Economists and Australian Wage Policy Before World War II

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Abstract
Before the 1920s, Australian economics was virtually non-existent; but in the twenty years before World War II there was a conspicuous growth in the body of professional economists, located mainly in the universities. The system of wage fixation caught the attention of some of them.

The paper discusses the economists’ commentaries on and contributions to wage policy in relation to (1) proposals in the 1920s for relating money wages to ‘productivity’, (2) emerging and somewhat novel ideas about the tariff, (3) the depression and (4) post-depression recovery. Although most of the economists’ ideas were worked out in local debate, the paper notes the comments on Australia’s wage policies by J. M. Keynes and the role of W. B. Reddaway in his his brief sojourn in Australia.

1. Introduction
Wage regulation began at the behest of social and industrial reformers. It was neither blessed nor opposed by professional economic opinion, because there was none.

At the beginning of the 20th century, Australian economics was close to non-existent. Those few people in other disciplines, such as philosophy, history and law, who had interests in the subject, scarcely merited description as ‘economists’ (La Nauze, 1949; Goodwin, 1966; Groenewegen and McFarlane, 1990).1 Two decades would elapse before a significant group began to form. The first appointees as academic economists seem to have been R.F. Irvine and E.O.G. Shann. Irvine, after lecturing part time for several years, moved from the State Public Service to become Professor of Economics at Sydney University in 1912. His economics were unorthodox. He resigned his Chair (at age 64) in 1922.2 Although he remained active until the 1930s, Irvine was completely disregarded by the newly emerging mainstream.3 Shann

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1 Groenewegen and McFarlane (1990), in particular, would probably regard this judgment as too strong. The issue – if there is one – goes to the status accorded to people on the ‘fringe’ of the subject. So far as I am aware, there was no economic commentary on the inception of wage fixation. Groenewegen and McFarlane provide valuable summaries of the economic contributions of people referred to in this article.

2 McFarlane (1964), without giving particulars, describes the circumstances of Irvine’s resignation as ‘distressing’. His successor was R.C. Mills.

3 He gave evidence for the unions in the 1930-31 basic wage case. McFarlane (1964, p. 18) says that he advised E.G. Theodore, the Treasurer in the Labor Government, and assisted with speeches delivered by Theodore in 1931. In 1933 Irvine published privately The Midas Touch (Hassal Press, Adelaide), criticising orthodox remedies for depression. I have not seen this book; but it was sympathetically reviewed by Foenander (1934).

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was appointed Professor of History and Economics at the University of Western Australia in 1912. He was apparently an effective teacher of economic principles, but not until the late 1920s did he emerge as a participant in wider economic debate.\(^4\) Herbert Heaton, an economic historian of some note, had an appointment in adult education at Adelaide in the late 1910s and early 1920s, but had no apparent impact on economic thought in Australia.\(^5\)

The British Association met in Sydney in 1914. Papers about wage determination were presented to the economics section (and subsequently published in the *Economic Journal*) by F.W. Eggleston (1915) and F.A.A. Russell (1915). Eggleston was a major figure in Australian social science in the first half of the century. His paper had some economic content, discussing the possibilities and the realities of adjusting income shares by wage regulation. Russell’s had none. He was Chairman of the New South Wales Wages Boards and described the development of wage-fixing machinery in New South Wales.

The Australian tribunals (especially the Victorian wages boards) attracted a good deal of notice from abroad. Among the visitors who came to learn about them were the Americans Clark (1906, 1909), Hammond (1913) and Sells (1924) and the Britons Aves (1908) and Rankin (1916).\(^6\) Of these, Rankin provided the most ‘economic’ critique of conciliation and arbitration. Though prepared to concede a moral case for legal intervention to counter ‘sweating’, she was otherwise hostile to the system that she saw. The state, in her view, had no legitimate role beyond facilitating the ‘higgling’ of the market. Commentators from afar included Alfred Marshall, who did not necessarily condemn the Australian innovations but resisted their translation to Britain:

> And the proposal that a minimum wage should be fixed by authority of Government below which no man may work, and another below which no woman may work, has claimed the attention of students for a long while. If it could be made effective, its benefits would be so great that it might gladly be accepted, in spite of the fear that it would lead to malingering and some other abuses; and that it would be used as a leverage for pressing for a rigid artificial standard of wages, in cases in which there was no exceptional justification for it. But, though great improvements in the details of the scheme have been made recently, and especially in the last two or three years, its central difficulties do not appear to have been fairly faced. There is scarcely any experience to guide us except that of Australasia, where every inhabitant is part owner of a vast landed property; and which has been recently populated by men and women in full strength and

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\(^4\) For a convenient summary of Shann’s career, see Snooks (1991).

\(^5\) He did, however, publish an account of basic wage prescription, observing that ‘for nearly thirty years the Australian experiments in wages regulation have attracted the attention of students of economic problems the world over.’ (Heaton, 1921, p. 309) Heaton later published an Australian version of his well-known textbook. (Heaton, 1925) This contains (largely descriptive) accounts of the wage-fixing system.

\(^6\) Sidney and Beatrice Webb, during their visit to Australia in 1898, learnt something of the Victorian wages boards, commenting that ‘by far the most interesting institution in Victoria is the fixing of a minimum wage by law in certain sweated trades’. (Austin, 1965, pp. 78-86) I thank the referee who brought this to my notice.
health. And such experience is of but little use in regard to a people whose vitality has been impaired by the old Poor Law, and the old Corn Laws; and by the misuses of the Factory system, when its dangers were not yet understood. A scheme, that has any claim to be ready for practical adoption, must be based on statistical estimates of the numbers of those who under it would be forced to seek the aid of the State, because their work was not worth the minimum wage.’ (Marshall, 1961, p. 715)

Paul Douglas, the renowned American labour economist, published in 1923 an article about ‘Wages Regulation and Children’s Maintenance in Australia’, but this had little economic content. It was an account of the development of minimum wage prescription with special reference to social issues such as the assumed size of families (Douglas, 1923).

There are few examples of economic ‘advice’ or opinion about wage policy before about 1923. George Knibbs, the first Commonwealth Statistician was a physicist and educational administrator. In 1921, he was asked to advise Prime Minister Hughes whether the country could afford to act on the finding of the Piddington Commission (a Royal Commission appointed by Hughes) about the basic wage needed to provide fair and reasonable living standards. He said that it could not. (Piddington, 1921, p.22) This, perhaps, was economic advice. The head of the Labour and Industry Bureau in the Statistician’s Office was J.T. Sutcliffe, who did make some contribution to economic thought – with emphasis on measurement - in the 1920s.

