

Red Ted and the Great Depression

This is the third and final part 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.

Treasurer Ted Theodore continued, in his March 1931 speech to parliament: *"There is a vast amount of work waiting to be done in Australia—work which is necessary for the proper development of the country and would, if completed, be reproductive; but the work is not being proceeded with although scores of thousands of our citizens are unemployed and hungering for work.*

"The industries of the country are intact; the organisation of industry and the marketing of the products have been placed on a sound basis. Our land has not been devastated by war, drought, pestilence, flood, or any other natural evil or calamity. Our transport services are better than they have ever been; our warehouse accommodation has never been so great; wharfs and other facilities for the handling of goods are in as good condition as ever.

"Yet the country is commercially and industrially paralysed. The troubles from which we are suffering arise, not from what may be termed natural causes, but from human causes, from the maladministration of the system that is operating in the country. We are where we are today because of the human faults and the complete breakdown of our monetary system."

Consequently, this really freaked out the conservatives and their media ran an incredible hysteria campaign.

Just remember, today every single dollar is fiduciary!

Narrator: "The cornerstone of Theodore's recovery plan was an £18 million fiduciary note issue injecting credit into the economy for public works and assistance to the stricken wheat farmers.

"INFLATION!

"The press and the banks condemned the fiduciary note issue as a one way ticket to inflation, and warned that Australia's currency would become valueless." [Various newspaper headlines and cartoon. Headline: "MR THEODORE'S PLAN OF SPURIOUS PROSPERITY. Inflation Exposure. SOCIALISATION IS OBJECT OF FINANCE PROPOSALS".]

Sir Leslie Melville, Commonwealth Bank Economist 1941: "People became hysterical of course. Once it was suggested that notes would be printed to finance the public works and they thought that if you once start to inflate, if you once started to use bank notes, if you once started to use central bank credit then everybody would be ruined by



Sir Leslie Melville, Commonwealth Bank Economist 1941.

the rapid rise in prices that would follow from that. There was real hysteria."

Isherwood: Nonetheless, as treasurer Theodore was able to take his plan forward to the Premiers conference which was called by Jack Lang in February 1931.

Narrator: "As 1931 dawned it was clear that no Australian government could meet the Bank of England's terms and balance its budget by June. Theodore presented his plan at a crisis meeting with State Premiers, including Jack Lang.

"Theodore argued that inflation could be controlled, and while cuts would have to be made, credit was the key to putting the nation to work. With Premiers poised to accept the plan, Jack Lang called for an adjournment.

"When the conference resumed, Lang branded Theodore a 'banker's man' and tabled his own plan three sentences long.

"Lang said that if interest repayments to British bondholders were suspended, Australia's standard of living could be maintained."

To vocal strains of Advance Australia Fair: *Soprano singing, "Now Premier Lang for us will fight, we've got to see him through. Our motto clear is: 'Lang is Right!' And don't we know it too.*

Narrator: "The Lang plan gripped the imagination of the unemployed and lowly paid workers overnight. The New South Wales and federal Labor party split. Lang formed his own federal party. New South Wales he said would go it alone."

Soprano Singing: "So give three cheers for Premiere Lang and good ol' New South Wales".

"The other Premiers rejected Lang's plan and commissioned Theodore to negotiate with the banks for credit."

Isherwood: So, what exactly was this three sentence Lang plan?

Lang plan:

- That the Governments of Australia decide to pay no further interest to British bondholders until Britain has dealt with the Australian overseas debts in the same manner as she settled her own foreign debt



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with America.

- That in Australia interest on all Government borrowings be reduced to three percent
- That immediate steps be taken by the Commonwealth Government to abandon the gold standard of currency, and set up in its place a currency based on the wealth of Australia, to be termed the goods standard.

I think the first two points are quite self-evident, and the first one really had a sense of justice about it. America forgave England's debt, yet Australia suffered huge losses at the call of England in WWI, 60,000 casualties, and yet we had to pay the debts from that war on top of those losses?

Jack Lang was saying, no we are not going to pay those debts, we have already paid them in a sense, with blood.

On the second point on the reduction of interest—he was in agreement with Theodore with this.

