

Ted Theodore: the proto-Keynesian

John Hawkins¹

'Red Ted' Theodore served an interrupted term as treasurer in Scullin's government during the Great Depression. He took office days before the Wall St crash. He was well read in economics, and was an early advocate of Keynesian ideas. However, the Scullin government was impeded by a hostile Senate, a recalcitrant Commonwealth Bank and a divided Labor Party, which made it extremely difficult for Theodore to implement his policies. In addition, corruption allegations led Theodore to stand aside as treasurer during a crucial period. Losing his seat at the subsequent election, Theodore then pursued a successful business career.



Source: National Library of Australia.

1 The author formerly worked in the Domestic Economy Division of the Australian Treasury. This article has benefited from discussions with Selwyn Cornish and Alex Millmow. The views expressed are those of the author and not necessarily those of the Australian Treasury.

Introduction

Edward 'Red Ted' Theodore's political career was one of great promise unfulfilled. Many regarded Theodore as our greatest treasurer² and a poll of historians rated Theodore as the 'best prime minister we never had'.³ Mary Gilmore rated him as one of the seven greatest living Australians.⁴ Theodore was particularly admired for his intelligence and knowledge of economics and finance. The conservative premier Bertram Stevens described him as 'the coolest, best and most experienced financial brain in the southern hemisphere'.⁵

Kim Beazley Snr (1966) called Theodore 'Australia's first significant Keynesian'. What were then regarded as his heretical views became orthodoxy.⁶ As well as economic expertise, he had business acumen, which enabled him to rise from being a mine worker to being a mine owner. By the end of his life he was described as 'the closest that Australia had come to producing the Great Gatsby'.⁷

He had a justified reputation as a hard man but 'combined the power of the old-time AWU organiser with the flexibility of the cultured intellectual'.⁸ His weakness was an 'inexplicable incapacity to appreciate the psychology of the men among whom he worked'.⁹ In particular, he appeared unaware of the jealousy towards him within the Labour movement. He has been called 'the quintessential loner' and 'an enigma' who would not 'let anyone know what touched him deeply'.¹⁰

2 This was the view of Ben Chifley — cited by Crisp (1960, p. 42), Sir Leslie Melville (1993) and economic historian and depression chronicler Boris Schedvin (1970, p. 119). Even his bitter rival Jack Lang (1962, p. 158) concedes 'Theodore was a natural for treasurer'. Treasury officials reportedly rated Bruce and Theodore as the best treasurers of their age, according to Edwards (1965, p. 59) and K Page (1983). Cain (1987b, p. 15) remarks that Theodore is 'widely regarded as one of the cleverest Australian to hold the position'.

3 Walker and Koutsoukis (2001). Whitlam agreed; 'Of Australian parliamentarians who never held the highest office, Evatt alone overshadows Theodore in stature and significance'; foreword to Young (1971, p. viii).

4 *The Home*, 1 March 1924, p. 66.

5 Cited in *Sydney Morning Herald*, 5 September 1945, p. 7. To give another of many examples of praise from the conservative side of politics, Bruce called him 'most competent, a magnificent speaker and a good administrator'; Edwards (1965, p. 445). Among historians, C Hughes (1972, p. 363) regards him as 'one of the most powerful and creative minds to turn to politics in Australia'.

6 For example, looking back in his retirement Menzies (1967, p. 120) commented 'there was a strong case for deficit-budgeting in a period of depression; we have all come to accept this'.

7 Historian Geoffrey Bolton, cited by Fitzgerald (1994, p. xvii).

8 Ross (1977, p. 95).

9 Denning (1937, p. 31). A similar view is put by Young (1971, p. 19) and Schedvin (1970, p. 120).

10 Hughes (1972, p. 363), Clark (1987, p. 319) and Packer (1949, p. 5).

His career before politics

Edward Granville Theodore was born on 29 December 1884 at Port Adelaide to a Romanian immigrant wharf labourer and an English immigrant. He attended local schools and did some labouring jobs before heading for the Western Australian goldfields in 1900. From there he moved to the Abrolhos Islands and then to Broken Hill. By 1906 he had moved to Chillagoe, in the hinterlands of Cairns, where he toiled as a mine labourer and prospector. Miners with whom he worked recalled his incessant reading. In 1909 he married Esther Mahoney. Theodore was a founder of the Amalgamated Workers' Association of North Queensland and its first secretary. When it merged with the Australian Workers' Union in 1913, Theodore served as its state president from 1913 to 1916.

Treasurer and premier of Queensland

In October 1909, aged only 24, Theodore won the Queensland Legislative Assembly mining seat of Woothakata (from 1912 Chillagoe). He worked hard to improve his rhetoric and studied finance in the parliamentary library.¹¹ He was rewarded with a rapid rise. When T J Ryan became leader in September 1912, Theodore became his deputy. In June 1915, Ryan led Labor into power and Theodore was treasurer, deputy premier and minister for works. In May 1916, Theodore took to the national stage as acting premier at the premiers' conference.

Theodore's approach to the state budget was described as 'orthodox'¹² but the new government sought to promote competition by establishing government-owned enterprises ranging from 'cattle stations and butchers, timber and sugar mills, banking and insurance services, even an hotel'.¹³ It also had ambitions to break up land monopolies and reform industrial legislation, although these faced considerable opposition in an upper house of members appointed for life. With a drought sapping revenues and a desire to expand the rail network, Theodore introduced new taxes on companies in his first state budget on 13 October 1915.

In August 1919, Theodore introduced the Unemployed Workers Bill, providing for establishment of an Unemployment Council to study the issue and devise policies to combat it. The central thrust was to time public works projects for periods of slack demand. It also allowed for a levy on companies to fund unemployment insurance.