The single most important step toward the emergence of an Australian economics was the appointment of D.B. Copland to the University of Tasmania in 1917. Copland, a New Zealander, became Professor of Economics in Tasmania in 1920, moving to Melbourne in 1924. From the early 1920s until World War II, he was a key figure in virtually all economic debate in Australia. From being unnoticeable at the beginning of the 1920s, the body of mainstream economists grew rapidly in influence, importance and sophistication. In a talk that he gave in 1950, Copland said of the influence wielded by pre-war economists: ‘That this influence was considerable will be generally admitted, though many people may doubt whether the chief participants had much claim to be considered economists of distinction in the classical sense or were more than highly skilled opportunists in respect of their public activities.’ The changes that came over the economic scene in the late twenties and early thirties afforded the economists unusual opportunities for going over the trenches in the grand manner to occupy positions that had hitherto been beyond their reach. This they did with an air of confidence that is sadly lacking in these more buoyant days of full employment when one would have thought that the world was the economist’s oyster; they did it with something of a missionary zeal, always a dangerous attitude of mind, and they did it with a more or less united front. (Copland, 1950, p. 1)
When Copland left Tasmania in 1924, he was succeeded in the Chair of Economics by J.B. Brigden, who was to be a major ‘player’ over the next six or seven years. L.F. Giblin, whose role in formulating depression policy was central, moved to Melbourne in 1929, as the first Ritchie Professor, from the post of Government Statistician in Tasmania. Thus Tasmania contributed to the economic debate several of its principal participants.

By the time that the economists began to make their presence known, Australia’s systems of labour market regulation were well established, though still evolving. There were two models. One was the wages board system, which began in Victoria in 1896 and eventually operated in all States. Separate wages boards existed for different industries or occupations. A board comprised equal numbers of employer and employer representatives, presided over by a neutral chairman who, if necessary, exercised a casting vote. The other model was a court, wherein a judge (in some cases judges) heard argument and then made a binding decision. The court model had been adopted in New South Wales and Western Australia at the turn of the century. In several States, courts were set up to oversee the activities of wages boards. Only Tasmania retained a pure wages board system. The most important step, of course, was the creation of the Commonwealth Court in 1904. By the 1920s, it was the foremost authority, although its leverage was often exaggerated in contemporary discussion. This paper, however, is not about the machinery of regulation.

Because the various tribunals were so important in the labour market, at least superficially, it is not surprising that the economists, in their analyses of the Australian economy, assigned them – and especially the Commonwealth Court – an important role. We might expect that there would have been antagonism, in principle, to interference in the market; but little of that was expressed. It is reasonable to suppose that Frederick Benham would have preferred that the tribunals were abolished, but Benham’s influence on opinion during his Australian sojourn in the 1920s (at Sydney University) was slight. E.O.G. Shann’s pro-market preconceptions undoubtedly led him in the same direction; but I have not found an explicit call for abolition of the Arbitration Court, and Shann joined with other economists in advocating a depression strategy that assigned an important role it. It is also a reasonable conjecture that the conservative Leslie Melville (trained as an actuary) would have opposed wage regulation. Otherwise, the economists were concerned more with understanding the effects of wage policy and influencing the tribunals’ decisions than with challenging their existence.

In this paper, I discuss the development of Australian thought, inasmuch as it related to wage policy, by reference to the following subjects:

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7 Some seven years older than Copland, Brigden had been a Lecturer for the University of Tasmania at Queenstown since 1922.
8 Overtones of hostility are obvious in An Economic History of Australia (Shann, 1930), which has a chapter on ‘The Origins and Extension of Wage-Fixing’. Snooks (1991) has no doubt of Shann’s hostility to wage-fixing, and I do not disagree. Stone (1991) also recounts Shann’s antagonism to labour market regulation but, like Snooks, cites no actual recommendation of the Court’s abolition. This reticence is the more remarkable when viewed against the background of the Bruce Government’s having put the issue squarely on the political agenda.
• Advocacy of a ‘capacity to pay’ criterion for setting wages.
• The interrelation of wages and the tariff.
• The depression.
• The recovery.

These topics are roughly chronological.

2. Wage Movements

Though the paper is about economic opinion, an overview of wage behaviour is a desirable background. I attempt to provide this in four charts. Figure 1 describes (subject to data limitations) the behaviour of adult male wages and consumer prices over the period 1907-1939. A logarithmic vertical scale focuses on proportional, rather than absolute, changes. The two wage series are minimum rates, which represent the amounts prescribed in legal instruments – awards, determinations and registered agreements, and average annual earnings in manufacturing (available from 1913). The latter is an imperfect attempt to allow for the possibility that ‘market’ wages deviate from those prescribed. The two indices conform closely between 1913 and 1921, whereafter the earnings series rises above minimum rates. By 1939, the cumulative difference amounts to 12 per cent. We may guess that the ‘truth’ lies between the two, but I know no way of verifying this.

Figure 1 Wages (Adult Males) and Prices 1907-1939

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9 The data for the charts are from Vamplew (1987). Price data comprise the ‘A Series’ index to 1914 and the ‘C Series’ Index thereafter (the two indices being spliced). The minimum rates and manufacturing earnings data do not, for some years, align precisely with the calendar year and adjustment by averaging is necessary. For this reason, there are possibilities of minor error.

10 That is, the ‘earnings’ series is 12 per cent higher than it would have been had it continued to match the minimum rates series.
Figure 2 draws on the same data to convert the wage series into real values. After World War I, real wages were around 12-13 per cent below their 1907 level; but by 1922 they exceeded it by 11 per cent (minimum rates) or 19 per cent (manufacturing earnings). Over the whole period of 32 years, real minimum rates grew by 26 per cent and real manufacturing earnings by 41 per cent. The corresponding annual growth rates are 0.73 per cent and 1.08 per cent, respectively. Much of the gain was concentrated in the early 1920s.

In wage policy, especially as administered by the federal Court, special importance attached to the basic wage. Although the federal basic wage had its origin in the *Harvester* case of 1907, no meaningful statistics of the basic wage can be provided for years before 1922. The reason is that in those years the basic wage was changed award-by-award, when the award fell due for renewal (typically after three years). As a result, there was not one basic wage, but a range of basic wages, at widely varying levels. By 1922, however, the Court had adopted the practice of prescribing a basic wage for all awards (partly because of a legislative change that made it easier to do so). Thereafter the federal basic wage was subject to automatic quarterly adjustment with reference to a price index. Figure 3 shows the behaviour of the (federal) basic wage over the period 1922-39. It also provides, for comparison, curves of minimum rates and prices. One reason for the differences between the movements of the basic wage and of minimum rates is the fact that the latter encompass components of wages additional to the basic wage, mainly margins for skill. Another was the adoption by state tribunals of policies different from those of the federal Court.
Commonwealth Court. An important example of divergent policy was the failure of some state tribunals to follow the federal ‘lead’ when the Court cut wages by 10 per cent in 1931.

