

## Red Ted and the Great Depression

*This is Part 1 of a presentation given by Craig Isherwood, CEC National Secretary, to the May 2013 CEC National Conference in Melbourne. It is a transcript of both Craig's speech, and the historical archive video featured in the presentation.*

**Video:** Train arriving into Canberra.

**Music:** Strains of Advance Australia Fair, and the archival film footage from the Paramount Weekly Gazette "Exclusive Motion Pictures of Australia's New Government."

**On screen:** "Canberra ACT. Scenes of unprecedented enthusiasm greet Mr and Mrs Scullin on their arrival at Canberra from Melbourne."

**Narrator:** "In October 1929, the newsreel camera captured the first federal Labor government for 15 years. A smiling Prime Minister was James Scullin. But the architect of victory was the Treasurer, Ted Theodore. Within days of these pictures being taken, Scullin and Theodore would confront the worst economic crisis of this century. It would destroy Ted Theodore's political career, but it would shape economic policy for decades to come."

**Craig Isherwood:** Unemployment in Australia in 1927 through to the start of World War II in 1938 meant enormous suffering for the Australian people. [See Graph 1.] Consequently, as you will see throughout this presentation, this suffering was completely and absolutely unnecessary. This suffering was simply a marker of the sheer bastardry of the British Empire and its associated monetarist policy.

This misery of the Great Depression was totally avoidable!

There was great enthusiasm for change when Scullin came into government in 1927. There was some real talent in the government at that time, including these three [Chifley, Anstey, Curtin], two of whom became our war time Prime Minister and Treasurer.

But really at that time, the guy in the middle summed up the situation. His name was Frank Anstey. He was an authentic genius, a guy who knew his way around the political field. He understood what was going on. He hated the London financial establishment and he was a member of O'Malley's torpedo brigade that gave us the Commonwealth Bank.

Anstey was very quick to realise that the Government's fate was "written in sand" because as he stated, "It was in



Office and not in power."

Anstey and Curtin believed that the conservative majority in the Senate owned and run by the London bankers, would never allow the Scullin government to do what was necessary to wrest financial power from the "money power" by nationalising the banks.

Anstey (with the support of John Curtin) urged Scullin to dissolve both Houses of Parliament, and go back to the people in the expectation that there would be a landslide victory and they would achieve a majority in both houses.

But, unfortunately, they found little support amongst their colleagues, as their colleagues had already faced two elections since 1928. [Former Prime Minister Stanley Melbourne Bruce held an earlier election on 17 November 1928 with that parliament only lasting 11 months before the election of Scullin in October 1929.]

Consequently from October 1927 onwards, the fate of everything that was done was written with this dynamic governing it. Anstey, Curtin, even Jack Lang, all knew the forces that were arrayed against them.

This is the only time that I have seen in Australian history that the force of the Money Power could have been taken away from the City of London—but it wasn't.

What is this Money Power?

Well, I would like to invite Frank Anstey to give us a sense of it [from "Money Power", by Frank Anstey]:

*"The grip of British capitalism upon Australia consists, not only of mortgages upon Australian Governments, not only on the overseas ownership of Australian resources, but upon the control of nearly one-third of the total depository power of the Australian people per medium of the British banks and British insurances trading within Australia. The English banks ... control the English Life, Fire and Marine Insurances trading in Australia. They control English owned territories in all States. They control a large portion of our coal, meat, and wool resources. They are the dominant factor in the export and import business of this continent.*

*"Around the English banks are gathered the old Imperial Land Grant companies and others of kindred type. ... These Imperial Land Grant and associated land and mineral companies cover millions of acres, represent scores of millions in value, and from*



GRAPH 1

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*their coal, meat, and wool resources pour out millions of revenue per year for their overseas owners. Linked up with these are the estates of the 'free old English gentry' who squatted upon Australian soil during the early part of last century."*