11 Fitzgerald (1994, p. 39) remarks that even while an itinerant miner, 'wherever he went he joined a library and read whatever he could' and once in parliament, 'he devoted his spare time to studying finance'. He later built up a substantial library of books on economics after moving to a larger house in 1916; Simpson (1931).

12 Cain (1990); Clark (1975, p. 28).

13 Cain (1990). See also Murphy (1978) on Theodore as state treasurer.

Ted Theodore: the proto-Keynesian

While blocked by the upper house, it was an important assertion of a new principle. Theodore declared 'every citizen of the state has a right to get work'.¹⁴ These ideas foreshadowed the attitudes he would adopt as federal treasurer a decade later.

In October 1919, when Ryan resigned to enter federal politics, Theodore became premier at the age of 34 and remained treasurer.¹⁵ In 1922, Queensland became the only state to pass legislation to abolish its upper house, which enabled Theodore to pass legislation providing for unemployment benefits, broader workers' compensation, organisation of rural marketing and funding of relief work by local governments.¹⁶

When UK investors were critical of his radicalism, Theodore became the first Australian premier to raise funds in the New York money market. However, these funds proved more expensive and Theodore later compromised some policies to secure further funds from London.

In October 1921, Brisbane hosted the Labor Party national conference. The future prime minister Jim Scullin supported a motion establishing the objective of the party as 'the socialisation of industry, production, distribution and exchange'. Theodore unsuccessfully moved an amendment limiting nationalisation to 'those agencies ... which are used under capitalism to despoil the community', but later succeeded in having the conference adopt the 'Blackburn interpretation' that the policy's extent was only 'for the purpose of preventing exploitation'. Theodore explained the need to control the instruments of credit and supported the nationalisation of banks.¹⁷ He expressed sympathy for farmers, 'the most indispensable worker in the community' and expressed concern about the 'rural exodus' to the cities.¹⁸

At Labor's national conference in 1924 Theodore successfully moved to have put in the platform a call for the 'Commonwealth Bank to be developed on the lines of a central reserve bank, while retaining its ordinary and savings bank functions', notwithstanding the ongoing commitment to bank nationalisation.¹⁹ Theodore

14 *Queensland Parliament Hansard*, 2 September 1919, p. 502.

15 From March 1920 to February 1922 he transferred the treasurer's job to deputy premier John Fihelly.

16 Higgins (1954, pp. 26-8).

17 Murphy (1978). However, as Anstey (1939) notes, at this time 'Theodore on banking and credit questions was radical but not radical enough' for Scullin.

18 Theodore (1922, p. 3).

19 Robinson (1986, p. 138) and Murphy (1978, p. 336).

regarded Page's 1924 central banking legislation as 'an emasculation of the central bank', putting it under the control of private banks.²⁰

After winning Labor preselection for the federal seat of Herbert, Theodore resigned as premier in February 1925 and MLA in September, but to all-round surprise narrowly failed to win the federal seat. Theodore moved to New South Wales, winning the NSW seat of Dalley at a by-election in January 1927. He was cleared of allegations that he paid the former member, William Mahony, to resign.

First term as Australian treasurer

Theodore's speeches as a backbencher were mainly on economic matters. His arrival was welcome as while Treasurer Page was vulnerable on financial issues there was no Labor members with the technical ability to put him under pressure.²¹ Theodore attacked Page for supporting cuts in wages and reductions in tariffs. In February 1929, Theodore was unanimously chosen as deputy leader, and was acting leader for two months while Scullin was ill.²² After Labor defeated the Bruce government in October 1929, Theodore, who had been campaign director, became treasurer and deputy prime minister. He relaxed after the election win by reading a book on economics at a picnic.²³

Cain (1990) pens the following portrait of Theodore as a new treasurer:

'carefully attired, aloof, grave and measured in manner, the new treasurer stood out in a parliament where his air of brooding strength and confident grasp of the world at large intimidated colleagues and foes alike ... Theodore was a solitary man. In the comfortable library of his Kirribilli home were gathered works ranging from economics and history to philosophy and literature. Proud and relentlessly self-improving, already prospering from investments and multiplying his contacts in the business world, he had moved far in style and circumstances from the working man he once was'.

20 Theodore (1925, pp. 2, 9). He regarded it as part of the Bruce-Page Government's 'pandering to the plutocrats'; Theodore (1925, p. 16). Notwithstanding this criticism, Page made strenuous efforts in 1923 and 1924 to get Theodore to switch sides; Young (1971, p. 43).

21 Young (1971, p. 74).

22 He had been surprisingly beaten by one vote in a ballot for the deputy's position in April 1928, perhaps being regarded as too ambitious; Love (1990, p. 377). Anstey (1939) says there was no truth in rumours Theodore had tried to dislodge Labor leader Charlton in 1927. There was press speculation that Theodore rather than Scullin might be chosen by the Labor Party as their prime minister; *Sydney Morning Herald*, 15 October 1929, p. 11.

23 According to reminiscences by his former campaign manager reported in R. Fitzgerald (1994, p. 228) and Laughren (1994).