Figure 3  Basic Wage, Minimum Rates and Prices 1922-1939

Figure 4, showing the real basic wage and real minimum rates, presents starkly the fact that in the 1930s the alterations in the real basic wage – closely related to decisions of the Court – did not ‘register’ in the real minimum rates series. This is surprising, because federal awards, though applicable to a minority of wage earners, nevertheless covered a substantial number. We might have expected to find fluctuations in the minimum rates curve that were a muted version of those in the basic wage curve. Such a relation does exist between nominal minimum rates and the nominal basic wage (see figure 3). That is disappears in the real series can only be ascribed to the stickiness of wages in times of changing prices. The components of minimum rates that were not adjusted to price movements rose in real value as prices fell and vice versa as prices recovered.\(^{11}\) The overall effect was a near-constancy in the real value of minimum rates.

\(^{11}\) Margins were subject to the emergency reduction of ten per cent imposed by the federal Court between 1931 and 1934. But as prices fell by much more than ten per cent, their real value increased.
3. Capacity to Pay

By the time that the economists began to talk about wage policy - about 1922 - they were aware of recent events as depicted in figures 1 and 2. In particular, they noticed the significant fall in real wages between about 1917 and 1920 and the enormous increase of 1921-22. These were due to a lack of synchronisation of wage and price movements. Prices rose rapidly after 1916, and although the tribunals took account of this, they were for various reasons slow in doing so; and so money wages lagged behind prices. Then in the early twenties, wages went on rising quite fast, as they were adjusted to earlier price movements. By now, prices were actually falling. In late 1921 and early 1922, the Commonwealth Court adopted the automatic adjustment system, which meant that each quarter the wage went up or down according to the previous quarter’s price movements. At the same time, it introduced a loading – ‘Powers 3 shillings’ – that was intended as a protection against the remaining time lag in wage adjustment. As the delays were working in wage-earners’ favour, the ‘compensation’ for putative rises was an anachronism.

Copland in 1923 gave a paper to ANZAAS, which was substantially reproduced in the Economic Journal (Copland, 1924). It was concerned mainly with a business decline in 1920-22. Copland attributed this to two factors: widely divergent movements of retail and wholesale prices and the poor timing of wage movements. Because retail prices fell much less than wholesale prices, the adjustment of wages to retail prices meant that for many producers there was a price-wage squeeze. And the slow adjustment of wages to price movements meant that real wages had fallen during the period of rising prices and risen when prices were falling. Copland
concluded that the cost of living was a bad criterion for wage adjustment. ‘Arbitration’, he said, ‘has been a costly experiment for Australia, but failure to apply a principle soundly should not, as many suppose, warrant the condemnation of that principle. The productivity of industry is the final source of wages, and arbitration cannot be successful if it ignores this factor.’ (p. 45)

We now use the term ‘productivity’ to describe something like real output per worker or per hour worked. That is not what Copland meant. He was talking about value added per worker, measured in money, not real, terms. This was the main determinant of businesses’ capacity to pay their workers. Unless wages were raised or reduced at a similar rate, the tribunals were either imposing increased burdens on business or depriving workers of wages that business could afford to pay. To put the point differently, their objective should be to stabilise the wage share of value added.

Copland’s reasoning assumed, tacitly, that the prices paid by employers for their non-labour inputs and the prices that they received for their output were given extraneously. There was no consideration of the possibility that business might absorb wage increases by raising their prices, because prices were taken to be given. This assumption is explicable by two of the characteristics of the economy at the time. One was its high dependence on foreign trade; the other, Australia’s adherence to a fixed exchange rate with its main trading partner – the United Kingdom.

Copland’s views caught the attention of the President of the Queensland Court of Industrial Arbitration.12 The Queensland basic wage (more correctly, basic wages) and the principles upon which Queensland award wages were set were already rather different from those of the Commonwealth Court. Wages under State awards were significantly above the Commonwealth standards. The President instigated an Economic Commission on the Queensland Basic Wage. Copland was asked to serve on it, but was unavailable. The members were Sutcliffe (as chairman), Mills and Brigden.13 The topics referred to the Commission included ‘the productivity of Queensland year by year from 1913 to 1924 and the estimated productivity for 1925’; ‘real wages compared with productivity for the same periods’; ‘to what extent it is practicable in adjusting wages to have regard to productivity’; ‘whether an increase in wages would be likely to affect adversely the growth of any, and what, Queensland industries’; and ‘such other matters of an economic nature as in the opinion of the Commission may be of assistance to the Court in determining the basic wage’. (Economic Commission on the Queensland Basic Wage, 1925) The Commission reported that

12 T.W. McCawley was a Judge of the Supreme Court and part-time President of the industrial court. He had published an article in the International Labour Review (McCawley, 1922).
13 The Commission was appointed on 30 December 1924, assembled in Brisbane on 19 January 1925 and reported on 21 February. Brigden observed a few months later that this was ‘the first occasion when professional economists had been made use of in Australia’, and although he had welcomed the opportunity to participate, it was ‘not the business of University teachers to spend their vacation in this manner’ (University of Tasmania, 1925, p. 22).
the capacity of all industries to pay wages depends primarily upon their net aggregate production. The only possible measure of this is value. The aggregate value is found from the value of production and the price of a unit. . . . The aggregate value of production then may vary from two separate sets of causes – those which affect volume of output, and those which affect price. (pp. 15-16)

The Commission produced a complex formula of ‘capacity to pay’. Its basic purpose was to measure changes in production per head in Queensland. The cause of complexity was the lack of current data. Hence the index took into account both the data of the previous year’s production (primary and secondary, but not tertiary) and an estimate of the current year’s production, based mainly on factors affecting the value of rural production. The Commission recommended to the Court that it apply the formula with discretion, having regard to (1) the desirability of curbing fluctuations in wages and (2) changes in the level of unemployment.

