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The Australian basic wage case of 1930–1931: Judge-made economic policy

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Abstract
This essay examines a significant event in Australia's economic and labour relations history in which an industrial relations court acted against government policy but in line with the advice of professional economists to impose a general wage reduction. This determination, unique during the period of central wage fixation, was made as the country fell into deep depression in 1930–1931. Arguments that a reduction in purchasing power would exacerbate the depression did not prevail over expert economic advice that wage reduction would lessen the structural consequences of reduced rural export income. The Court determined that the loss of real national income had to be accommodated without a wider package of measures such as exchange rate depreciation or expansionary monetary and fiscal policies. The impressive endeavours of the Court to understand and respond to a difficult economic reality represented a significant elevation of the status of wages policy in macroeconomic management – one that was to last for 60 years.

JEL Codes: B22, E02, E24, E64, E65, J38

Keywords
Arbitration, central wage fixation, Great Depression, macroeconomic management, wages policy

Introduction

I am very glad to join in the recognition of John Nevile – truly a scholar and a gentleman. John has demonstrated an interest in and understanding of Australian wage policy. My

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tribute to him is an essay about the interplay of economic opinion and advice and the making of wage policy at a time when the available mechanisms of macroeconomic policy were rudimentary.[1]

No episode in the history of Australia's wage-fixing system was more significant than the basic wage inquiry by the Commonwealth Court of Conciliation and Arbitration, which began in October 1930 and concluded in January 1931. The decision was an attempt by the Court, acting independently of government and in defiance of government preference, to achieve macroeconomic objectives; professional economic opinion played an important part in the inquiry; and the outcome was the only general wage reduction imposed during the whole period of central wage determination. The case was heard and decided by a Bench comprising the three functioning Judges of the Court: Chief Judge George Dethridge, Judge George Beeby and Judge E.A. Drake-Brockman.[2]

The economic context

In mid-1929, Australia slid into full depression. Unemployment reached 23.4% in the fourth quarter of 1930 on its way to a peak of 30% in the second quarter of 1932. The Depression was an imported disease caused by drastic reductions in the prices realised by Australia's principal exports and a virtual cessation of foreign lending to Australian governments.[3] Prices of wool and wheat, the principal exports, fell considerably further than those of the bulk of Australian imports. The adverse movement in the terms of trade implied a loss in real income (even without reductions in domestic activity) of the order of 9% between 1929 and 1932 (Gregory, 1988: p. 10). The economic impact was much greater than this, however, because of the reduced spending power of the exporters. Elimination of foreign lending led to the curtailment of expenditure on public works, which had been running at high levels in the 1920s. Moreover, governments had serious difficulties in finding the means to service existing debt at a time when their revenues were depleted by the reduced yield of their taxes.

At the outset of the Depression, there was virtually no economic bureaucracy in Australia (Hancock, 2004). Indeed, the tertiary training of economists really began in the 1920s, so that the possibilities of nurturing in-house advice were slender. Governments, therefore, were ill-equipped to deal with a challenge of great severity and complexity.[4] There was a policy vacuum, the product of administrative inadequacy and political divisions over responses to the Depression. Into this vacuum stepped several players. One was the Court, and another was the banks whose influence over the exchange rate and the funding of government deficits was a source of considerable power (Schedvin, 1970). Yet another was a small band of economists who proffered influential – even determinative – advice (Coleman et al., 2006).

The recommendations of the economists were much influenced by a distinction between primary and secondary effects of the external shocks (Cain, 1985, 1987a, 1987b; Coleman et al., 2006; Hancock, 2004). This distinction was underscored by L.F. Giblin's 'discovery' of the foreign trade multiplier, which described a sequence of reductions in domestic spending (the secondary effect) in response to an initial fall in receipts from abroad.[5] The lesson drawn was that anti-depression policy should spread the primary loss across the entire community. 'Equality of sacrifice' became the formula for limiting the effects of the external shocks. One method of pursuing it was to depreciate the Australian currency, so that exporters received more for their produce and the rest of the community had their real incomes lowered by increases in the prices of traded commodities. Exchange rate depreciations occurred in 1930 and 1931, largely through the actions of the banks.[6] Another method was reduction of domestic incomes and prices, which would enhance the purchasing power of the exporters. Here, wage policy was the main weapon, although steps were taken to reduce other incomes such as interest. During 1930, economists – Giblin, Copland, Brigden, Melville, Shann, Mills and Wood – advocated wage reduction.[7] It was Copland who presented the argument to the Arbitration Court.

Background to the case

During 1930, the Court had indicated its doubts about the sustainability of existing employment standards. Of particular importance was a case, decided in July, in which Dethridge dealt with an application by employers for variations in the Pastoral Award (29 *Commonwealth Arbitration Reports* (CAR) 261). At the outset of the case, the Australian Workers Union (AWU) had sought Dethridge's advice about the import of a section of the Act, inserted in 1928, which required the Court to take into account the 'probable economic effect' of an award or agreement on the community in general and on the industry or industries concerned. Dethridge told the union that 'regard must be had to economic consequences'. This 'always had been the view of the Court subject to special reservation in respect of the *Harvester* basic wage'. Dethridge stated that the Court

> ... aims at ensuring for wage-earners the *Harvester* basic wage, so far as it lies in its power, but otherwise it is constrained ... not to make awards which would result in the products of an industry being unsaleable except at a loss. (p. 264)

The price of wool was set in world markets. If capital and management costs were reduced to the least possible, and the cost of production still exceeded the market price, there was 'no escape from the alternatives – either the industry must decrease or wage rates must decrease'. Wool growing was 'the main staple industry of the country, not a parasite that Australia can afford to allow to wither' (p. 265).