Ted Theodore: the proto-Keynesian

Theodore stood out as a probing treasurer; 'whereas most inter-war treasurers were content to 'approve' a recommendation or otherwise, Theodore examined every clause in detail and commented extensively on any provision that needed alteration or clarification ... he found himself in the unique position of having a firmer theoretical and practical grasp of the situation than his senior treasury officials'.²⁴

The Treasury Secretary from 1926 to 1932 was James Heathershaw, an accountant who, partly due to illness, could not play a strong role in developing economic policy responses to the depression.²⁵ His deputy Henry Sheehan, also an accountant but with more relevant experience and better health, could make a larger contribution and succeeded to the Secretary's role in 1932.²⁶

Theodore assumed the responsibilities of treasurer at a time when many observers, especially overseas, had serious concerns about the state of the Australian economy.²⁷ Australia was particularly vulnerable given the importance of wool and wheat exports, whose prices had collapsed, and the reliance on overseas capital.²⁸ The UK bankers and investors had become concerned about the build-up of Australian debt during the 1920s, and the increase in tariffs and end of assisted immigration from the UK made things worse. The London market had effectively closed to Australian government borrowers after January 1929. Given there was a statutory requirement that 25 per cent of the note issue be backed by gold, current account deficits not matched by capital inflows were deflationary.

Moreover, a mere two days after he became treasurer, Wall Street crashed and an already tepid economy was on its way into the Great Depression.²⁹ In October 1929, Brigden prepared a note forecasting a 10 per cent drop in national income in 1930, one of the earliest macroeconomic forecasts.³⁰

Within weeks of taking over as treasurer, Theodore had revised Page's last budget, dropping the amusement tax and raising income taxes on high incomes. On 21 November 1929, Theodore accused the previous administration of concealing

24 Schedvin (1970, p. 119).

25 Schedvin (1970, p. 88), Treasury (2001, p. 28) and Page (1983, p. 250).

26 Treasury (2001, p. 35), Schedvin (1970, p. 88), Melville (1993) and Cornish (1988) all describe Sheehan as the Government's chief adviser on economic matters during the depression.

27 *The Economist* described it as having 'a dangerous element of insecurity palpable to the eye of the most casual observer'; 19 October 1929, p. 706. Markwell (2000) describes the reservations Keynes, in his role as investor, held about Australia.

28 Schedvin (1970).

29 The Great Depression is well described, and compared with the current experience, in Gruen and Clark (2009) in the previous *Roundup*.

30 Brigden (1929). The note included some multiplier effect. Brigden made public his views in *Sydney Morning Herald*, 7 December 1929.

Australia's financial problems and revised the budget estimate for 1929-30 from Page's estimate of a surplus of £0.4 million to a deficit of £1.2 million. Presenting it to parliament, he argued the Bruce-Page government 'had greatly understated the expenditure requirements and over-estimated the probable revenue'.³¹ However, he ended on an optimistic note; 'if we are blessed with good seasons, our troubles will soon disappear, and we shall commence a new era of progress and prosperity'.³²

Theodore was already uncomfortable about the pro-cyclical policy of conventional approaches to fiscal policy, noting that capital works spending 'tends to grow in times of prosperity and to diminish in times of depression'.³³ Labor figures such as Frank Anstey advocated credit expansion and this was debated in caucus as early as November 1929.³⁴ At this time Theodore adopted orthodox measures to balance the budget; raising tariffs and cutting public works.³⁵

The economic and other strains appeared to be taking more of a toll on Scullin than on his treasurer, and by early 1930 there were rumours Scullin may step down in favour of Theodore.³⁶ Scullin announced that Theodore would be acting prime minister while he went to Europe to attend the Imperial Conference, removing himself from the domestic political scene for over four months.³⁷

31 *Hansard*, 21 November 1929, p. 111. He had earlier said the Bruce-Page government had 'left the Treasury empty'; cited by Scullin, *The Argus*, 4 November 1929, p. 7.

32 *Hansard*, 21 November 1929, p. 119. Theodore realised he may need to take controversial measures. He doubted the Senate would be obstructionist, but warned of a double dissolution if it were; *Sydney Morning Herald*, 16 October 1929, p. 16.

33 *Hansard*, 21 November 1929, p. 114. Scullin elaborated on this argument in a speech, commenting that 'the general tendency of treasurers is to curtail their expenditure on public works whenever there is a period of industrial depression. This has the effect of aggravating the whole position. If the problem of unemployment were tackled on scientific lines the public works policy of the Commonwealth as a whole would be formulated so that during times of general industrial depression there would be an impetus to work of this character with a corresponding curtailment of it during times of general industrial prosperity'; *The Argus*, 4 November 1929, p. 7.

34 Fitzgerald (1994, p. 239), Anstey (1939).

35 At a caucus meeting in May 1930 Yates moved 'that the Government arrange to have £20 million available through the Commonwealth Bank for the purpose of supplying the wants of the states and commonwealth for public works', but Theodore in the chair opposed it as 'not practicable'; *Caucus Minutes* 14 May 1930, in Weller (1975, pp. 371-2).

36 Cook (1971, p. 191).

37 While there were important duties there, Denning (1937, p. 180) suggests Scullin was 'cracking under the strain' and partly went for a respite.

Central banking reform

As early as December 1929 Theodore had outlined to cabinet a proposal for a reconstruction of the Commonwealth Bank.³⁸ In January 1930 it was agreed to appoint a committee of four economists including Copland and Wickens to report on 'present restricted credit and the cause thereof'.

Theodore's *Central Reserve Bank Bill* of April 1930 was influenced by Keynes' writings in the 1920s. Hugh Armitage at the Commonwealth Bank worked with Theodore on it.³⁹ The opposition-controlled Senate failed to pass it after they referred it to a select committee, which did not report until December.⁴⁰ The bill would have separated central banking functions from the Commonwealth Bank into a separate Central Reserve Bank, to be managed by a board consisting of a governor, two deputy governors, the treasury secretary and five other directors, retiring in rotation 'who are or who have been actively engaged in agriculture, commerce, finance, industry or labour'.⁴¹ (The remainder of the Commonwealth Bank would then be able to compete freely with the private banks for ordinary banking business, an aspect that did not appeal to the private banks.⁴²) The Central Reserve Bank would have control of the note issue, and banks would be required to hold reserves with it and supply it with information on their operations. The Bank would be empowered to buy and sell exchange and securities and make advances. These provisions are very similar to the

38 Cabinet minutes for 16 December 1929 in Crisp papers, National Library of Australia, MS 5243/20/156. Theodore agreed with those who argued 'the Commonwealth Bank as a central bank had definitely failed to arrive'; *The Economist*, 26 October 1929, p. 756.