The Commission was critical of the Commonwealth Court’s adherence to the *Harvester* standard 16 years after its adoption:

> In effect the rough measure of capacity to pay determined by Mr. Justice Higgins in 1907 has been stereo-typed, and the level of wages in that year has determined the level of wages ever since. It is true that the conditions of employment have improved; hours have been reduced, and the wages of juniors have been increased, but the basic wage has tended to remain rigid. (p. 27)

Brigden subsequently was more forthright:

> It was no wonder that the Federal Arbitration Court was the most criticised institution in Australia; the wonder was that it had succeeded at all. When to its defective powers under the Constitution, its inability to prevent conflicts before they became inter-State, its inability to enforce its awards, was added a weak personnel and a vicious principle of wage regulation, it was not surprising to find chaos. In the circumstances, the principle of compulsory arbitration seemed to have survived every possible obstacle. (University of Tasmania, 1925, p. 28)

Very little came of this early venture into the economic analysis of capacity to pay. In Queensland, factors militating against the adoption of the Commission’s proposals were the complexity of the formula and the death of the President before they could be put into effect. More generally, retention of ‘old’ ways, especially *Harvester*, was probably due largely to the much greater stability of retail prices after the turmoil of 1917-22. A point of interest is the similarity of the underlying reasoning to that used 35 years later by Eric Russell and Wilfred Salter, who gave evidence for the ACTU in the 1959 basic wage case. Russell and Salter advocated wage adjustment for prices and physical productivity, corrected for movements in the terms of trade. There was the same implicit objective of holding constant the wage share of the national income.
Sutcliffe (1925) expressed a further objection to the gearing of wages to the cost of living: that it deprived workers of all incentive to contribute to greater production, because they neither gained nor suffered from changes in the fortunes of the industries that employed them. In Queensland, there were broad differentiations between industries, with wage levels under state awards related to their prosperity (though not to any assessment of the workers’ efforts), and this may have informed Sutcliffe’s contention. The view that he put became a familiar one. For example, the British Economic Mission (1929), a party of businessmen invited to Australia by the federal Government, said that ‘a system of wage fixation resting upon a basic money wage which rises or falls with a varying index of the cost of living is open to the gravest criticism, as tending to deprive employees of any interest in the prosperity of the industry with which they are connected’ (p. 18).

4. The Tariff
The issue whether Australia would be free-trade or protectionist, left open at Federation, was resolved by 1906 in favour of protection. In 1921, the Tariff Board was established to separate the setting of tariffs from the political process. There was an interrelation between the tariff and wage policy, because protection affected the attainable real wage. It did this partly by its (uncertain) effects on the productivity of the economy and partly by creating possibilities of income transference between unprotected exporters and the protected industries.

In the early numbers of *The Economic Record*, which began in 1925, there was an important debate, involving Brigden, Benham and Giblin. Brigden (1925) confronted full-on the question whether the tariff was, in the round, beneficial. (He did not discuss specific tariffs.) An affirmative answer, of course, flew in the face of economic orthodoxy. Brigden had no sympathy with the arguments that had been used by protectionists in Australia. They had all of the flaws that had been identified by standard economics. Moreover, he was alive to the exploitation of consumers by manufacturers and labour raising prices and wages behind the tariff wall. Nevertheless, he asked whether, in relation to the benefits and costs of protection, ‘the intuition of the protectionists is sounder than their logic, and that they may be right to a degree in spite of it?’ (p. 32) His answer was ‘yes’.

Brigden took into account the objective of a larger population and the presumed facts of diminishing returns in agriculture and increasing returns in manufacturing. Because the last two mainly take the form of externalities, they are inadequately factored into decisions taken at the micro-economic level. (Brigden did not use the *language* of externalities, but the idea is implicit in his argument.) Without intervention, the expansion of agriculture, where diminishing returns prevailed, would go too far and the growth of manufacturing, where there were increasing returns, would be unduly retarded. Just as free trade was appropriate to the circumstances of Britain in the 19th century, protection was right for Australia in the 20th. Free trade, in Britain’s case, and protection, in Australia’s, countered the effects of diminishing returns in agriculture.
It would be unfair to say that Benham (1926) merely asserted the conventional arguments for free trade. Probably his main ammunition was a denial of diminishing returns in agriculture. He talked about the past and likely future reductions in labour requirements for producing increasing volumes of agricultural output. He made the point that the growth of cities in the 19th century was made possible by the increased productivity of agriculture. Benham also made a good deal of statistical evidence that in New South Wales, under free trade in the latter decades of the 19th century, manufacturing had grown faster than in protectionist Victoria.

Brigden (1927), in his rejoinder to Benham, talked particularly about the distributive effects of combining population growth with free trade. The principal distributational contest was between labour and land. Capital and management, being the most mobile of factors, would be affected least of all.

Labour has been protected at the expense of land ownership. It is true that Protection has caused a rise in city and urban site values, and that the net result is difficult to measure. The argument is as usual one of tendency, and I merely allege that Protection has relieved the demand for land in general and increased the demand for labour. Thereby it has reduced the strength of land ownership and increased the bargaining power of labour. (pp 108-109)

Giblin (1927), then Government Statistician in Hobart, now joined the fray. One of his main points was that the statistics used by by Benham, though published in such worthy places as the Commonwealth Yearbook, were worse than useless. For example, the ‘evidence’ that manufacturing had grown faster in New South Wales than in Victoria was spurious. ‘Mr. Benham’, said Giblin, ‘reaches conclusions so opposed to common sense that one is rather surprised at his accepting them without a close scrutiny of the meaning of the figures on which they are based’ (p. 148). But, really, recourse to statistics was unnecessary:

Professor Brigden’s assumption seems to me axiomatic, though it may not have been wise to tie the red rag of ‘diminishing returns’ to it. If 100,000 farmers are making a living in a given State, and 20,000 more with the same average capital and ability are added to them, it seems clear that in general they will not make so good a living; otherwise the first 100,000 are proved to be fools, which is contrary to hypothesis. That is all that is required for Mr. Brigden’s argument, and it hardly seems open to question. (p. 151)

Moreover, Benham had failed to account of the public assistance to agriculture by way of railways and roads: ‘This point is vital, and makes further discussion unnecessary so far as Mr. Brigden’s argument is concerned.’ (p. 151)

Late in 1927, the Prime Minister, S. M. Bruce, asked a group of people to undertake an enquiry into the tariff. He initially approached E.C. Dyason, a stockbroker, Giblin and C.H. Wickens, the Commonwealth Statistician.
Subsequently, Brigden and Copland were added. In his foreword to the Report, published in 1929, Bruce wrote:

They not only agreed to undertake the work, but they insisted that they should do so on a purely voluntary basis. The report is a free gift to the Australian people. Some indication of the measure and the quality of this rare act of public service is to be found in the fact that their investigations and the preparation of their report have kept the Committee continuously and heavily engaged for over eighteen months. (Brigden, et al., 1929, p. viii)