On the third point, which might sound like a strange point, but Lang was looking at getting away from the gold standard as a measure of everything, which of course is what King O'Malley was also trying to do.

Quite some years later, in 1970, Lang explained what he had meant: "It was my proposal that instead of setting our external balance of payments in gold or sterling, we should make payment in our own currency, which would mean that if Australia owed more in London than she earned, the British creditors would have credit balances in Australian banks which they could use for the purchase of Australian goods. It would mean that when trade between the two countries revived, Britain would have the funds necessary to buy Australian enterprises. The Goods Standard meant that instead of trade balances requiring the shipment of gold bullion, all that would have to be shipped would be goods at world market prices."

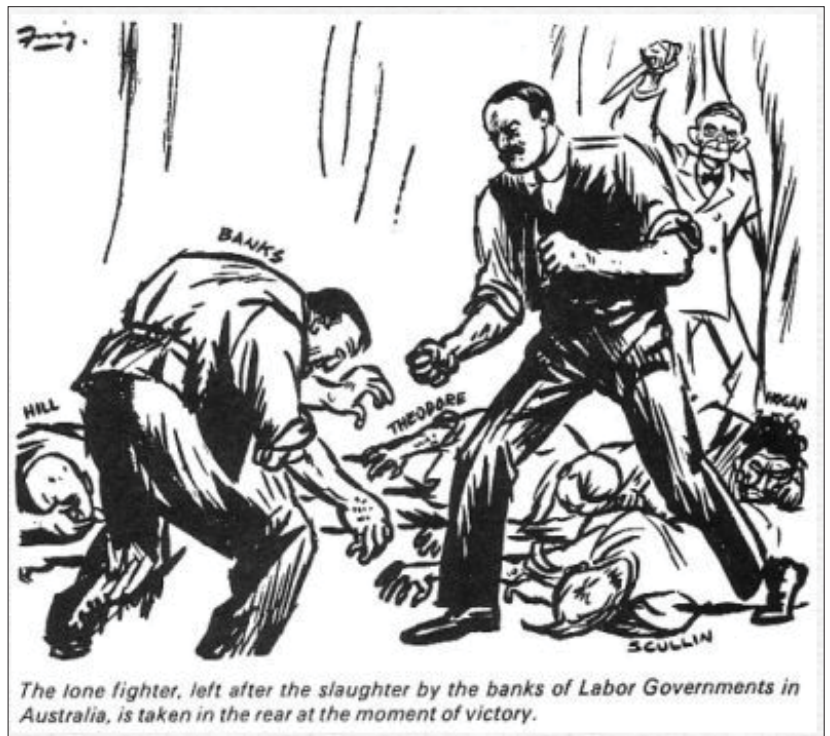
However, there were other differences between Lang's Plan and Theodore's plan which were quite startling. Theodore's plan was a far more considered plan, although radical for Australia at the time, but Lang's plan gave the impression of being thrown together over the weekend. But, why had Lang tried to scuttle Theodore's plan? I don't know and have not answered that question myself.

Theodore's response to the Lang plan sums up why the State Premiers went with Theodore's plan in the end. Theodore said:

"Mr Lang could, it is true, take the first step; but how could he continue to finance his governmental arrangements thereafter? Where could he get the money to enable him to do so? If he could rid himself of the obligation to pay the Commonwealth his proportion of the interest, he would certainly have that amount to play with. [But] what other funds could he get? In the circumstances ... would the Banks provide overdrafts for NSW, not backed by Commonwealth Government Treasury Bill? It is as clear as a pikestaff that we shall get a practicable policy only by acting together."

All state government loans were guaranteed by the Commonwealth, so a default to British bond holders was a default to the Commonwealth government.

These discussions were not taking place in a void, there was a huge social trauma unfolding in Australia. In 1931, 1 million people—1/6th of the population—had



no income. Evictions were rife, and often violent. Evictees were given 30 days to move out; on the 31st day, at day break, the local police came in and physically threw people out of their homes. They could only evict people in daylight hours. This is something we don't see today—mass evictions. By 1933 the census showed that 33,000 people were on the road in the middle of winter. A further 400,000 were sheltering under calico, canvas, hessian, bark or other makeshift materials. One in 16 people were sleeping under the stars.