*"The descendants of those families are a peculiar caste. Their spiritual home is England, their outlook, their education, their adopted mannerisms, their social and business relations are all English. Like the Anglo-Indian, Australia is to them another India, an accidental birthplace, a place of occasional temporary residence from whence their money flows.*

*"Thus all the financial and industrial relations of these men are with English banks and English companies. Thus they are constantly changing from Australia to England and vice versa, and those on the English end of company directorates one year are found on the Australian end next year, and later on back again. These men seldom enter into the public life of Australia, but the corporations with which they are connected are the heavy subsidisers of local reactionary propaganda.*

*"The wool, the meat, the coal resources of Australia controlled by the English group are financed by the English banks, handled by English companies, shipped through and by English companies, insured by English companies, and the directorates of the banks and of these companies are interwoven, interlocked, interchanged. Moreover, as more and more of Australian-founded houses fall into the maws of the English group, so the export and import business of Australia approaches more and more to an absolute monopoly headquartered in London. The old trade names are retained to hide the absorption, but whatever remains unabsorbed is subordinate and subsidiary to the paramount power in Australia's overseas trade. ... Australia is a mere appendage of financial London, without distinct economic existence..."*

*"London is, so far, the web centre of international finance.*

*"In London are assembled the actual chiefs or the representatives of the great financial houses of the world. The Money Power is something more than Capitalism. ... These men constitute the Financial Oligarchy. No nation can be really free where this financial oligarchy is permitted to hold dominion, and no 'democracy' can be aught but a name that does not shake it from its throne."*

**Isherwood:** So, this story is a true tragedy.

It is my view that if the Labor party had adopted Anstey's approach, then the Money Power could be broken here in Australia, forever—now imagine that. But fear to confront that reality and force an actual revolution at just that point found a "little people".

A Commonwealth Bank which was already founded, by the work of King O'Malley (and Anstey) could have been allowed to function as a National Bank, and in the hands of nationalist and not British stooges, could have broken the money power.

So, it is against that back drop that you have to look at



what happened from the start of the Scullin government.

This story starts in the 1920s, a period where Australia paid its debts literally off the sheep's back and by exporting wheat. Our manufacturing economy was tiny, our financial markets small compared to the US, and our banking system totally controlled by the British banks through the Bank of England. Unlike the US we had no bank collapses as our banks were totally run from the City of London.

**Video Narrator:** "A strong overseas market for wheat and wool enabled Australia to meet the interest of loans readily available from London and New York. Good seasons, high prices and borrowed money, masked the coming crisis."

**Dr. H.C. Coombs, economics student 1930s [and first governor of the Reserve Bank of Australia]:** "And we had grown accustomed to steady government borrowing right through the 1920s. There was a big period of expansion during that period. Public works for this, setting up infrastructure for our

cities and for our transport and for newer industries and things like that."

**Narrator:** "Even the nations brand new capital city was built on borrowed money... As the Duke of York was opening parliament house in 1927, export prices fell, putting a question mark against Australia's capacity to repay loans. The national debt had grown to record levels under the conservative Prime Minister Stanley Melbourne Bruce."

**Jim McClelland, school boy 1927:** "Bruce was more English than the English. He dressed like an Englishman, striped pants, spats—white coverings over the shoes, white suede I suppose, buckled underneath—I don't know what their function was supposed to be.

**Dad and Dave Skit:**

**Dad looking incredulously at Dave's spats:** "Pull up your underpants!"

**Dave:** "Arhhh! They ain't underpants! They're spats!"

**Narrator (scenes from Parliament):** "Labor had been in the federal wilderness since the conscription split of the first world war. In hope of new direction they turned to the strong man of Queensland politics—Ted Theodore.

"The son of a hard working Irishwomen and a Romanian sailor, Theodore left school during the depression of the 1890s to try his luck on the goldfields of Western Australia. In 1906 he joined the rush to North Queensland. Riding his bike between mining camps, railway gangs and two-up joints, he organised a union. Within three years he was a member of State Parliament."