The Full Court was convened in August 1930 to deal with applications by Railways Commissioners of New South Wales, Victoria, South Australia and Tasmania for award variations affecting the computation of the basic wage and the standard hours of some employees (29 CAR 464). Because of technical difficulties in varying the relevant awards due to recent amendments to the Act,[8] the Court decided in early October to suspend the awards except in so far as they prescribed the basic wage and standard hours of work. Later in October, the technical impediment to varying the basic wage for railways had been overcome. Applications had also been received for basic wage reductions in other industries. The Court invited 'all organisations or associations of employers or employees who might be interested to take part in the hearing of the question as to whether any alteration in the basic wage such as is applied for should be made'. The full hearing began on 20 October and continued, with little interruption, until 15 January

1931.[9] The Court, at the unions' behest, excluded counsel except the barrister (A.M. Fraser) who represented the Attorney-General.

On both sides, experts were formally called as witnesses of the Court. The pattern was set by C.H. Wickens, the Commonwealth Statistician, and D.B. Copland, the economist, the first two witnesses. Neither wished to be identified formally with a particular side, though both were nominated by the employers.

The employers' claim

Under the arbitration system, either employers or unions could lodge a claim for a change in award conditions (awards were the term used to describe the determinations of tribunals in relation to wages, hours and other conditions of employment). In practice, it was more common for unions to lodge claims for improved conditions, but in this instance, employers lodged a claim for a reduction of the basic wage – a living wage component of the adult male award wages, which originated in the Harvester judgement of 1907. At the outset, the Railways Commissioners, through P.J. Carolan of the Victorian Railways, quantified the desired reduction of the basic wage by reference to procedures developed for fixing the basic wage. These, they argued, had raised the basic wage above the Harvester standard by about 10%. This argument led the unions to question the reliability of the price indices used for adjusting the basic wage, making criticisms which were not convincingly refuted.

The Court, however, made it plain that it wished to focus attention on whether current economic circumstances necessitated a wage reduction. Dethridge said to Carolan:

> You say that your application is limited to an adjustment, so as to give the present day real equivalent of the *Harvester* wage. ... The more vital aspect – let us face it – is that the country cannot afford to pay as a basic wage that which it has been paying for the last few years. That is the fundamental question. Of course, it may be that your application is so framed as to prevent us going outside a mere matter of adjustment of the *Harvester* wage, and prevent us from dealing with the underlying conditions. (transcript, p. 234)

As the case proceeded, the Court seems to have overcome any doubts about its capacity to shift the focus to the issue of economic capacity. This transition was aided by the fact that the employers' formula would cause a reduction of about 10% in the basic wage. The Judges, especially Dethridge, repeatedly challenged the parties to confront the economic case for a 10% reduction. They made it clear, however, that a reduction could not exceed 10% because that would go beyond the limit of the employers' claim.

Copland's evidence[10]

The evidence of D.B. Copland, Professor of Economics at the University of Melbourne, coloured the whole case, although the Court may have arrived at a similar conclusion without it. He was concerned to be seen as independent.

From the outset, the unions, through their principal advocates, Charlie Crofts and H.C. Gibson, made clear their suspicions of Copland and his professed independence. In the closing stage of the case, Crofts attempted to portray Copland as a biased witness, citing Copland's association with the businessman E.C. Dyason and the support given by business to the Faculty of Commerce at Melbourne University, which Copland had founded.

Copland began by describing the problems of Australia's pre-depression economy – excessive foreign debt, an uncompetitive price level and high labour costs. These problems would have required 'very small' economic adjustments (transcript, p. 270a). However, the position had changed radically since mid-1929:

> 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 per cent and it follows that a reduction in wages and salaries of 10 per cent is required to secure its equitable distribution. ... 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. 100–102)

Copland favoured a range of measures, additional to wage reduction, including depreciation of the exchange rate and a somewhat expansionary monetary policy, as well as balanced budgets. This led the unions to argue that wage reduction should be contemplated only as part of a package of measures – a contention which Copland firmly resisted. Challenged about the 'fairness' of reducing the living standards of low-paid workers, Copland said that it was fair for everyone to share a 10% reduction of national income, arguing that the 'ordinary and reasonable needs' of low-paid workers had to be considered 'in relation to the size of the national income' (transcript, pp. 801–802).

The unions pursued the argument that a wage reduction would exacerbate the depression because of its negative effect on purchasing power. Copland did not think so:

> The purchasing power or spending power of the nation is determined by the size of the national income, and the greater the national income the greater the spending power. Of course if you reduce a certain section of the community by 10 per cent you will cause a certain shock to the spending power in that direction, but that will release spending power elsewhere, because it will make production more profitable, which will eventually increase the national dividend and will eventually increase spending. (p. 812)

This answer accorded with a view repeatedly stated by Dethridge, and expressed in the eventual decision, that production generated its own purchasing power. It led to the following exchanges:

Dethridge C.J.: ... Is not this the position: The wage is cut by 10 per cent or from 83s to, say 75s, so that the basic wage earner and everyone who is in employment has 8s less to spend, but the man who would have to pay that 8s if there had been no reduction, that is the employer, has 8s more to spend. The fund from which the wage earner and the wage payer draw the money is, say, 100s. The wage payer instead of drawing only 17s, as he does at present, from the 100s draws 25s, but what does he do with that? He spends it. I grant you that he may not spend it in what may be called the consumption of goods. ... The way in which it is spent may have a material effect upon the advantages to and the welfare of the country, but the spending power of the community is the same, and it is unaffected by the reduction of wages.