Narrator: "The Senate and the Banks paid no heed to the clamour in the cities. The conservative senate rejected Theodore's fiduciary note issue bill and the Commonwealth and the private banks refused to provide credit.

"Sir Robert Gibson delivered an ultimatum to the State and Federal governments: Make the cuts to salaries, wages and pensions or the Commonwealth Bank would stop the money supply.

"With the battle of the plans at a stalemate, professional economists entered the field of National policy for the first time."

Sir Leslie Melville, Commonwealth Bank Economist 1941: "I was asked by the Commonwealth Bank to come along as an economist; I was their first economist they didn't have one before that."

Narrator: "Leslie Melville joined a team of academic economists [Professor Copeland, Professor Giblin, Professor Shann] commissioned by the state premiers to present a plan to meet the financial crisis at a special Premiers Conference in June 1931."

James Scullin: "The governments of the Commonwealth and the States, have been gathered together during the last three weeks, to evolve a plan to meet the serious financial position confronting Australia. That plan has now been worked out."

Sir Leslie Melville, Commonwealth Bank Economist 1941: "We sat in considerable doubt as to what would

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happen when this plan was taken to Theodore. And we were incredibly pleased, and perhaps astounded, when [Prof.] Shann brought back the word that he was going to accept it."

Theodore Federal Treasurer 1931: "Everyone is affected in some way or another in the measures adopted under the Premiers Conference Rehabilitation Plan. Some are affected by suffering a reduction in interest or other income; some by a reduction in wages or pensions or salaries; some by increased taxation. Not anybody escapes from the general sacrifice."

Narrator: "Headline: 'PREMIERS' CONFERENCE. Drastic measures to Balance Budgets. TWENTY PER CENT REDUCTION IN EXPENDITURE. Salary Cuts and Lower Interest."

"The Premiers' Plan cut wages and salaries by 20%, taxes increased and old age pensions dropped 12½%. The only concession won by Theodore was a 22½% cut in interest paid to Australian bond holders."

Theodore Federal Treasurer 1931: "The holders of the bonds and government securities generally by making their contribution will be helping Australia in this hour of trial, and will be helping their fellow citizens many of whom are suffering great hardship and distress."

Narrator: "The returns to British bondholders were not cut. Theodore had accepted the poison chalice. As treasurer he was responsible for the greatest reduction in expenditure in Australia's history."

Sir Leslie Melville, Commonwealth Bank Economist 1941: "Gibson had said that the Commonwealth Bank would not honour his cheques beyond a certain point and that would have brought him to the position whereby he would not have had the finance to pay public servants... he had nowhere to go. He really had to accept the Premiers' Plan."

Narrator: "The battle of the plans was over and Theodore had lost. The Premiers' Plan was a victory for orthodox economists and banks and had no trouble passing through the Senate."

"The cuts reduced the level of activity in the economy even further causing more bankruptcies and redundancies. Unemployment reached 27%."

Isherwood: Therein lies the fiduciary note issue scuttled by the Senate conservatives.

The Premiers' Plan was adopted in June 1931, after the Senate had killed off the Fiduciary Note ideas of Theodore. Theodore had nowhere to go now as you have heard. The Commonwealth Bank with Gibson had threatened not to pay the governments bills. Where do you go with that? Nowhere.

In the end Theodore as Treasurer had to agree to it as he had nowhere else to go.

The agreed to the Premiers' plan which included:

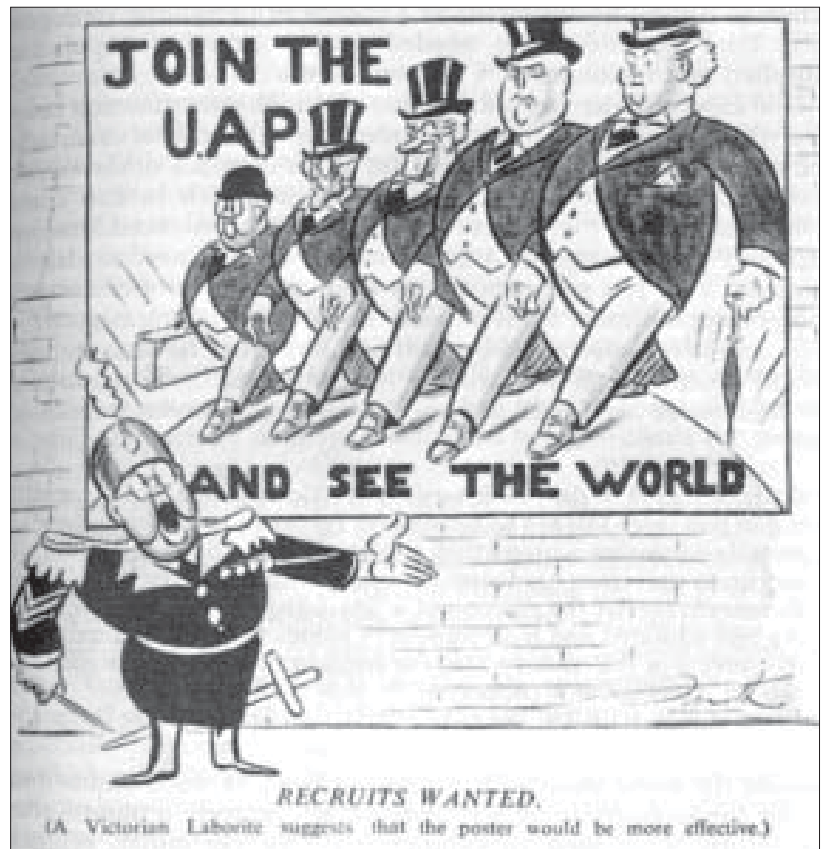
A great conversion loan to secure reductions of 22 1/2% in the internal interest burden from bond holders

Reduction by 20% against (1929 to 1930 levels) all adjustable government expenditure including wages, salaries, materials, social services, pensions, etc.

(This was a real big sticking point for the Labor party. A lot of people in the Labor did not want pensions to be cut.)

Additional revenue to be obtained from both Commonwealth and State taxation.

Reduction of bank interest on both deposits and



A 1930s caricature of the UAP (Lyons right, Menzies 2nd right) as self-important bankers.

advances.

State Parliament parliaments could give relief in respect of private mortgages.

The Scullin government and the state governments all brought in professional economists who took their queue from John Maynard Keynes; just like was planned right throughout the British Empire—and how the Empire runs its colonies. The Climate scientists of today who ram so called global warming—oops, climate change—down our throats are no different.

But as you heard unemployment climbed to 27%!

Joe Lyons, the bankers' boy, now swooped.

Narrator: *To musical stains of Land of Hope and Glory, On Screen: THE UNITED AUSTRALIA PARTY have pleasure in introducing HON. J.A. Lyons, a man who places his country before party.*

"Joe Lyons was persuaded by a group of Melbourne businessman to desert the Labor Party and lead the nationalists under a new United Australia Party. Five former Labor members joined him.

"The balance of power lay with the Lang faction. In November the five Lang followers accused Theodore of pork-barrelling in his Balmain electorate and voted with the opposition to bring the government down."

Joe Lyons, Opposition Leader 1931: "Now this election has come very suddenly upon everyone. I can give you no better advise than to tune in with Britain. Trust the United Australia Party as the British people trusted the United British Party. Do as Britain did.

"The mad financial schemes and irresponsible actions of Mr Lang smashed the great savings Bank of New South Wales. I ask you: Do you propose to give to Mr Theodore, with his equally mad financial schemes an opportunity to smash the whole banking system in Australia?"

Narrator: "The only good news for Ted Theodore in

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1931 was his acquittal in the long delayed Mungana trail in Brisbane. Six thousand people cheered as he left the court but his reputation was smeared forever."

Isherwood: Is it an accident that Clive Palmer is trying to call his party the United Australia Party in defiance of both the Labor and Liberal Country Parties?

Narrator: "In the landslide that annihilated the Scullin government, Ted Theodore lost his seat to a Lang candidate. It was the end of his political career."

"Lang's party won only three seats. Lyons the new Prime Minister, made it illegal for New South Wales to default on overseas loans."