The Brigden Report, as it is generally known, was a significant contribution, not only to Australian, but to wider economic thinking. It was, of course, much more detailed and contained many more elaborations and qualifications than the original Brigden article. But the basic conclusion was the same: Australia could not have supported the population of the day at the then-existing standard of living without the tariff. The committee said:

We have to recognise in the tariff as a whole, in spite of its undoubted extravagances, a potent instrument in maintaining at a given standard of living a larger population than would have been otherwise possible. It seems certain that without the tariff we could not have offered the same field for immigration, and would not have been able to maintain our growth of population. (p. 84)

The tariff did more than divert resources from the export industries into the sheltered industries. It also caused a redistribution of income between the two sectors. And it provided scope for the raising of real wages in the sheltered industries. Australia’s standard of living was high, primarily because of the productivity of its primary industries. The tariff sustained their productivity by restraining their growth. But it also caused some of the benefits of it to be transferred. In that context, wage regulation played a part:

The standard of wages is high, therefore, primarily because the income per head is high. But it can be, and is, made a little higher than naturally it would be, by pressure of various kinds upon other incomes. There is room for such pressure . . . There are maximum and minimum payments which can be made for labour, neither of which can be established with certainty, and between which there is room for variation. Free competition is liable to reduce wages to the minimum, and regulation can compel the maximum payments, provided the by-products of regulation have not absorbed too much of the income available. (p. 96)

The view that emerges, then, is that the tariff, as well as protecting real income against the threat of diminishing returns in the major export industries, also facilitated a transference of income from which wage-earners in the sheltered industries benefited. It would be wrong to suppose that Brigden and colleagues saw the arbitration tribunals as playing a large part in the overall scheme of maintaining real income and redistributing it. But
they played some part, and the thinking that the tariff debate generated almost certainly contributed to the economists’ prescriptions for wages in the depression. These were intended to put the transference process into reverse.

5. The Depression
At the time of the onset of the Great Depression, Australia lacked any bureaucratic infrastructure that could assist governments in understanding the problem and in devising measures to deal with it. Policy focused initially on two concerns: government finance and the funding of a rising foreign-account deficit. The Labor Government, which had been elected in mid-1929 on the specific issue of preserving the arbitration system, sought help from Britain, and this resulted in the visit of Sir Otto Niemeyer (Deputy Governor of the Bank of England) and Sir Theodore Gregory (a monetary economist at the London School of Economics and a member of the MacMillan Committee). Their advice was rigidly orthodox. They were preoccupied with the maintenance of confidence on the part of foreign lenders and saw this as requiring strict adherence to the existing exchange rate and rigorously balanced government budgets. Niemeyer and Gregory had little impact on policy. The Labor Government, however, was torn apart by conflict over the adoption of the kinds of measures proposed by the mainstream Australian economists, the less orthodox measures espoused by the Treasurer, E. G. Theodore, and the extreme policies pursued by the New South Wales government of J. T. Lang.

There was a policy vacuum. The Australian economists – mainly academics - proceeded to fill it. In doing so, they devised policies reflective of local circumstances that stepped around the advice of Niemeyer and Gregory. The scope for their doing so was increased by the sharing of decision-making between the Commonwealth and the States, partly by reason of the paralysis of the Labor Government, but also because of the role played by the Loan Council and because important areas of policy were then state-based.

There was a remarkable level of agreement among them. At the centre of their thinking were the realities of an enormous fall in the incomes of exporters (especially wool and wheat growers) and the inevitability of an overall reduction in real expenditure due both to the adverse movement of the terms of trade and a drying-up of foreign credit. The objective of their advice was to limit the fall in real spending to the amount that was inescapable with the fall in the terms of trade and the collapse of foreign borrowing - roundly estimated at 10 per cent. If this was achieved, there would be a fall in the standard of living, but not in employment. The economists judged that this best-available outcome required an even distribution of the loss across all sectors of the economy, rather than its concentration upon the export sectors.

I do not stray at large into depression economics, which encompassed a range of variables such as exchange rates, interest rates, budget deficits and banking policy. But it is worth saying that the intellectual foundation of the economists’ view about distributing the burden seems to have been
described, rather tentatively, by Giblin (1930) in his inaugural lecture as Ritchie Professor, given in April 1930. This may well have been the first statement, anywhere, of the multiplier. But whereas the Keynesian multiplier, as expounded first by Kahn and adopted in the *General Theory*, turned on an imbalance of saving and investment, Giblin’s concern was with the adjustment of income to a level at which imports would equal the lower level of exports. At that stage, the apparent loss of export income was about £50 million. With about one-third of every pound of expenditure going on imports, Giblin’s reasoning led him to predict a fall of income of £150 million. He went on:

The matter is obscure. I confess I do not see my way clearly through the tangle of price reactions that must follow the loss of income. I will only say that my somewhat muddled belief is that the tendency will be broadly to this result, to the extent that the Australian standard of living fails to adjust itself to the diminished income; but that if the loss is evenly spread through the community, it may be very nearly confined to the first direct loss of £50 million, and there need be no serious addition to unemployment. (pp. 11-12)

Copland, in his 1950 talk, said that Giblin’s estimate showed the multiplier ‘in a clearly recognizable form’. He added that ‘the multiplier is one of the few theoretical tools developed by Australian economists in the period under discussion’. (Copland, 1950, p. 7) That seems hard upon Brigden, with his ideas about the tariff; but it is clearly true that Giblin articulated a version of the multiplier.

The economists’ idea was that loss of employment would be minimised if there were a general adjustment to the loss of spending power. Spreading the sacrifice became a fundamental plank in their program. And this included a cut in real wages. The opportunity to advocate that part of the program came quite early. An application was made to the Arbitration Court to reduce wages in the railways. Instead of dealing with it on this limited basis, the Court decided to hold a general inquiry into the possible need to reduce wages, including the basic wage. The case ran from November 1930 to January 1931. Although the various interested parties called their own witnesses (including Irvine, called by the combined unions), the Court extended an invitation to Copland to appear as an independent witness. His statement of evidence is one of the important documents of depression economics. It includes a summary of the general economic situation, but the key passage is this:

Export industries have sustained a severe reduction in spending power and so have industries that were supplying goods and services to those whose incomes were formerly paid direct from overseas loans. The reduced spending power in these industries has seriously affected all other Australian industries and has caused indirect or secondary losses of national income. These secondary losses are due to the present inequitable distribution of the first loss. It is beyond the scope of this statement to consider in detail all the problems involved in securing
the equitable distribution of the first loss. But this distribution is a pre-requisite of economic recovery. An essential condition is the spreading of the burden over all wage and salary earners. The first loss of income is at least 10% and it follows that a reduction in wages and salaries of 10% is required to secure its equitable distribution . . . The reduction in wages would promote an equitable distribution of the first loss and would lower costs of production through the whole field of industry. Lowering costs would bring some relief to export industries and to industries competing with imports. Moreover, costs of production in all sheltered industries would also be reduced and the fall in prices would be met by some expansion of demand for the products of sheltered and protected industries . . . As industry expanded, the secondary losses of national income would be made good and the total loss reduced to the amount of the first loss . . . Equilibrium would then be restored at a reduced income per head, but with the loss of income evenly spread throughout the community. (Shann and Copland, 1931, pp. 101-102)

It would be wrong to say that the Court simply adopted Copland’s arguments: the decision is quite wide-ranging and, for the time, sophisticated. Nevertheless, the Court, consistently with Copland’s recommendation, decided to reduce wages by 10 per cent. It did so by inserting an emergency clause in awards imposing the reduction on rates that would otherwise be payable. In respect of the basic wage component, this reduction was additional to the reductions in the money wage due to the operation of cost-of-living adjustments.

In 1933, Copland delivered the Marshall Lectures at Cambridge (Copland, 1934). In one of the lectures, Copland dealt with the Court’s role:

The Government of the day had been elected on a pledge to preserve the Court. This was interpreted by the electorate as a pledge to preserve the standard of living. Despite important amendments to the Arbitration Act, the Government was powerless to prevent the Court from ordering a reduction in wages, if economic conditions appeared to necessitate such a reduction. The Government did in fact intervene in the case, and was represented by counsel. This was the limit to its authority, and the Court, after hearing evidence that covered the whole economic position of the country, decided to reduce the basic wage by 10% in addition to the normal adjustments of the wage to quarterly decreases in the cost of living. The award of the Court was a survey of the general economic situation at the end of 1930, and it is of more than passing interest to note that the first pronouncement on the crisis from a responsible authority was this award of the Arbitration Court. (p. 89)

In another lecture, Copland noted that the benefit of the Court’s decision was diminished by the failure of state arbitration authorities to follow its lead. Nevertheless, the system as a whole facilitated a reduction of money

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wages that, in the economists’ view, was an essential element in the overall economic program. Copland contrasted the Australian experience favourably with that of Great Britain, where wage reductions had been much more difficult to achieve.

J.M. Keynes never visited Australia. But he made two interventions into the Australian debate. One was in May 1932, when he wrote an article for the Melbourne Herald (Keynes, 1982). This was a commentary on the Wallace Bruce Report, a document prepared for the Premiers’ Conference of April 1932 by a committee comprising two Under-Treasurers and the economists Giblin, Melville, Mills and Shann. (Keynes had not actually seen it and his comments were based on second-hand reports.) The general thrust of his article was that Australia had already done as much as it was sensible to do, that more ‘strong action’ might worsen the situation and that it was best simply to await a world recovery, especially a recovery of prices. In relation to wages, he lent his support to the somewhat unorthodox view that wage cuts were a dubious policy, for while they reduced costs they also reduced purchasing power. ‘I understand’, he said

that the reductions of money wages so far effected have been unequal. It is of the essence of what has been happening in Australia that there should be equality of sacrifice, and it would seem obvious that New South Wales should be brought into line with the rest of the country. . . . But a policy of a further general reduction in money wages would be a double-edged weapon. It would tend to curtail purchasing power and, consequently, to aggravate rather than assist the problem of the Budget. I do not clearly see in what way it would help the general situation unless it were to expand the physical volume of exports, and I should have supposed that in present circumstances it would have no considerable effect in that direction. So far as internal production and consumption are concerned, sales receipts would fall off by just about as much as costs had been cut. The Experts recognise that it is impracticable to reduce costs and debts by a further 40 per cent. But I go much further than this. I do not believe that unemployment would be remedied by measures of this kind even if they could be put into force. (pp 96-97)

The decisions of the judges in the Arbitration Court in 1934, when it cancelled the emergency reduction, contain arguments about the effects of wage cuts on purchasing power. It is very likely that they were aware of Keynes’s article.

The years 1931-35 were the period when Keynes was moving from the ideas articulated in his Treatise on Money to those of The General Theory. It is well known that he discussed his emerging theories widely within Cambridge. E.R. Walker, a Sydney graduate, took his Ph.D. at Cambridge and in 1933 published a book, Australia in the World Depression, based on his Ph.D. thesis. It contains a useful factual account of what happened before and during the early years of the depression. But it also struggles with the question whether the policies adopted in Australia could be reconciled with the ideas
being advanced by Keynes. The unions, in the 1930-31 wage case, had put
the argument that a wage cut would be no help, because there would be a
more or less equivalent reduction of purchasing power. This argument was
encouraged by Irvine. The Court itself rejected it, arguing that purchasing
power would not be reduced, but would be shifted from workers to
capitalists, who would spend their added purchasing power on their own
consumption or on investment. ‘Mr Keynes’ theories’, said Walker,

courage scepticism as regards the view that someone’s loss is
necessarily somebody else’s gain. If attempts to share the loss by
cutting wages lead only to the reduction of consumers’ incomes by
the same amount as the cost of production is reduced, the factors
determining the general level of unemployment will not have been
affected at all. Of course, the view that general wage reductions may
be neutral in their effect upon the business cycle is in many quarters
regarded as fallacious. Indeed, it is only with its adoption by Mr.
Keynes that it has gained respectability among English economists.
(Walker, 1933, p.167)

If Keynes were right, the only measures that could reduce unemployment
were those that would alter the balance between investment and saving.
There was no reason to suppose that wage cuts would do that.15

But the Keynesian analysis, in its simplest form, relates to a closed economy.
The Australian economy was very open and the depression was imposed
on it from abroad. Given time, it might adjust by shifting resources out of
the export industries into import replacement. In the shorter term, a collapse
of the export industries, with the consequent drying-up of exporters’
spending, would be equivalent in its effects to a reduction of investment.
The economists’ advocacy of wage reductions had to do, not so much with
shifting income between workers and employers, but with keeping
exporters in business. They would do this by restoring the previous relativity
between domestic and external prices. The same effect could be achieved
by exchange rate adjustment. The economists were well aware of that and
did advocate, successfully, a depreciation of the Australian pound. They
were unwilling to rely wholly on it because of the possible effect on foreign
confidence. Hence they favoured the mixture of wage reductions and
external depreciation. Keynes’s article in the Herald recognised that wage
reductions were meant to maintain export production. He opposed further
reductions because of a practical judgment that they would have no effect
on exports.