Mr Gibson: At present I am trying to cross-examine the Professor, but I would like the opportunity to cross-examine your Honour on the subject.

Dethridge C.J.: I want to be educated as we go along. ... I may say frankly that I have tried to read everything lately which has been published by both sides, and I saw that it was stated definitely on the question of this reduction of wages that instead of reducing the basic wage it should be put up ... I cannot see how the spending power of the community would be increased. The spending power of the worker who is lucky enough to retain his employment would be increased, but I cannot see how [that] can be applied to the community ...

Mr Gibson: I will take his Honour's suggestion ... that if the worker gets 10 per cent less the 10 per cent is in the hands of the employer and he necessarily spends it? – [Professor Copland] Yes, I adopt that. Spending may mean the direct purchase of goods, or it may mean putting the money into the bank, increasing his deposits and making credit available to someone else for capital expenditure, and so on.

Do I get it from you, then, that money saved immediately goes into circulation? – Yes, always. ... Saving is only spending in another form.

Is not the present depression in the final analysis due to the fact that people are not spending? – If you like to put it that way, yes, but they have not anything to spend. You have to go behind that. ... The reduction in the wages fund comes because the national income has fallen. The spending power has already declined, and 20 per cent of the workers have no income at all. The maintenance of the wage rate does not increase the spending power of the working classes if that wage is an uneconomic rate. (transcript, pp. 812–814)

There came a point in the proceedings where the principal union advocates, Crofts and Gibson, stood aside so that Copland could be cross-examined by Gordon Massey. Massey was a salaried officer of the Victorian Railways (and a Councillor of the Australian Railways' Union), who apparently had some acquaintance with economics.[11] He was exceedingly respectful to Copland but conducted a lengthy, and at times, tortuous cross-examination of him. He laboured bravely, but to little avail, to sustain the 'purchasing power' argument against a wage reduction:

Is not the incidence of trade due to the spending power of the workers; that is to say, if the workers have to spend less they will spend less upon the things which it is desired they shall spend money upon? – That is true. I am not proposing to suggest anything which will decrease the percentage share of the national income which goes to the workers. They will have the same proportionate influence in demand as they had before.

I take it that is so, but the effect of that upon the reduced spending power of the worker will be reflected in the trades in which the workers spend their money. For instance the present obvious reduction in real income is materially affecting trade and commerce? – Yes.

And a reduction in the income of the workers, either in the form of unemployment, or in the form of a reduction in wages would have the same effect? – No – not the same effect. The same immediate effect on the workers' spending, but it might mean quite a different ultimate effect if the reduction of real wages was one of the remedial measures required to reduce unemployment. (transcript, pp. 949–950)

Countering Copland

The unions rightly saw that the arguments put by Copland had great purchase with the Court, reinforcing views which members of the Court, especially Dethridge, were articulating of their own accord. Hence, answering Copland was an indirect way of resisting the trend of the Court's own thinking. However, the unions had difficulty in finding an effective counter. They persuaded the Court to spend a week in Sydney, where they apparently expected to find stronger support. At the beginning of the Sydney hearings, the advocate for the AWU said that he would be calling an accountant to give evidence about company balance sheets. Dethridge questioned the relevance of such evidence. When Fraser (counsel for the Commonwealth) commented that some of the 'industry' evidence would relate to pastoral companies, he generated the following exchange:

Dethridge C.J.: The outstanding fact with regard to the pastoral industry is that wool, last season, averaged something under 11d per lb – very considerably less than it has brought for a number of years past. This year, up to now, it has averaged something under 9d. Now, whatever the wool companies concerned have done in the past, whatever profits they have made, it will not alter the fact that wool at the present moment is bringing an average of under 9d per lb, and it will not alter the fact that it costs ever so much more than 9d to produce that wool ... This country has to go on producing – if it is going to produce at all; if it is not going to lie down and pass out of existence – and face a world market showing prices of that kind.

Mr Fraser: It is going to come back to this: Apparently, in that view, so far as I see it, it seems very difficult to see what evidence can be called by the respondents, if they are going to be limited in that way.

Dethridge C.J.: I shall be very glad instead to hear evidence going to prove that wool ... is going to bring 15d or 16d on an average. Bring that evidence, and the Court will be relieved of a lot of difficulty.

Mr Fraser: So it comes down to this, that the evidence at present is undisputed – it is very doubtful if it will ever be disputed – as to the decline in the national income; so it follows that wages must be reduced.

Dethridge C.J.: It does not follow. We are waiting to hear evidence that a reduction of wages, even in face of that fact, is inexpedient ... (transcript, pp. 1068–1071)

The unions evidently had made few preparations for the Sydney hearings, despite requesting them. The AWU advocate said that the unions were having difficulty in getting appointments with the economics professors. Dethridge replied that 'any economist who is worth his salt' would recognise the gravity of the issue before the Court and 'would disregard everything else for the few hours that will be necessary in order to enable him to place his evidence before the Court'. He told Crofts, 'If you mention any name or suggest the name of any economist, the Court itself will call that economist. It will treat that economist in the same way as it treated Professor Copland' (p. 1082). On the last day in Sydney, R.F. Irvine gave evidence. Although formally called as the Court's witness, he was the principal witness on the union side, just as Copland had been on the employers'. Irvine was the first occupant of a Chair in Economics in Australia, having been appointed to it by the University of Sydney in 1912.[12] He was an unorthodox economist, an outcast from the emerging body of professional economists in Australia, and a political radical. He left the University of Sydney, under pressure, in 1922.[13] At the time of the Inquiry, he was a director of the government-owned Primary Producers' Bank.