"Two months after opening the Sydney Harbour Bridge, Lang was sacked by the NSW governor for defying the new federal law. He was never Premier again, but Labor remained split for a decade."

"Joe Lyons was to be Prime Minister throughout the 1930s. His government stuck to the Premier's plan trusting in market forces to pull Australia out of depression. The predicted rise in investor confidence failed to eventuate. By 1933, one in every three Australian workers was out of a job."

Isherwood: Between 1929-1938, government revenue and expenses completely stagnated.

In 1929, expenditure was £78 million, by the pre-war year 1938 it was £81 million. Over this entire period, 1929-38 expenditure only increased by £3 million.

However from the next few years on, 1938 to 1945, these years proved that everything that Theodore had proposed was not only correct, but completely doable.

The depression was completely unnecessary.

But, it was not conscious economic choices toward the general welfare of the population that made the change, but as Robbie emphasised, it was **WAR!**

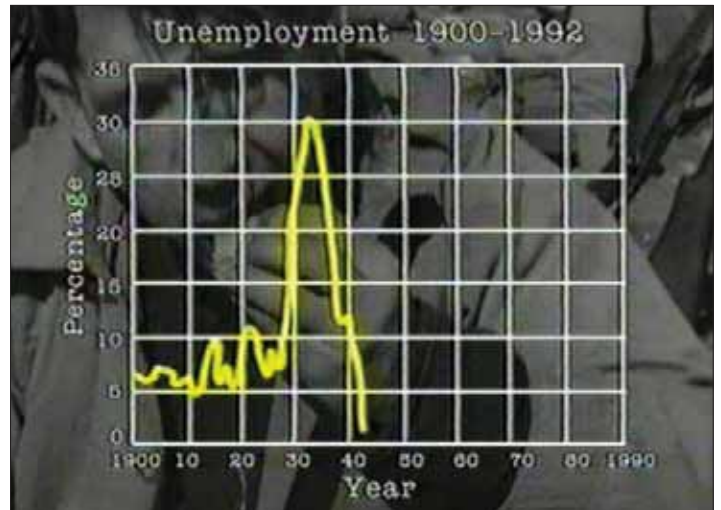
Sir Leslie Melville, Commonwealth Bank Economist 1941: "We didn't rely on market economics (laughs) in order to pay for the war."

John Curtin 1942: "The full cabinet today directed the war cabinet to gazette the necessary regulations for the complete mobilisation of all the resources: money, machinery, buildings, plant, whatever it may be..."

Narrator: "In 1941 John Curtin's Labor government took control of the Australian economy. Everything was directed to the war effort: taxation, forced savings, internal and external borrowing, rationing, price controls to stop inflation and *credit* from the Commonwealth Bank."

"Here was a job for bushman, carrier, welder, carpenter, painter, engineer and co. A job for the mines, the mills, the foundries—and everything had to be quick!

"With the outbreak of war, and endless stream of money



poured into public works creating a job for every man and woman able to work.

"Unemployment disappeared in Australia, the great depression was over." (See Graph)

Isherwood: Not only was full employment established almost overnight, under war time conditions, but the Commonwealth Bank, was brought back under the control of our two greatest war time Prime Ministers (at the time Ben Chifley was Treasurer). It was forced to act—as it should have during the depression years.

When war first broke out, to fight Britain's war, the government under Menzies, suddenly found enough funds to increase expenditure by 300%, from £81 million to £246 million in 1941. (See Graph)

From 1941-1945 when the nation was at its greatest peril from the threat of Japanese invasion, and I might add Australia was abandoned by Britain and John Curtin had to look to America for help, it was possible to find £677 million—an 800% increase from the depression levels!

What both John Curtin and Ben Chifley proved was that only strong government intervention into the provision of credit to develop and grow the economy, combined with the help of General MacCarthur and FDR, helped Australia's ability to finally win the war.

This provision of credit to develop and grow the economy, was exactly what was prescribed by Ted Theodore years earlier.

The only thing different between the credit creation for the war effort, and the lack of credit to overcome the suffering of the depression, was the bastardry of the British Empire.

Thank you.