39 Schedvin (1970, pp. 86, 173) and Giblin (1951, p. 109). Schedvin (1970, p. 86) suggests that a bill drafted for Page in 1928 formed the basis for Theodore's bill. A letter to Armitage on 8 February 1930 refers to the Attorney-General's Department working on a Reserve Bank Bill and a Commonwealth Bank Bill; RBA S-d-13. Armitage writes to Heathershaw on 15 April 1930 informing him of progress in drafting the bill, and noting that Theodore 'has been through this memorandum and made his annotations'; RBA Archives S-d-13.

40 An influential voice pushing the opposition to do this was the head of the largest private bank, Alfred Davidson; Schedvin (1998, p. 342). See Hawkins (2010) for a further discussion of the select committee.

41 Young (1971, pp. 110-1).

42 Theodore had earlier expressed reservations about turning the Commonwealth Bank into a purely central bank if this meant it could no longer compete with the private banks; *The Economist*, 26 October 1929, p. 757. But keeping the retail operations was not just seen as making the bank both a player and an umpire, but also meaning that the Commonwealth Bank held similar, illiquid, assets as the private banks and so was not well placed to support the private banks in a crisis; Cornish (2007, pp. 7-8), Cornish (2010, pp. 5-6) and Harvey (1927). The private bankers generally were supportive of a central bank in principle, but this seems to be partly motivated by the idea of converting the Commonwealth Bank from an active competitor to a neutral umpire - they conspicuously refer to the Commonwealth Bank becoming a central bank and dropping its trading operations rather than a new central bank being established in addition. These fears may have been amplified when the Commonwealth Bank Bill of May 1930 seemed to set it up for more vigorous competition; Holder (1970, p. 653).

arrangements ultimately established in 1960 and in large measure still applying today.⁴³ Much informed opinion found the bill unobjectionable.⁴⁴

The powerful chair of the Commonwealth Bank, Sir Robert Gibson, wrote to Theodore expressing the Board's opposition and calling for a delay.⁴⁵ As well as his generally conservative stance, Gibson was likely opposed to a reduction in his own power as he would not have been appointed as chair of both the Central Reserve Bank and the Commonwealth Bank. The scope for the Labor Government to appoint the head of the new central bank was a concern to conservatives generally, who saw in Gibson a doughty defender of 'sound finance'.

A forced hiatus on the backbench

In July 1930, Theodore stood down from cabinet after the conservative Queensland government established a royal commission into accusations that the Mungana mine in which he had an interest was sold to the Queensland government at an inflated price while he was premier.⁴⁶ While the commission found against Theodore, no criminal charges were laid, denying Theodore the chance to clear his name. At a subsequent civil case in August 1931, a jury acquitted Theodore.

Theodore spent some of his time on the backbench developing his thoughts on economic policy, notably through discussions with Professor Irvine.⁴⁷ Theodore moved from a relatively orthodox to a more radical line, which could be described as Keynesian before Keynes.⁴⁸

Anticipating that Theodore would only be on the backbench for a short while, Scullin took on the treasurer's position himself, with Joe Lyons as assistant treasurer.⁴⁹ In practice Lyons was acting treasurer for most of the time Scullin had the post as Scullin was in Europe. With Theodore now unavailable, James Fenton became acting prime minister.

43 A short history of central banking in Australia is provided by Cornish (2010).

44 *The Economist* (5 April 1930, pp. 767-8) described it as 'an attempt to put an end to a long-standing anomalous situation ... there is no obvious weakness in these proposals'.

45 Gibson to Theodore, 6 February 1930, RBA S-d-13.

46 Anstey (1939) claims that Theodore told him Scullin had requested he stand down.

47 Irvine had been the first professor of economics at the university of Sydney. McFarlane (1966), Hart (1967, p. 72) and Kennedy (1988, p. 294) refer to his discussions with Theodore. Cain (1987b) suggests NSW MP and economist Clarry Martin, a student of Irvine, may have helped Theodore with his speeches, but the biography of Martin by White (1986) has no suggestion of this.

48 This was over six years before the publication of Keynes' *General Theory*, but Theodore had read and been influenced by the *Treatise on Money*. It is not known whether he had read other works by Keynes, such as *Can Lloyd George Do It?*, that presaged the ideas of the *General Theory* in a simpler and shorter form.

49 See the essay on Scullin in the following issue of *Economic Roundup* for further information.

Ted Theodore: the proto-Keynesian

As well as leaving for Europe, Scullin made two other decisions which proved controversial within the Labor Party. When the Bank of England suggested a mission to Australia to examine public finances, Scullin approved but it is unclear whether caucus had even been informed.⁵⁰ The mission was led by Otto Niemeyer.⁵¹ Scullin also renewed Gibson's term as Commonwealth Bank chairman. Contrary to some claims, Theodore denied any involvement.⁵²

Theodore later claimed that had he not been forced to resign he might have been able to persuade the commercial banks to adopt a more expansionary lending policy.⁵³

The battle of the plans begins

At the Melbourne premiers' conference in August 1930, Fenton and Lyons and the premiers subscribed to Niemeyer's plan to cut wages and government spending and balance budgets. In New South Wales Jack Lang won an election by repudiating the Melbourne agreement, raising the political pressure on the Scullin Government further.