**Mark Orken, Queensland public servant 1929:** "There was an election meeting there and Theodore was addressing the multitudes and a group of fellas were going to smash up the meeting, and three of them got onto the platform where Theodore was speaking. He was a big strong fella Theodore, and he grabbed the three of them and he

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hustled the three of them off the platform, single-handed.

"He was a fella about I'd say, nearly six foot, but a tough, hard, broad, thick set, strong looking character."

**Myra Rowbotham, Theodore's daughter:** "When I was about seven, at school, one of my little school mates said 'My father's a policemen see, and I will tell on you see, my father's a policemen.'

"And I didn't know what my father did in life.

"Sometime later I mentioned it to my father and he roared with laughter, and he said, 'Well, you could have said to her, well my father is in charge of all policemen and I will tell on you see.'

"And I said, 'well, how can you do that?'

"And he said, 'Well, I am the Premier of Queensland.'"

**Narrator:** "By 1919 the 34-year-old Theodore was Queensland Premier. When he resigned to enter Federal politics six years later, he was a wealthy man. He played the stockmarket and carried a silver topped cane. In 1927 he moved to Sydney and paid £8,000 for a mansion in Kirribilli. The communists who he tried to drive out of the Labor party called him 'Kirribilli Ted'. Conservative journalists dubbed him: 'Red Ted'.

"Across the harbour from Theodore's Kirribilli home lay his federal electorate, centred on the narrow streets and workers cottages of the Balmain docklands."

**Bill Brown, Theodore's campaign manager 1928:** "Well, I thought he was the best type of politician I'd met, because he was not interested in just cultivating votes for himself; he was a man with a mission, a man with a policy—development of Australia, development of Australian industry and the development of Australia as an independent nation."

**Narrator:** "Prime minister Bruce saw Theodore as a threat and set up a Royal Commission into allegations that Theodore had paid the sitting Labor member £8,000 to resign. Theodore was found not guilty, but it was rumoured that his friend John Wren, a Melbourne SP bookmaker millionaire, had organised the cash.

"From the opposition front bench Theodore led the attack on Bruce's economic management.

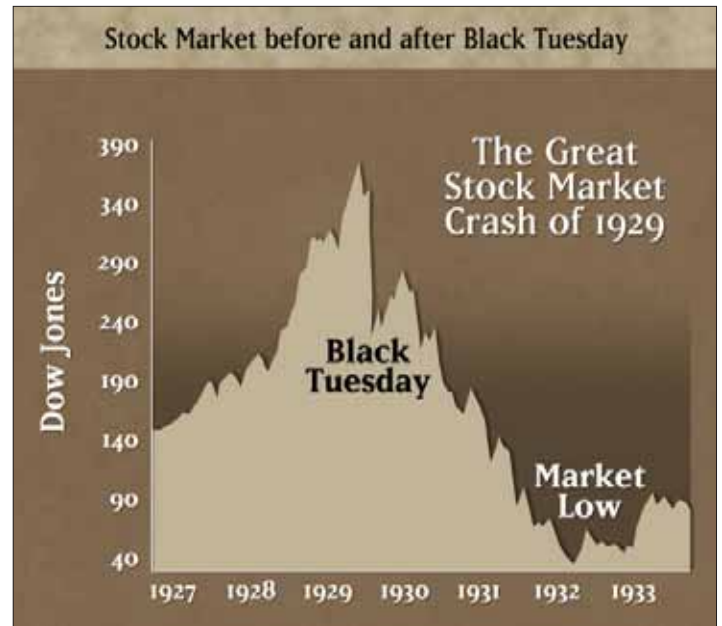
"Bruce blamed the workers high wages and low productivity for Australia's falling export income."

