Lily*).

Data sources

Except where otherwise referenced, data are taken from the Quarterly Summary of Australian Statistics, the Monthly Review of Business Statistics, the annual reports of the Commonwealth Bank and later the Reserve Bank, the Commonwealth Year Book and the White Papers on National Income and Expenditure. There are now some quasi-official data for the relevant years, but if one is comparing the success of policy making at disparate periods of time, it is better only to use the data available to policy makers at the time their decisions are made.

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Notes

1. In the USA perhaps, the nearest equivalent to the British and Australian White Papers was the Employment Act of 1946, which stated, '[t]he Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to … promote maximum employment'.
2. Coombs (1981) stated, 'I have all my life turned to men like Adam Smith, John Stuart Mill, Karl Marx and Alfred Marshall for enlightenment' (p. 5).
3. From a letter to the author, quoted with permission.

4. See the note before the list of references for information on the sources of data used throughout this article.
5. For over a decade, these activities were more likely to be paid employment for men and homemaking for women (Martin, 2003; O'Donnell, 2015). The momentum towards women's labour market participation resumed in the 1960s.
6. It turned out that the consumer price index was 3.95% higher in June 1953 than it was in June 1952. This was uncomfortably high by the standards of the time but not disastrously so.
7. This section is based on work that Peter Kriesler and I have published over the last 20 years. The word 'we' in the text is intended to reflect this.
8. This does not mean that society was less happy or healthy than now. The opposite is true. Coombs himself in 1994 described society then as 'a time more hopeful when people mattered' (p. vii).
9. Voltaire's Panglossian satire is frighteningly appropriate.
10. See, for example, Harvey (2006), especially footnote 6.

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