Lyons consulted prominent economists such as Giblin and Copland and then took a plan to caucus for a 10 per cent cut in wages, a supertax on property income, a 20 per cent appreciation and an expansion of credit. Lyons moved in caucus to make the Government's policy 'free exchange rates, stabilisation of internal prices by monetary control, reduction of interest rates and provision of credits for industry, and that every effort shall be made by the government to induce the Commonwealth Bank to carry out such policy.'⁵⁴ An amendment seconded by Theodore sought to direct the Commonwealth Bank to create sufficient credit to finance the government and provide for £20 million for works programmes, and was carried 26-14.⁵⁵ (This proposal is sometimes termed the Gibbons plan – see Table 1 below for a comparison of the plans.)

50 Fitzgerald (1994, p. 241). Cook (1971, p. 231) believes caucus had not been told. See Millmow (2004), Attard (1992) and the essay in this series on Scullin for further discussion.

51 Niemeyer had a distinguished career, finishing first in the 1906 civil service entrance exam ahead of Keynes (and thereby forcing Keynes to join the Indian office rather than Treasury), but had been associated with Churchill's disastrous move to return the pound to its pre-war parity with gold in 1925.

52 Questioned at a public meeting, Theodore said 'No doubt Mr Scullin had good reason for not changing the chairman at that time. I do not know the reason'; *Sydney Morning Herald*, 17 January 1931, p. 17. Cook (1931, p. 211) suggested Theodore reluctantly agreed with Scullin's wish.

53 Interview in August 1934, reported in Maclaurin (1937, p. 44).

54 *Caucus Minutes*, 28 October 1930 and Weller (1975, p. 391).

55 *Caucus Minutes*, 30 October 1930 and Weller (1975, p. 395).

A few days later Fenton read to caucus a letter from Scullin apparently supporting Lyons' position.⁵⁶ Initially, this was not sufficient to sway caucus, which resolved that the Government should continue to push the Commonwealth Bank. Fenton and Lyons said that 'in view of the vote that they would consider their position'.⁵⁷ Reconsidering, to avoid a party split, caucus agreed to defer the matter until Scullin returned.⁵⁸

In October Theodore denounced the Lyons plan in parliament and supported more expansionary measures in caucus and in published articles such as Theodore (1930). His biographer opines 'Theodore was Lyons' intellectual superior and as such able to comprehend new theories that alarmed Lyons' more orthodox and cautious mind'.⁵⁹

In December 1930, Curtin and Chifley successfully moved to have the Labor Party appoint a committee to formulate a clear monetary policy. The committee was to include Curtin himself, the radical Anstey, Theodore and conservatives Fenton and Lyons, and with the power to co-opt other members as necessary.⁶⁰

Theodore's second term as treasurer

When Scullin returned from London in January 1931, he persuaded caucus to reinstate Theodore. Lyons and Fenton felt this was inappropriate as Theodore had not been cleared, and resigned from the ministry.

Theodore espoused reflation at the February 1931 Premiers' Conference. His plan drew on discussions with economists Giblin (whom Theodore appointed acting statistician), Copland, Dyason and Irvine, although none would probably have supported it in total. Giblin (1931) also provided Theodore with what may have been the first official estimates and forecasts of Australian national income. Giblin's early work on the multiplier may have inspired Theodore, whose March 1931 paper to caucus said 'every one hundred additional men employed upon productive work would necessitate the employment of two hundred additional men in the factories, shops and transport services'.⁶¹

The Theodore plan was a 'middle way' between the deflationist plan and the Lang plan of repudiation (Table 1).⁶² Theodore spoke eloquently of the need to counteract

56 *Caucus Minutes*, 6 November 1930; Weller (1975, p. 396).

57 *Caucus Minutes*, 6 November 1930, Weller (1975, p. 397).

58 Love (1990, p. 416).

59 Hart (1967, p. 72).

60 *Caucus Minutes*, 10 December 1930; Weller (1975, p. 407).

61 *Caucus minutes*, 2 March 1931, in Weller (1975, p. 416).

62 The Theodore plan is summarised in Weller (1975, pp. 416-8). It was approved by caucus 32-12; *Caucus Minutes* 2 March 1931; Weller (1975, p. 418).

Ted Theodore: the proto-Keynesian

'the complete breakdown of the monetary system'. Theodore aimed to get wholesale prices back to their average 1925-1929 level.⁶³ He quoted international economists such as Keynes, Cassel and Hobson and local economists such as Brigden and Wickens in his speech. Theodore felt conservative economists and bankers were excessively wedded to maintaining parity between the Australian pound and sterling, which he dubbed a 'conservative fetish'.⁶⁴

Theodore played a prominent role in negotiations for merger of the Government Savings Bank of NSW and the Commonwealth Bank's savings bank arm.⁶⁵

63 His thoughts were influenced by a note by Copland, Dyason and Giblin (1930).

64 *Sydney Morning Herald*, 17 January 1931, p. 17.