**Bill Brown, Theodore's campaign manager 1928:** "In 1928, they were putting up the same solutions to the economic problems that they are putting up today. The donkey must work harder and eat less chaff! And carry more sticks and he is better off."

**Narrator:** "When 12,000 miners were locked out of Hunter Valley coal mines for refusing a 12½ per cent pay cut, Bruce's industrial policy split his government."

**Voice of Ted Theodore on Radio 1929:** "The federal Labor Party, of which I have the honour to be the deputy leader, is appealing to the people of Australia, in what is probably the most momentous election campaign in the history of the Commonwealth. Throughout the length and breadth of Australia, there has for months past, been a clamour for a lowering of the costs of production. When large employing interests speak of lowering the costs of production they mean only one thing, a reduction of wages and a lengthening of hours. To safe guard their wages and conditions therefore, the workers should return the Labor Party to power."

**Narrator:** "In Labor's landslide lower house victory, Bruce lost his seat, and retired to England. Hopes were high that the new Labor government would make long promised



GRAPH 2

reforms."

**Niall Brennan, Labor Minister's son 1929:** "James Scullin, from Richmond in Melbourne, was Australia's first Catholic Prime Minister."

"Scullin was an honourable, nice, trustworthy, absolute gentleman, scholar... all the things that make for a bad politician!"

**Narrator:** "Ted Theodore was the Treasurer and chief policy maker of the government. Conservatives feared him because of his actions in Queensland. He led the fight against conscription, abolished the upper house, and was the first Australian politician to borrow money outside England."

**Niall Brennan, Labor Minister's son 1929:** "Theodore from the very beginning was a marked man. He was the only member of that whole Scullin government who had any sense of economics. He knew all the facts of the game—he could beat them at their own game."

**Narrator:** "Theodore said Australia should be more than a sheep farm, and was determined to expand local manufacturing."

**Myra Rowbotham, Theodore's daughter:** "He used to have his suits made from local Australian woven material. Yarra Falls woven material. And they were like card board. They would stand up on their own. His colleagues would rib him about these awful—they would feel them and say—'Oh! Ted! What are you doing wearing that awful material.' And he would say to them, 'Well, you should be doing this too—aren't we trying to promote Australian made goods.'"

**Isherwood:** The Scullin government was sworn in on October 21, 1929 and just 4 days later, the stock market blew out in New York. [See Graph 2.]

\$26 billion was wiped off the share values on the New York stock exchange in one day, and this was the beginning of a continuous slide downwards for years to come.

It became impossible for Australia to borrow money overseas.

So, after being sworn in, Theodore rushed off to the Treasury to find out what he had inherited, and he found out that the Labor government had inherited an enormous £13.4 million deficit from the Bruce government.

So, initially, he could only do the classical things. He increased tariffs, increased taxes and cut expenditure.

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Edward Granville Theodore  
(29 Dec 1884 – 9 Feb 1950)

These actions however caused companies to begin to sack people, to cut their expenditure to meet their loans.

Rapid price deflation began—that is falling prices. Companies had to cut their prices to try to sell their inventories.

**Narrator:** "Unemployment rose 5 per cent during Labor's first six months in office..."

**James Scullin Prime Minister 1929:** "We are passing through a period of depression.

Large numbers of our people are unemployed. Large percentages are out of work. The Australian government that has just come into power, the Australian Labor government is faced with many difficulties, many serious problems, and our first problem is to provide work for the workless in Australia."

**Isherwood:** "Here we had a depression which most people at that time had not experienced, they were bemused, lost and wondering around in a confused state. But it was a depression!"

**Jim Cairns junior clerk in 1931:** "In those days, the depression was more like a natural event more like a flood or an earthquake. No one really understood that it had causes—it had just happened. So what can you do about a flood or an earthquake? Not much!"

**Winston Churchill British MP:** "There doesn't seem to be any quiet, easy period of sunshine for any of the great European and American nations. We are all under pressure of events. The whole world is under pressure."