15 In 1935, Arthur Smithies – just returned from research in Harvard and a teaching
post at Michigan University to join the Bureau of Census and Statistics - published
an article (Smithies 1935) exploring ‘from the “orthodox” point of view’ the question
whether a wage reduction would increase employment. (The answer was equivocal.)
This was a highly theoretical article. Smithies simply assumed that the wage reduction
was in real terms. He also assumed that the economy was closed. In a note published
in 1936, Walker said that Smithies, by the artificiality of his assumptions, ‘clearly
forfeits all claim to deal with wages policy in the real world’. (Walker 1936, p. 100).
Smithies (1936) published a rejoinder.
Keynes’s second intervention was less direct. It is in the General Theory itself. There is a passage in which Keynes rejects the idea of managing the money wage level with a view to altering real wages and thereby employment. The equilibrium level of employment was a product of the level of investment, and the equilibrium real wage was a product of the level of employment, and not vice-versa. A successful attempt to fix real wages would cause violent fluctuations of employment and prices.

If, as in Australia, an attempt were made to fix real wages by legislation, then there would be a certain level of employment corresponding to that level of real wages; and the actual level of employment would, in a closed system, oscillate violently between that level and no employment at all, according as the rate of investment was or was not below the rate compatible with that level; whilst prices would be in unstable equilibrium when investment was at the critical level, racing to zero whenever investment was below it, and to infinity whenever it was above it . . . In the actual case of Australia, the escape was found, partly of course in the inevitable inefficacy of the legislation to achieve its object, and partly in Australia not being a closed system, so that the level of money-wages was itself a determinant of the level of foreign investment and hence of total investment, whilst the terms of trade were an important influence on real wages. (Keynes, 1973, pp. 269-270)

It is likely that Keynes heard the 1933 Marshall Lectures, wherein Copland conceded that the wage-reduction strategy had failed to reduce real wages at all, despite a massive reduction in money wages - a concession borne out by figure 4 above. Keynes went on to say that he was ‘now of the opinion that the maintenance of a stable general level of money-wages is, on a balance of considerations, the most advisable policy for a closed system; whilst the same conclusion will hold good for an open system, provided that equilibrium with the rest of the world can be secured by means of fluctuating exchanges.’ (p. 270) Australia’s experiment with a managed wage reduction may well have had an important effect on Keynes’s thinking.

It is an intriguing question whether any alternative wage policy would have made much or any difference to the severity of the depression, as measured by employment, which was the Court’s concern. By 1934, the Court was entertaining serious doubt about the effectiveness of the 10 per cent cut. But the Court was not necessarily right. Money wages and prices fell by 25-30 per cent. The fall in money wages was associated with the automatic adjustment system and explicit decisions of tribunals. Reductions in wages and prices reinforced each other, and we cannot say how far prices would have fallen if money wages had somehow been held constant. There is now, I think, a general acceptance that the process of price deflation has depressing effects, in terms of real output. From the viewpoint of 1930-31, this would have been an attraction of reliance on exchange depreciation, rather than wage cuts. That apart, there were two problems in wage reduction:
• the difficulty of converting *general* wage reductions into lower real wages - one of the major points made by Keynes. Of course, it was possible to reduce a real wage if it covered a limited field. The federal basic wage did fall in real terms. But, overall, hourly real wages were not reduced.

• a low macro-economic elasticity of demand for labour due to (1) the adverse effect on the demand for output associated with reduced purchasing power in the workers’ hands and (2) a psychological reluctance of capitalists to contemplate added investment that might have offset diminished consumption.

Notwithstanding these points, it must surely have been true that the general lowering of the price level (including wages) restored somewhat the relativity of domestic to external prices and that this helped sustain primary producers who would otherwise have gone to the wall. Keynes implied that this policy had been taken to its practical limit, and possibly too far. He may well have been right.

6. Recovery

In the last five years or so before the war, the apparent interest of the economists in wage fixation diminished. The reasons are not obvious. It may be that the experience of the depression years, reinforced by the arguments of Keynes and Walker, caused misgivings about the macro-economic case for wage management. In its 1934 basic wage decision, the Court itself expressed doubts about the benefits of the 1931 wage cut. So far as I know, no economist responded.

There was an important exception to the general disregard of wages.

W.B. Reddaway was trained at Cambridge, with Keynes as his supervisor, and subsequently worked in the Bank of England. He came to Australia to work at Melbourne University as a Research Fellow – a post funded from Giblin’s fees as a Director of the Commonwealth Bank.\(^{16}\) Apparently, he was recommended to Giblin by Keynes. Reddaway arrived in Melbourne with the galley-proofs of the *General Theory* in his baggage, and one of his early tasks was to explain the book to his colleagues. He published a review article in *The Economic Record*. He was soon giving evidence to the Royal Commission on Banking. Had he stayed in Australia, he would surely have become a dominant figure in the profession.

The unions applied for a basic wage increase in recognition of the prevailing prosperity. Just as the Court had sought the advice of an independent expert in 1930, it did so in 1937.\(^{17}\) It is unlikely to have chosen Reddaway of its own initiative, and it probably acted on the advice of Copland or Giblin. Reddaway was then aged 24. After he had been sworn, Chief Judge Dethridge said to him:

\(^{16}\) On Reddaway’s death in 2002, Alex Millmow wrote a note about his brief sojourn in Melbourne (Millmow, 2003). I have been assisted by this in relation to the circumstances of Reddaway’s visit.

\(^{17}\) The Australian Industrial Relations Commission now refuses to summon its own evidence, for the reason that the selection of witnesses might call its impartiality into question.
You understand, Mr. Reddaway, you are being called as the Court’s witness, identified with neither side? . . . The Court considered that it would be advisable to have the assistance of some trained mind in respect of the subject matter and, that being so, we thought it desirable to have you as a witness. 18

Reddaway replied that he had prepared a memorandum of his evidence and had shown it to Professors Giblin, Copland and Wood, ‘who have authorised me to say that it represents substantially their views also’.

Reddaway said that the increased prosperity of the country enabled employers to pay a higher basic wage; and the situation was the converse of that which led to the reduction in 1931. He began by discussing four factors that might be seen by the ill-informed as adverse to a wage increase:

• The level of foreign borrowing. ‘It is sometimes argued’, said Reddaway, ‘that Australia cannot now be as prosperous, or as capable of paying high wages, as she was before the slump, because she is no longer receiving £30 million a year in overseas loans’. Reddaway explained that ‘the effect of overseas borrowing was that men were employed in what was virtually an export industry’. The ‘exports’ were public works, and ‘although these were not physically exported, yet the same immediate effect was obtained by exporting corresponding Government obligations’. They funded imports. When the borrowing ceased, that particular export industry was extinguished. The immediate effects were dire, but with time the economy had adapted so that resources were now deployed in producing locally the items that were previously imported. The proceeds of public works ‘exports’ had been used to fund activities of low productivity, so that the real loss was small.