Australia, said Irvine, was a victim of world conditions; but there was no reason, 'other than the prevalence of an obsolete economics', why the industrial situation in Australia should be as bad as it was (transcript, p. 1322). Reducing wages would have little or no beneficial effect, for

> the vast mass of unemployment is more due to business dislocation brought about by deflation than to the resistance of the workers to wage reduction. Even if all wages were adjusted to the new cost of living, and in accordance with our reduced national income, industries starving for orders would be unable to absorb any great percentage of unemployed. (p. 1328)

Insofar as the problem had a local component, it was due to the behaviour of the monetary system:

> All classes, influenced by fears for the future, have begun to hoard and restrict their normal rate of expenditure – a so-called thrift policy which gives the finishing touches to the ruin already wrought by deflation. The piling up of fixed deposits in banks – though very acceptable to the banks – is the barometer which shows clearly the fears of the non-wage earning classes. They are spending much less than usual, and they have practically lost the spirit of enterprise. In the meantime, the banks, following a time honoured – or should we not rather say, a time dishonoured – practice in periods of depression begin to call up overdrafts, and generally to contract credit ... Naturally deposits have gone down. Bankers did not seem to realise that the deposits would go down with the cancellation of overdrafts, but that is the inevitable effect; so the money available for expenditure has been correspondingly reduced. ... [H]owever justifiable it may be from a purely institutional point of view, contracting credit at a time like this is like throwing a monkey-wrench into the productive mechanism ... (p. 1329)

Irvine moved on to recommend a monetary policy of controlled inflation. Conscious of the bad odour then attaching to the idea of 'inflation', Irvine said that 'inflation pushed to extremes ... has little to recommend it'. However, the fear of inflation was itself a danger:

> Impressed by these evils of extreme inflation, many people are strong in the conviction that even the slightest tendency to inflation must be ruthlessly checked. This has given them a bias in favour of deflation. Australia and most other countries are having a taste of deflation and the

> medicine has brought them to death's door. ... On occasion it may be necessary to inflate or deflate. Just now, in Australia, it is practically a question of life and death to stop deflation and initiate a movement in the opposite direction. (p. 1332)

Irvine then advanced specific proposals:

> The first step is to make available to primary producers, manufacturers and commercial businesses sufficient credit to enable them to get going again. There must be nothing indiscriminate in this; nor do we need to put into force any novel principles. The banks should control the use of the new credit and should secure advances in the ordinary way. ... If a suitable amount of credit be made available, in this way, it will soon begin to absorb the unemployed ... as demand for commodities increases. ... There is a fair amount of truth in the old adage about taking in each other's washing. ... Increased demand in the consumption market stimulates the demand for capital as well as consumption goods. With normal credit facilities restored and signs of increasing demand, business men take heart and timid capitalists venture into the arena again. ... The downward movement of prices is checked. That in itself is an encouragement. But presently ... prices recover sufficiently to make enterprise profitable. (p. 1333)

The expansion of credit would be achieved in the following manner:

> The Government may arrange, through the Commonwealth Bank, for the issue of notes in such quantities as may be considered necessary and prudent – a matter which should not be left to political guesswork, but should be determined by a monetary council, consisting of statisticians, economists, bankers, etc, competent to assemble facts and apply scientific principles to their interpretation. Hitherto Australian Governments have entrusted the investigation of economic matters to prominent business men or lawyers, with the result that even if the relevant facts are assembled, the inferences to be properly drawn from them ... are left to minds without specific training in handling the order of facts. ... I should not allow any bank, not even the Commonwealth Bank, to determine what amount of credit we should have. The work of the bank is to use the credit. It is not their work to determine the policy. ... A large part, if not the whole, of such issue as may be made on their advice of the 'Monetary Council' should naturally be allotted to the commercial banks. ... I would issue to the commercial banks, because they are in touch with the whole business community, and their experience lies in this direction. That is the granting of credit on good security. They can carry out that job better than any government department can. (p. 1334)

Irvine had a breathtaking faith in the powers of economic diagnosis and prescription:

> The collection of price statistics and facts indicating other economic tendencies is now so complete that there is little difficulty in estimating the effects of quantitative changes in the volume of currency and credit. These effects are not a matter of opinion or traditional expectation, but of fact and scientific measurement. (p. 1335)

The picture thus painted by Irvine was one of an economy affected by external deflation, which had failed to protect itself against the effects of the deflation but might do so with a well-conceived monetary policy. It is very likely, indeed, that the monetary response to the Depression seriously exacerbated it. That was certainly Copland's opinion. However, the problem with Irvine's diagnosis was its failure to allow for the loss of

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real income inherent in the fall in the terms of trade and the loss of real resources due to the cessation of foreign loans. How should these real losses be absorbed and distributed? Irvine's principal response to this question was to dispute the significance of the losses:

> We have got into the habit of depreciating the importance of our domestic production and consumption, and of exaggerating the importance of the surplus. We have allowed the surplus ... to dominate the internal situation; in other words, we have let the tail wag the dog. Now, the surpluses over and above what we have reserved for a high standard of living have undoubtedly enabled us to borrow freely for developmental purposes, and, in addition, to import a large volume of goods. From that point of view, the surplus is important, but it has still to be regarded as something over and above what we produce for our own consumption ... (p. 1337)

Dethridge asked whether the loss of £60m did not work 'to our real detriment'. Irvine replied that an increased volume of exports was necessary to service the debt and to pay for any given quantity of imports. However, the Government had acted to curb imports, and 'the imports must be regarded as the only benefit which we got by exporting our surplus'. Dethridge made the seemingly obvious comment:

> Undoubtedly, but the imports did not represent a mere superfluity which we could do without, without much inconvenience or loss; but they did, in effect, I think, mean a substantial gain to the community, in this way that the imports, or the proceeds of those imports, enabled, for instance, a lot of constructional work to be done by the Government and so on; and, without those imports, we have not got the means to keep the AWU men ...going on construction work ...? (p. 1338)

Irvine replied that if Dethridge meant machinery which Australia could not make for itself, then it was essential:

> [B]ut I fancy that our imports were largely things which we could very well have done without – things which do not really touch the Australian standard of living. And it looks to me as if the situation now is that, in Australia, if we like to employ all our people in the ordinary way, we can produce a very solid banquet for all our people. ... We have rather considered that the world's parity should control the whole situation in Australia. I do not think it should. In my opinion, we might establish a price quite different from the world parity, in order to secure to the farmer at least a fair return on the local consumption. Then the rest is surplus that we do not want, and we have to put it away. It might then pay us to burn it; but it is the surplus which we send abroad and get the best price we can for. (p. 1339)

When Beeby observed that 'we must send something abroad', Irvine replied,

> Yes, to pay for our obligations abroad. I mean, the interest on borrowed money, and that kind of thing; but I think that we shall have to ignore other countries, and really organise our own industries independently of them.

Thus, the real loss, which was so central to Copland's evidence, was to Irvine a minor inconvenience. Irvine's trivialising of the diminished capacity to import left the Judges uneasy, as is apparent in the following exchange:

Beeby J: I am very much concerned about the question of the national income, whether it is merely a change of money values or not. We have £30 millions of interest to pay in London and we want £15 millions worth of goods which we cannot make.[14] So in exchange for these goods we send to London 200,000 bales of wool and 17 million bushels of wheat. But London now says they won't do that any longer, but want 300,000 bales of wool and 100 million bushels of wheat; is that not a definite fall in our national income? – In this way, we have got to give so much away to the public creditor, that limits the amount of goods we can get as a return for our exported surplus.

Dethridge C.J.: And those goods may be indispensable to us? – They may be necessary or they may be luxuries.

Drake-Brockman J: Surely under the circumstances that obtain at the present time ... there must be a very serious loss to the country? – I have admitted that there may be a decrease in the national income ... but we still have got a lot of unused labour here, people who could be set to work (pp. 1346–1347).

That a different monetary policy might help to alleviate the secondary effects of the external losses was a proposition with which Copland certainly agreed. However, Copland's position was that, whatever the monetary policy and whatever the exchange rate, there was a 10% real loss to be absorbed. If real wages were not reduced, workers would share in the loss through unemployment. Irvine failed to confront the issues inherent in reconciling a constant real wage level with a substantial fall in the real national income.

Of the other witnesses opposed to the wage cut, the most impressive was Massey (also called, at the unions' behest, as a witness of the Court). He, indeed, provided what was probably the strongest statement of the case against the Copland prescription:

The community income or spending money is alleged to have suffered a loss, and it can be said in respect of the alleged loss that

1. Part is no loss at all – namely, £30,000,000 [cessation of foreign loans] which alleged loss, in the writer's firm opinion, is a great national benefit at the present moment and is likely to be still more beneficial as events proceed.

2. Part is immediately correctible – namely, that part due to losses from internal trade and commerce.

3. Part is real, inasmuch as the reduced value of wool and wheat give the community less claim than heretofore on sterling or commodities in London or elsewhere ...

The loss to be regarded as real for the time being is, therefore, only that loss arising from the decline in values of wool and wheat. ... No one, so far, appears to have successfully attacked the problem of the means whereby farmers and graziers are to be induced to produce the additional volume of export commodities demanded. ... If inducements are to be offered, they must be of the nature of a re-establishment of price levels upon the 1929 basis, and a spreading of the apparent monetary loss over the whole community by means of the incidence of exchange rates. Under these circumstances, the national dividend in respect of the proportion derived from internal sources will increase ... Loan money having ceased, the local consumer commodity pool will require replenishment from local sources, and the replenishment will require the absorption within consumer commodity production, of the workers hitherto engaged on capital

> works. ... If stabilisation does not take place the export industries will not export and no function which this Court can exercise will then effect any good purpose. If stabilisation does take place, the incidence of exchange will spread the loss automatically over the whole of the community. (transcript, pp. 1628–1629)

This was a coherent argument, and it is unlikely that Copland would have challenged its logic. Massey did not resort to the specious arguments of Irvine and others about the irrelevance or unimportance of the exported ‘surplus’. Copland would have agreed – and did elsewhere – that, in principle, the spreading of the loss could have been effected entirely by depreciation of the exchange rate. Indeed, Copland and some of his fellow economists advocated depreciation but saw a *sole* reliance on exchange rates as impractical. The one logical flaw in Massey’s analysis was his reluctance to confront the fact that spreading of the loss necessitated a reduction of the real wage, unless wage earners were to be exempted from a general loss. In cross-examination, Massey had little answer to the point that merely restoring the internal price level to the 1929 level would leave the prices received by wool growers far below their pre-Depression levels (p. 1661).

The concluding debate

The parties’ addresses to the Court were the occasion for wide-ranging discussion on a variety of issues. I select several of them.