**Ted Wheelright, economist:** "They thought the depression should never have occurred, should never have happened, so all you had to do was more of the same. Reduce costs, reduce wages, reduce government expenditure, reduce deficits—in other words tighten everything up—which of course made it worse."

**Isherwood:** But Theodore did not want to wait for world recovery as he was responsible for the Australian economy. The problem he had was that the Government was only getting orthodox economic advice, principally from the Commonwealth Bank.

In 1930, monetary policy was in the hands of the orthodox businessmen of the Commonwealth bank board, and a Scotsman by the name of Sir Robert Gibson.

But to try and get around this blockage—as Sir Robert Gibson was a private banker's banker, even though you have the public Commonwealth Bank there, it was in the hands of private bankers and they would not do anything against the private bankers, and what the City of London tells them to do—so, Theodore introduced a special bill, a Reserve Bank Bill, to establish a separate Reserve Bank (not the one we have now) to give the government a greater say in the running of monetary policy. He said, "Money should be a servant not a master."

Through a Reserve Bank, the government could influence the volume of money in circulation.

The problem at this particular time, with the crashing companies, is that all the bank loans within the country were tied to gold. 25 per cent of all loans had to be backed by gold, and what was happening was that gold reserves were falling because companies were settling their accounts in gold, as

that is all they could do, and consequently, the money supply, was collapsing: less gold, less loans are possible.

His idea was to create a bank that could emit money.

**Jim Cairns:** "Theodore saw that money was created by the banking system, and that as the quantity of exchange business rose, so did the quantity of money rise. Now when big business began to decline the quantity of money began to decline. The banks had a controlling power in money, and Theodore saw that this was one of the vital factors in determine what we would call now as the level of activity, the level of employment, whether we have booms or whether we have recession and depressions."

**Narrator:** "The Chairman of the Commonwealth Bank, Sir Robert Gibson, believed that any increase in the volume of money would debase the currency. Theodore's Reserve Bank Bill outraged the banks. They said the level of activity was for banks to determine not government. The conservative-dominated Senate agreed, and the Bill was consigned to the limbo of a select committee."

**Isherwood:** This is how you deal with things when you don't want to deal with them.

During the depression goods were extraordinary cheap. If you had a job, like if you were one of the 70 per cent of people who were employed, then you scraped by, but if you didn't have a job then you suffered.

The price deflation—the dropping of prices—means that more and more people are thrown out of work. If you think about it, if you decrease the price of the goods you are trying to produce as a company, means that you get less money in, and therefore where are you going to make your cuts to survive?

To the people who you employ...

Therefore you end up with more and more unemployment and more importantly the economy as a whole grinds to a halt.

**Narrator:** "But as the level of activity continued to drop, unemployment broke through 15 per cent. Scullin prepared to leave for a British Empire conference in London and it was announced that Theodore would be Acting Prime Minister.

"Four days before Theodore could bring down the 1930 budget, a Queensland Royal Commission found him guilty of corruption.

"In 1922, during Theodore's Premiership, the Queensland government bought [coal] mines at Mungana, to supply the Chilligoe [Steel] Smelters, this was part of Queensland Labor's programme of state enterprise. They ran bakeries, butcher shops, cattle stations and pubs.

"The Royal Commission, appointed by now a conservative Queensland government found that Theodore had been a secret shareholder in Mungana mines.

"The Bank of New South Wales provided the newspapers with cheques made out to Theodore from many years earlier."

**Niall Brennan, Labor Minister's son in 1929:** "Mungana is a very fine word for political reasons if you think about it. You pay some mindless heckler to go to a meeting and all he has to do is should out 'What about Munn—gaaa—nnnnnaa!?' It is a beautiful word politically. And it was used to the last drop of blood that they could get out of it."

**Narrator:** "Theodore was forced to stand down as Treasurer, pending a trial. The banks were now fully in control of the economy."

*To be continued...*