• The Australian pound’s ‘discount’ against sterling was evidence of a worsened economic position. Reddaway told the Court that the previous parity was of historical interest only and irrelevant to present policy.

• The unsatisfactory financial state of the railways required continuing wages restraint. (It will be remembered that the 1930-31 inquiry was instigated by an application related to the railways.) Reddaway called for a proper perspective of the railways:

Railways have proved a bad investment for Australia, as they have in other countries, largely because of the growth of road competition. . . . Where they are in private ownership this meant either a drastic reduction of capital, or simply the passing of dividends on a great part of it. The Australian owners (i.e., the general taxpayers) must similarly recognise that their investment has proved a bad one . . . They cannot expect wages to be held down to a level which will cover up their mistakes.

18 This and subsequent quotations from the evidence are taken from the transcript, a copy of which is in my possession.
• The ‘very bad financial position’ of many farmers. Reddaway wanted ‘to impress on the Court most earnestly that too much importance should not be attached to this argument in deciding on the level of wages’. At the prevailing export prices, the farmers’ difficulties arose not from an inability to cover operating costs, but from the excessive prices they had paid for their land. They had made bad investments. ‘This created a grave social problem, but it is not one which should or can be rectified by adjusting wages. It calls for adjustment on capital account, and this is in fact being effected through debt adjustment boards and revaluations. Wages only affect the current position and this is for the most part satisfactory . . .’

Having thus rejected or given little weight to the arguments against a wage increase, Reddaway turned to the principal argument in favour, encapsulated in the heading ‘Prevention of an Unhealthy Boom’. Community income was rising. Part of this increase was going to labour through less unemployment; ‘but if the wage rates are not increased, then the greater part will be concentrated in profits and rents’. Land values and share prices were rising. There was a danger that this would cause investment in buildings and equipment that would eventually be found excessive, causing a slump. ‘A rise in real wages’, said Reddaway, ‘would now be extremely valuable as a restraining influence both on the price of existing capital assets and the excessive construction of new ones’.

It may seem strange for an economist to be preaching the need to curb investment. In recent years emphasis has rightly been laid on the need to stimulate it. But there is really no paradox; we do not even want to have a smaller amount of it now than before. The fact is simply that business confidence has increased and the limits of existing capacity have been reached in certain lines, so that without restraint we should have too much. At the same time a re-distribution of income in favour of spenders will increase the demand for the products of new factories, and so provide a solid support for the investment which is undertaken.

In his conclusion, Reddaway said that restoration of the 1929 level of the real basic wage was ‘the absolute minimum’; and that ‘in view of the desirability of checking the boom and securing a distribution of income which would help to preserve the present level of prosperity I think a somewhat higher figure would be much more satisfactory - say two or three shillings higher’. If the Court were contemplating a range of possible increases, the course of ‘safety’ lay in choosing the upper, rather than the lower, end of the range.

The outcome of the case was that the Court added ‘prosperity loadings’ to the basic wage. These varied between the States according to the level of prosperity.19 The loadings were not subject to cost of living adjustments until 1946, when they were simply absorbed into the total basic wage. But

19Six shillings – about 8-9 per cent of the existing basic wage – were granted for New South Wales, Victoria and Queensland, and four shillings for the other States.
the higher wage that resulted from the 1937 case was dubbed the ‘Reddawage’. I make the following observations about Reddaway’s evidence:

- It entailed a clear perception of the Arbitration Court as an instrument and arbiter of macroeconomic policy. The same perception, of course, was apparent in Copland’s evidence in 1930. Like Copland, Reddaway saw the policy as operating via the modification of distributive shares. By reallocating income between rent and profits, on the one hand, and wages, on the other, the Court would moderate the expansionary forces then evident in the economy.

- There was a presumption that good policy required wage restraint in depressed times and generosity when conditions were better. This presumption was generally accepted by the Court and created difficulties after World War II, when it was translated into an environment of full employment and inflation.

- Reddaway spoke of the need to increase the real wage, failing to comment on the Court’s ability to control real wages and seemingly taking no heed of Keynes’s remarks about the consequences of attempting to fix real wages and the advisability of stabilising money wages. Overall, Reddaway’s evidence was surprisingly non-Keynesian.

By early 1938, Reddaway was back at Clare College, Cambridge. He published an article reviewing in some detail the Court’s policies over the period 1927-37. Overall, he gave the Court high marks. I quote only one passage from this article:

> [I]s there any advantage in having machinery for fixing the general level of wages, instead of leaving it to emerge from a large number of sectional decisions? The experience of this period surely shows that such a system is very valuable. The employment market in a country such as Australia does not, and never will, bear much resemblance to the text-book version with its perfect competition, equality of opportunity, automatic adjustments, and so on. Without some general system of regulation it is doubtful whether money wages could ever have been reduced sufficiently to preserve the exporter and encourage new manufactures; it is quite certain that the cuts would have fallen most unequally on different sections of the community. The trade unions in sheltered industries would have been able to resist the full cut, relying on the ability of the employers to charge relatively high prices at least for a time; if the unsheltered industries were to be maintained despite these relatively high prices for the things they bought, then the standards of the people engaged in them would have had to be cut still further. To secure the general fall in costs that was vitally necessary, a general system of regulation was almost indispensable. (Reddaway, 1938, pp. 334-335)
7. Conclusion
The economists who exerted significant influence over policy before World War II were predominantly academics. Had governments wanted to develop economic bureaucracies, they would either have had to recruit the academics or import economists, but they showed little inclination to do either. The war, however, was to give a major impetus to the expansion of economic advice within Government and this occurred partly by moving the academics into the service of government and partly by employing the emerging group of economists whose initial training was provided within Australia but often supplemented by study in England.

Wage policy was one of the topics to which the economists gave their attention. To the best of my knowledge, Australia was unique in the part that wage policy played in economic discourse. This, of course, is attributable to the unique role of arbitration in this country. The economists probably had a stylised conception of the federal Court – one that exaggerated its control of affairs. For its part, the Court’s willingness to listen to the economists was no doubt due partly to its own lack of economic expertise: it was entirely composed of lawyers. The explicit and implicit affirmations of the economists about the significance of wage policy added, no doubt, to the Court’s sense of its own importance.

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