The role of the Court

Three unelected Judges were being asked to make a decision of profound economic and social consequence. The unions, anticipating an adverse decision, were apt to challenge their exercise of this function. The Court’s retort was the obvious one: that, rightly or wrongly, it had a task to perform and must do so to the best of its ability. Dethridge, however, thought that proceedings in the Court were *not* the ideal way of fixing a basic wage. In response to one of Crofts’ attacks on Copland, he said,

> The ideal body to decide upon the amount of the basic wage is a body composed of a number of representatives. Such a body would comprise, say, two or three men like Professor Copland, and two or three men like Professor Irvine, or, at any rate, one man like Professor Irvine; one like Professor Copland; a man like Mr Gordon Massey; it may be one or two representatives of employers; and one or two representatives of labour. They should not sit in public at all. They should get together and exchange views after deliberation, lengthy and expert consideration, but with each side represented by experts, so that they could formulate their conclusions without being subject to all sorts, what shall I say, of propaganda, in the Court and outside of the Court. (transcript, p. 1870)

Crofts challenged the legitimacy of the Court’s taking into account the problem of unemployment. ‘All this Court has to do’, he said, ‘is to settle a dispute and to say what is a reasonable wage for men who are in employment and who are going to be employed in industry’ (p. 2165). He also said that it was not the Court’s business to take into consideration the inability of Government to borrow overseas: the response to that was a matter for the Government, not the Court (p. 2168). Dethridge said, with particular reference to unemployment,

> It is a problem I have been considering ... The matter is a little bit troublesome at present. ... The position is that this is another of the absurd results of the absurd system of fixing a basic wage in the Commonwealth sphere. I am waiting to hear what can be said in regard to the proposition that this Court can only arbitrate in actual disputes; that it cannot deal with matters which are of nation-wide importance; and that it cannot attempt to remedy evils which are not directly situated in the industrial dispute with which it is concerned. ... It may be that the ultimate answer to the question is that this Court has no right, and never had any right, to fix a basic wage at all. ... That all it can do is to deal with conditions between the parties to a dispute, and should not attempt to introduce anything in the nature of a general rule as to a minimum wage. ... It may be that we have gone beyond the constitutional limits. If so, it has been condoned by the legislature. ... If we have the power to introduce a basic wage as a matter of general application, then I should think that it would follow that we have, or ought to have, the power to consider general unemployment; one hinges upon the other. (pp. 2165, 2168)

This exchange raised squarely the legal capacity of the Court to base its decisions on macroeconomic criteria and to pursue macroeconomic objectives. Whatever doubt Dethridge may have expressed here does not seem to have altered the Court's course of action. The issue was resolved conclusively by the High Court in 1953 (*R v Kelly; Ex parte Australian Railways Union*, (1953) 89 *Commonwealth Law Reports* (CLR) 461).

Dethridge referred to the various external pressures to which the Court was subject, including the expression of opinions by politicians. This is the background to the following incident reported in the transcript:

> Mr Crofts: I now desire to refer the Court to a statement in this morning's *Argus*.
>
> Dethridge C.J.: Oh, dear me –
>
> Mr Crofts: You have taken quotations from the other side, and I want to quote what the Prime Minister of this country has said.
>
> Dethridge C.J.: I object. I prohibit you from going further. I forbid you to make reference to anything of that kind. Sit down! (His Honour here ordered the Court crier to bring a policeman.) If you do not sit down, I shall have you removed from the Court. Do you undertake not to proceed with the reference to the Prime Minister? Do you undertake not to proceed with that reference to the Prime Minister?
>
> Mr Crofts resumes his seat. (transcript, p. 2553)

Dethridge later said to Crofts,

> If you attempt, as, in my opinion, you obviously were doing yesterday, to improperly influence this Court by calling attention to a statement by the Prime Minister concerning a matter which is in issue in this Court, the Court must object to it. ... I do wish you would try to realise that we are here as Judges, and we must resist most strongly any attempt to coerce us on the part of the Executive of the country, either directly or indirectly. (p. 2603)

The Government did, however, appear as of right in the Court, its views being put by Fraser. His instructions were 'to submit here certain arguments, and to make whatever observation the evidence renders necessary, against the present application' (p. 2554). His submissions do not suggest that he was supported by expert advice. He led no evidence. Rather, he seems to have listened to the evidence given in the Court and placed the best possible construction upon it from his client's viewpoint.

The central issues

I have referred to the Court's attempt to shift the arguments from specific industries (especially railways) to the fall in the national income. When the advocate for the Australian Railways Union began to discuss the financial state of the railways, the Court's patience was strained. The Railways, said Dethridge, were a barometer of the general position of the country, and only in this sense were they relevant; however,

> ... the evidence of greatest weight rests in two categories, namely, (1) national income and (2) unemployment. ... I think I may say that at present it appears to me that the main thing, and probably the only thing, which this Court should consider is how far will any action that it takes ... affect the amount of unemployment in this community at the present time. So far as we are concerned, unemployment is the evil to be remedied. (transcript, p. 1986)

Dethridge said later:

> It will probably turn out that we will have to come to the conclusion that the only justification for a reduction of the basic wage is whether that reduction will tend to check the increase of unemployment, and to create more avenues of employment. (p. 2032)

Beeby demanded a sense of perspective that was larger than errors made by the Railways Commissioners – whether they had 'wrongly built a bridge somewhere in the back country':

> I do not like constantly to be interfering and appearing to be irritable, but when we are dealing with a great national issue of that kind, to listen to trifling details of this nature is exasperating, and I have just about reached my limit. (p. 1986)

The 'spending power' issue was again debated. The advocate for the AWU submitted:

> Naturally, no one denies that there has been a drop in the national income. The reason for it is not only that there are no markets overseas for our products but that our local markets are not being supplied because the people have not the money to purchase the things which we grow and manufacture. Therefore, a drop in wages would only accentuate the trouble. (p. 2064)

Dethridge said that there was 'a great deal of confusion as to spending power':

> Many people think that money constitutes spending power, but there is no getting away from the fact that it does not. Money, after all, is only a tool to be used in the exercise of