65 This was 'regarded as a triumph for Mr Theodore'; *Round Table*, no 86, March 1932, p. 410.

Table 1: Battle of the plans

	Neimeyer plan (Melbourne agreement)	Stabilisation (Economists') plan	Lyons (Sheehan) plan	Gibbons (Theodore) plan	Theodore plan	Lang plan	Premiers' plan
	August 1930	Sept 1930	Oct 1930	Oct 1930	Feb/March 1931	Feb 1931	June 1931
Government spending	cut	cut	cut but expand public works	increase public works	expand unemployment relief; some other cuts		cut by 20% (12½% for pensions)
Taxation		raise on property income	raise on property income				raise income and sales taxes
Interest rates		lower	lower	lower	lower	lower	lower
Exchange rate	unchanged	devalue 20%	free	devalue	devalue	goods standard	unchanged
Public sector wages	cut	cut by 10%	cut by 2½ to 15 per cent	cut high salaries only	cut (stable in real terms)		cut by 20%
Private wages	cut	cut by 10%					cut by 20%
Government debt					special tax on interest	defer interest	voluntary conversion but with tax penalty
Bank credit		expand	expand	expand	expand		expand

Major sources for Table 1:

Neimeyer plan: Schedvin (1970, pp. 182-3);

Stabilisation plan: Schedvin (1970, p. 222), Copland, Dyason and Giblin (1930), Copland, Giblin and Wood (1930, pp. 179-86), Copland, *The Argus*, 27 October 1930,

p. 9.

Lyons plan: Schedvin (1970, p. 190) and *Sydney Morning Herald*, 3 October 1930, p. 11.

Gibbons plan: Schedvin (1970, p. 192) and Weller (1975, p. 391).

Theodore plan: Weller (1975, pp. 416-8).

Lang plan: Schedvin (1970, p. 228);

Premiers' plan: Schedvin (1970, p. 249) and Shann and Copland (1931).

Ted Theodore: the proto-Keynesian

The Fiduciary Notes Bill

Cabinet approved Theodore's Fiduciary Notes Bill in March 1931. It envisaged an issue of £18 million, with £1 million a month being used to support employment and £6 million for farmers. In April 1931 the Senate rejected the Bill.⁶⁶

Theodore quoted from Keynes' *A Treatise on Money* in his speech. Theodore had the first copy of this in Australia as his friend WS Robinson had arranged for a copy to be sent to Theodore as soon as it was published in 1930.⁶⁷ Theodore prophesied that the book 'will stand for fifty years'. This was uncannily accurate; 1980 was about when Keynesianism was (temporarily) eclipsed by monetarism.⁶⁸

The Battle of the Plans continues

The Premiers' Plan was developed by four of Australia's leading economists: Copland, Giblin, Melville and Shann. It was hailed by many overseas commentators as a good example of governments listening to economists.⁶⁹ Melville (1971) rejects Schedvin's characterisation of the Premiers' Plan as passively following the market, arguing that the authorities could have kept deficit budgets and used controls to fix the exchange rate and not cut wages.

Theodore was ahead of Keynes in what came to be called Keynesian thinking. At the time Keynes himself praised the Premiers' Plan as having 'saved the economic structure of Australia'.⁷⁰ Nonetheless, Keynes argued against some aspects, such as the nominal wage cuts.

In February 1931 the Arbitration Court reduced the basic wage by 10 per cent. This move, supported by most economists, was intended to be a cut in *real* wages, but consumer prices soon dropped by a similar amount. The exchange rate was also devalued in 1931.

66 Interestingly, Theodore would have been less constrained had Page's original 1924 proposal been enacted. Page's draft had a provision whereby control of the note issue could be resumed by the Treasury by proclamation, but this was amended away by the Senate; Giblin (1951, p. 20).

67 Fitzgerald (1994, p. 278) and Laughren (1994). This probably put Theodore ahead of Australia's professional economists: Cain (1987a, p. 5) says the book '... did not begin to register in Australian academic discussion until the second half of 1931'. Most reviews of it did not appear until 1933. See Markwell (2000) for a discussion of Keynes' influence on Australian economists.

68 Keynes developed the ideas in the *Treatise* in his *General Theory* in 1936, which became much better known.

69 Millmow (2002).

70 Keynes (1932, p. 94).

Sir Robert Gibson wrote in February 1931 that the Commonwealth Bank would cooperate if wages, pensions and social benefits were reduced, and in April told Theodore that the Commonwealth Bank would provide no further assistance to the Government, leaving it no choice but to resign, default or agree to the deflationary Premiers' Plan.⁷¹ It took Scullin and Theodore hours to convince a majority in caucus and they only won over Labor's national executive by 7 votes to 5, but in the end the Premiers' Plan was adopted in June 1931.

The July 1931 budget continued the implementation of the Premiers' Plan. It increased sales tax, cut public service salaries maternity allowances and pensions. A big drop was expected in direct tax collections. Theodore's speech was unenthusiastic but he rallied somewhat near the end, calling the budget 'a policy of internal financial rehabilitation which, though drastic in its incidence, is at any rate equitable in its effects on the various sections of the community'.⁷²

Electoral oblivion

Lyons had opposed Theodore's reappointment as treasurer, ostensibly because Theodore had then not yet been 'cleared' of the Mungana accusations, but perhaps also motivated by personal ambition.⁷³ Lyons (along with Fenton) left the Labor Party and aligned with the opposition in a new fusion to form the United Australia Party. A group of Lang supporters split off from Labor and now held the balance of power. Although Theodore was cleared of the Mungana accusations in a civil trial, the Lang Labor party continued their attack on him. In November 1931 they accused Theodore of corruption in the distribution of unemployment relief. When Scullin refused to initiate an inquiry, the rebels joined with Lyons' United Australia Party to bring down the Scullin government. At the subsequent election, Labor was reduced to 14 seats, with Theodore among the seven ministers to lose their seats.⁷⁴

Life after parliament

Theodore resisted subsequent entreaties from Curtin, Chifley and others to re-enter politics.⁷⁵ He initially stayed active in public affairs. In 1932 he led a committee which

71 Gibson's letter and Theodore's reply are reproduced in Shann and Copland (1931, pp. 44-56).

72 *Hansard*, 10 July 1931, p. 3746.

73 This question is discussed in the forthcoming essay in this series on Lyons.

74 Opposed by a Langite Labor candidate, Theodore's share of the vote dropped from 78 per cent in 1929 to 20 per cent. A key issue was the Mungana accusations. Lang's supporters parodied a popular song of the time by singing 'Yes, we have no Munganas' at Theodore's campaign rallies; *Round Table*, no. 86, March 1932, p. 416.

75 Even Lyons raised the possibility of him returning to serve in a 'composite cabinet'; Fitzgerald (1994, p. 384).

Ted Theodore: the proto-Keynesian

pointed out that a handful of banks possessed 90 per cent of business in 'a virtual money trust'.⁷⁶ Theodore's committee argued for nationalisation of private banks with compensation, and a Commonwealth Bank with a majority of the board appointed by an incoming government but with some officials remaining to provide continuity.

But gradually he turned his attention from public policy to business. He joined with Frank Packer to take over the struggling AWU paper, *The World*. Forming a company called Consolidated Press, they later launched the *Australian Women's Weekly*, and revitalised the *Daily Telegraph*. In the mid-1930s Theodore was living in Fiji running a gold mining company.⁷⁷

It has been suggested that Lyons put aside earlier differences and asked Theodore to return to Australia in March 1939 to co-ordinate defence preparations or an economic policy co-ordinating body, but Lyons was dead before it could be arranged.⁷⁸ Menzies considered appointing Theodore to head the Loan Council.⁷⁹ Curtin brought Theodore back to government as director of the Allied Works Council, skilfully organising resources for war-related projects from 1942 to 1944.

After a major heart attack in 1948, Theodore resigned the chairmanship of Consolidated Press. He died of heart disease on 9 February 1950, survived by his estranged wife and four children.

76 Theodore et al (1932, p. 9). In a later individual paper, Theodore (1933, p. 179) argued that 'the power vested in the controllers of monetary policy transcends in many respects the power vested in government and in parliaments' and the private banks do not wield this power in the public interest.

77 Ironically, given that when treasurer he had said 'gold has a fictitious value because a majority of the stupid people in the world have chosen to make it currency'; *Sydney Morning Herald*, 5 September 1945, p. 7.

78 *Sydney Morning Herald*, 5 September 1945, p. 7. The Financial and Economic Committee, a distinguished group of economists led by Giblin, lobbied Lyons in 1939 for Theodore to co-ordinate economic policy on the Committee's advice; Maddock and Penny (1983, p. 30).

79 *Sydney Morning Herald*, 5 September 1945. In a speech on 4 September 1940, Evatt claimed 'When Mr Theodore was willing to assist in Australia's financial organisation and Mr Spender has suggested his name to the conference of State Premiers, Mr Menzies allowed Mr Theodore to be rebuffed, humiliated and almost insulted. It would seem probable that Mr Menzies did not want the assistance of a man of brains'; cited by Hazlehurst (1979, p. 192). A contrary account by Cain (1990) has Theodore's appointment blocked by the Country Party, leading an exasperated Menzies to say 'give up this deplorable habit of throwing stones at great men'.

References

- Anstey, F (around 1939) 'Red Ned', National Library of Australia, MS 4636, reprinted in *Overland*, no. 32, August 1965, pp. 21-22.
- Attard, B 1992, 'The Bank of England and the origins of the Niemeyer mission', *Australian Economic History Review*, volume XXXII, no. 1, pp. 66-83.
- Beazley, KE 1966, 'Labor's unluckiest leader', *Canberra Times*, 22-23 February.
- Brigden, J 1929, 'Note on the economic position of Australia', October, Brigden papers, National Library of Australia, MS 730, folder 8.
- Cain, N 1987a, 'Australian economic advice in 1930: liberal and radical alternatives', *ANU working papers in Economic History*, no. 78, April.
- Cain, N 1987b, 'The Australian economists and controversy over depression policy, 1930 – early 1931', *ANU working papers in Economic History*, no. 79, May.
- Cain, N 1990, 'Theodore, Edward Grenville (1884-1950)', *Australian Dictionary of Biography*, vol. 12, Melbourne University Press, pp. 197-202.
- Clark, D 1974, 'The great depression in Australia: some controversial aspects', *Economics*, vol. 9, no. 1, March, pp. 45-53.
- Clark, D 1975, 'E G Theodore: his economics and his influence', *Economics*, vol. 10, no. 1, March, pp. 27-33.
- Clark, M 1987, *The Old Dead Tree and the Young Tree Green (Volume VI of A History of Australia)*, Melbourne University Press.
- Cook, P 1971, 'The Scullin Government, 1929-1931', PhD thesis, Australian National University.
- Copland, D, Dyason, E and Giblin, L 1930, 'A plan for economic readjustment', 18 September.
- Copland, D, Giblin, L and Wood, G 1930, 'Restoration of economic equilibrium', *Economic Record*, vol. VI, November, pp. 170-87.
- Cornish, S 1988, 'Sheehan, Sir Henry John (1883-1941)', *Australian Dictionary of Biography*, vol. 11, Melbourne University Press, pp. 588-9.

Ted Theodore: the proto-Keynesian

Cornish, S 2007, 'History and the development of central banking in Australia 1920-1970'.

Cornish, S 2010, '*The Evolution of Central Banking in Australia*', Reserve Bank of Australia, Sydney.

Crisp, L 1960, *Ben Chifley*, Longman Green & Co.

Denning, W 1937, *Caucus Crisis*, reprinted as *James Scullin*, Black Inc, Melbourne, 2000.

Edwards, C 1965, *Bruce of Melbourne: Man of Two Worlds*, Heinemann, London.

Fitzgerald, R 1994, '*Red Ted*'; *the Life of E. G. Theodore*, Queensland University Press.

Giblin, L 1931, 'The national income', 11 February.

Giblin, L 1951, *The Growth of a Central Bank*, Melbourne University Press.

Gruen, D and Clark, C 2009, 'What have we learnt? The great depression in Australia from the perspective of today', *Economic Roundup*, Issue 4, 2009, pp. 27-50.

Hart, P 1967, 'JA Lyons: a political biography', PhD thesis, Australian National University.

Harvey, E 1927, 'Central banking', *Economic Record*, vol. 3, no. 1, May, pp. 1-14.

Hawkins, J 2010, 'Two global crises, two Senate committees', unpublished paper.

Hazlehurst, C 1979, *Menzies Observed*, George Allen & Unwin, Sydney.

Higgins, E 1954, 'The Queensland Labour Governments, 1915-1929', MA thesis, University of Melbourne.

Holder, R 1970, *Bank of New South Wales: a History, Volume Two 1894-1970*, Angus & Robertson, Sydney.

Hughes, C 1972, 'Theodore: the premier who walked by himself', *Meanjin*, September, pp. 363-7.

Kennedy, K 1988, 'E G Theodore' in Appleyard, R and Schedvin, B (eds) *Australian Financiers*, Reserve Bank of Australia, pp. 278-308.

Keynes, JM and Henderson, H 1929, *Can Lloyd George do it?*, London.

Keynes, JM 1930, *A Treatise on Money*, Macmillan, London.

- Keynes, JM 1932, 'The report of the Australian experts', (Melbourne) *Herald*, 27 June, reprinted in *Collected Writings of JM Keynes, Volume XXI*, Royal Economic Society 1982, pp. 94-100.
- Keynes, JM 1936, *The General Theory of Employment, Interest and Money*, Macmillan, London.
- Lang, J 1962, *The Great Bust*, Angus & Robertson, Sydney.
- Laughren, P 1994, 'Red Ted and the great depression', video, Film Australia.
- Love, P 1990, 'Frank Anstey: a political biography', PhD thesis, Australian National University.
- Maclaurin, W 1936, *Economic Planning in Australia, 1929-1936*, PS King & Son, London.
- Maddock, R and Penny, J 1983, 'Economists at War: the Financial and Economic Committee 1939-44', *Australian Economic History Review*, vol. XXIII, no. 1, March, pp. 28-49.
- Markwell, D 2000, 'Keynes and Australia', *Reserve Bank of Australia Research Discussion Paper*, no. 2000-04, June.
- McFarlane, B 1966, *Professor Irvine's Economics in Australian Labour History, 1913-1933*, Australian Society for Study of Labour History, Canberra.
- Melville, L 1971, 'Review of Schedvin (1970)', *Australian Journal of Politics and History*, vol. 17, no. 1, April, pp. 144-5.
- Melville, L 1993, 'Sir Leslie Melville: an interview', [by Selwyn Cornish], *ANU working papers in Economic History*, no. 173, June.
- Menzies, R 1967, *Afternoon Light*, Cassell, Melbourne.
- Millmow, A 2002, 'The power and triumph of economic ideas: Australian economists in the thirties', Charles Sturt University Faculty of Commerce, working papers, no. 28/02, August.
- Millmow, A 2004, 'The power of economic ideas: the origins of macroeconomic management in interwar Australia: 1929-1939', ANU PhD thesis.
- Murphy, D 1978, 'Edward Granville Theodore', in D Murphy, R Joyce and M Cribb (eds) *The Premiers of Queensland*, University of Queensland Press, pp. 293-340.

Ted Theodore: the proto-Keynesian

Packer, F 1949, *E G Theodore: a Profile*, Consolidated press, Theodore papers, National Library of Australia, MS 7222.

Page, K 1983, 'Heathershaw, James Thomas (1871 – 1943)', *Australian Dictionary of Biography*, vol. 9, Melbourne University Press, p. 250.

Robinson, M 1986, 'Economists and politicians: the influence of economic ideas upon labour politicians and governments, 1931-1949', ANU PhD thesis.

Ross, L 1977, *John Curtin: a Biography*, Sun books, Melbourne.

Schedvin, B 1970, *Australia and the Great Depression*, Sydney University Press.

Shann, E and Copland, D 1931, *Battle of the Plans*, Angus & Robertson.

Simpson, C 1931, 'Theodore: a member of Shakespeare's party', *Sunday Guardian*, 5 April.

Theodore, E 1922, 'Organising rural life', *The Forum*, vol. 1, no. 7, August, pp. 3-4.

Theodore, E 1925, 'At the bar of public opinion: the Bruce-Page Government arraigned'.

Theodore, E 1930, *Unemployment and its Remedy* (reprint of articles from *The Worker*, October).

Theodore, E 1933, 'Nationalisation of credit', *Economic Record*, December, pp. 176-84.

Theodore, E, Riley, E, Griiffith, A and Colbourne, W 1932, 'Report of the special committee appointed to consider monetary policy and banking', ALP NSW branch.

Treasury 2001, *The Centenary of Treasury 1901-2001*, Canberra.

Walker, T and Koutsoukis, J 2001, 'The good, the bad and the couldabeens', *Australian Financial Review*, 3 January.

Weller, P (ed) 1975, *Caucus Minutes 1901-1949*, vol. 2, Melbourne University Press.

White, P 1986, 'CE Martin: a political biography', MEd thesis, University of Sydney.

Young, I 1971, *Theodore: His Life and Times*, Alpha Books, Sydney.