> spending power, which is derived from marketable goods and services. Once we get that point clear in our minds we can see what follows from the fact that what constituted our spending power in the past – our wheat and our wool – is no longer spending power. (p. 2066)

The following discussion ensued:

> Beeby J: I have never yet had this illustration properly met. Leave money out of the consideration altogether, and assume that for a hundred bales of wool we were getting 1000 boxes of tea in exchange. Now, the people from whom we get our tea say 'We want 150 bales of wool in exchange for a thousand boxes of tea'. That is what the whole question comes down to, it is a question of goods. ... To that extent our spending power has been reduced.
>
> Mr Grayndler: Let us admit that, let us say that it is a fact. Then we have the position that when the 150 boxes of tea arrive here, there is nobody to use it, or the people cannot buy it.
>
> Beeby J: That is another matter.
>
> Mr Grayndler: The great majority of the working class have not the necessary tokens with which to buy the tea.
>
> Dethridge C. J.: That may be, although it is hard to believe. There is no doubt that money is only a tool, nothing else, which we use in the exercise of our spending power. It may be that the supply of the money tool is insufficient; but that is a matter for considerable argument. The real spending power, as shown by the illustration which my brother Beeby just put, is the wool (pp. 2066–2067).

Beeby added that a wage reduction entailed 'no cutting down of the aggregate spending power, but simply a transfer of spending power from employed wage earners to other people'.

> True, it may be that that transfer of spending power will stick to the employers. If it does, my personal opinion is that then the transfer will be of no benefit to the community. That is my own personal opinion, because to be of benefit to the community, that spending power must be transferred from the employed wage earners and the employers to the other section of the community. It is questionable whether it will be, but that point has to be argued out.

How would a wage reduction generate more spending power? This was Dethridge's answer:

> I agree that, with regard to subsisting industries, the mere transfer of spending power from the present employed wage earners to employers will not have any very beneficial effect, except so far as that spending power is passed on from the employers to other sections of the community who are now short of spending power ... But the main possible result of a reduction of the basic wage is that it will enable other industries to be established which will absorb the at present unemployed. ... A mere increase of money wages, such as has been suggested from your end of the table, Mr Crofts, will not have that effect unless it is accompanied by a greater real spending power. A mere increase of wages without a corresponding increase of power to transfer real goods and services simply means an increase in prices; that is all. ... But the point we have to deal with is an urgent present situation, and that is, in some way or other, to get our present

> export industries maintained. ... It is going to be a most laborious and lengthy process to substitute other industries for our wool and other export industries. ... It is for that reason only that this proposed reduction of the basic wage calls for the most serious consideration. (transcript, pp. 2303–2304)[15]

If we start, as the Court did, with the assumption that (in the aggregate) production automatically creates its own demand, it would seem to follow that the remedy for unemployment is to stimulate production by action on the supply side. The argument for a wage cut, then, is that it will provide an incentive to maintain and increase production. Dethridge, in the above passage, postulates that a wage reduction will tend to maintain the production of existing industries and encourage the growth of new ones.

The form of the wage reduction

Most of the case, as we have seen, was about a possible reduction of 10% in the basic wage. It was on 8 January 1931 – a week from the completion of the hearing and 2 weeks from the decision – and during Crofts' submissions, that Dethridge alluded to the possibility of a decision affecting *all* wages:

> [I]f the Court does make an alteration in the basic wage, it will automatically in most cases ... apply the alteration to all other awards of this Court which are in existence. That is the position. It may be that a better way to meet the situation, if any alteration in wages is to be made in view of the condition of the country, would be by a percentage cut on all wages, to be regarded as a measure to operate until things improve. It may be that would be a better way to go about the job which the Court has before it. (p. 2349)

Crofts evidently failed to appreciate the significance of Dethridge's 'hint' and did not respond to it.

In the second-last day of the hearing, during the submissions of F.H. Corke, representing various New South Wales employer groups, Drake-Brockman asked whether the wage reduction should be confined to the basic wage. 'A great deal of your discussion', he said to Corke,

> and, certainly, the attitude of Professor Copland, was based on a reduction of wages rather than a reduction of the basic wage. What about dealing with it on some such lines as that, rather than on one section of the wage? (transcript, p. 2545)

In the ensuing discussion, Corke referred to the effect of the Court's decision on women's rates. Drake-Brockman said that if the case were confined to the basic wage, women would not be affected at all, 'or it looks like that'. However, if the order were for a general 10% reduction, women's wages would be covered. This comment led the representative of the Clothing and Allied Trades Union to say that before there was any decision affecting women, he wanted to be heard; he had acted 'on the assumption that the question of the female workers is not before the Court at present' (p. 2548). This was an obvious point of natural justice which (to judge from the transcript) the Court ignored.

The decision

At the end of the hearing, Corke asked when the Court would give its decision. Dethridge replied,

> We cannot say. Our minds are still in a state of great complexity. We cannot say now what is the wisest thing to do in the circumstances of this case. I will not say we are in a state of bewilderment, but we are still seeking some definite conclusion ... (transcript, p. 2624)

The Court, nevertheless, took just a week to finalise and publish its decision. It recognised that ‘a proposal to reduce wage standards, laboriously built up by organised labour during the last quarter of a century, naturally met with strenuous opposition’ (30 CAR 2 at 8):

> But however desirous a Court with wage fixing powers may be to maintain standards largely created through its instrumentality it cannot accept the principle enunciated that under no circumstances should there be reductions ... Always it has been necessary and always it will be necessary to entertain applications to vary awards on the ground of substantial change in economic conditions. (p. 8)

The essence of the crisis was the deterioration of the external accounts. A major aspect was the fall in the terms of trade:

> All the theorising in the world cannot alter the fact that in goods we are at present receiving £40,000,000 worth per annum less than we received two years ago in exchange for our exports. To quote a simple illustration: before 1929, for 100 bales of wool or 1000 bags of wheat we received in exchange, say, 1000 boxes of tea; now, for the same quantity of wool we can only exchange 600 boxes of tea, or for the 1000 boxes of tea we are asked to provide 140 bales of wool or 1600 bags of wheat. (pp. 8–9)

But the current account problem was compounded by the capital account:

> Before the present disturbance we were able to borrow £30,000,000 per annum for use in developmental and other labour-employing works. Now we cannot borrow money from abroad ... It is true that this £30,000,000 per annum is not in the true sense of the term national income; it is true that ultimately we may be better off if public borrowing comes from internal wealth. But for the moment and for some time to come we have £30,000,000 less to spend, making, with the loss from fall in prices, a total of £70,000,000 as compared with 1928. (p. 9)

The £70m corresponded to what the economists saw as the primary loss. However, said the Court, the disaster did not end there.

> Such a violent change in spending power reacted in all directions. It immediately reduced income derived from services, particularly those controlled by State railway and tramway authorities whose receipts declined rapidly and whose deficits increased month by month at an alarming rate. This with other declines in public revenue left the State and the Commonwealth Governments unable to balance their budgets. Grave governmental deficiencies created a general air of financial insecurity, which increased the general stagnation. Then again the

> contraction of purchasing power traceable to a direct loss of income led to further decline in productivity. The first loss was added to by further losses, the extent of which cannot be calculated. Opinions differ as to the actual money figure for these repercussions. Some economists are of opinion that they equal the original loss, but this probably is an exaggeration. It can be safely said, however, that for the moment, they exceed 50% of the primary loss making the reduced spending power of the community over £100,000,000, or in the vicinity of one-sixth of the average national income of the preceding 5 years (p. 9).

Some of the decline was ‘psychological in origin’. The prevailing uncertainty, the precarious state of public finance and falling prices were responsible for much of the commercial and industrial stagnation. ‘But taking the most optimistic view, it is clear that the bulk of the lost spending power is a harsh reality, and the restoration of the customary value of our productivity will be a long and laborious process’ (p. 11).

The Court was unimpressed by Irvine’s advocacy of a greater detachment of the Australian economy from the rest of the world:

> To achieve that ideal we must do without mineral oils, rubber goods, cotton fabrics, and many other commodities which we regard as necessaries, and must also repudiate our foreign interest liabilities ... Complete isolation may be desirable to some, but it is clear that its achievement means the adoption of all-round standards of living much lower than those now enjoyed. ... However interesting speculation as to the future possibilities of the social order may be, none of this class of evidence faced the real problems of the moment. What is to be done immediately, even if temporarily, to meet the sudden reduction by at least one-sixth of the Commonwealth’s spending power? (p. 13)

Thus, the Court’s perception was that the standard of living of wage earners had been sustained until recently by the combination of favourable export prices and high levels of external borrowing. This led it to ask whether, without these supports, the level of real wages could have been justified by productivity. It chose to pursue that question by a comparison of 1907 and 1928–1929. ‘We assume’ said the Court, ‘that Mr Justice Higgins in fixing the *Harvester* wage – and the generally increased wage following therefrom – took into account the productive activity per unit of the population at that time’.[16] The question to be considered was whether ‘productivity’ had moved favourably or adversely between 1907 and 1928–1929. The Court commented,

> Inspection of the official figures (*Labour Report* No. 20, p. 84) discloses that the index number for 1911 was taken as 1000. The relative figure for 1907 was 948, while the figure for 1928–29 was 937, which disclosed that the productivity per head of population for the last named year was slightly less than in 1907. According to the evidence before the Court the relative figure for the year 1929–1930 will be somewhere in the vicinity of 800, and for the year 1930–1931 may be expected to be even less. (p. 17)

Thus, the Court drew the inference that productivity had declined since 1907, leaving no buffer against the effects of the external problems. The index numbers were taken from a table in the *Labour Report* entitled ‘Estimated relative productive Activity in Australia for the years specified, 1871 to 1929’. In constructing them, the Statistician relied on estimates of the value of material production in primary and secondary industries. The next number of the *Labour Report* announced the discontinuance of these statistics because of their unreliability.

The Court dealt at some length with arguments about purchasing power and (what would now be called) the propensity to consume:

> One of the main arguments of the respondents against the proposed reduction was, as first put, based on the supposition that it would reduce the spending power of the community. This is plainly fallacious in that the reduction would leave the spending power of the community unaltered in quantity ... But the argument as finally put was that this would result in the transferred spending power being exercised less beneficially to wage-earners in the aggregate and that it would lead to an increase instead of a decrease in unemployment. The argument in this form was advanced with such earnestness and evident sincerity that it calls for serious consideration ... (p. 19)

The Court articulated a concept of balance between the beneficial and the adverse effects of higher wages – the former focusing on wage-earner spending and the latter on producer costs. All intelligent people accepted

> the principle that the general wage-rate should be as high as the marketable productivity of the country permits, and that in a time of depression the last remedy to be sought is a lowering of that wage level. They realise that in the home market of the most vital industries of the country, that is to say, the necessity industries, wage-earners provide the largest consumption, and that a forcing down of the wage level below the highest point which the country's marketable productivity enables it to attain, tends to weaken those vital industries and to lower the welfare of the whole community. They accept the proposition that such a forcing down of the wage level must cause 'under-consumption' of the products of those industries and diminishes distribution of those products among the people who sorely need them. But they are also compelled to recognise that if a country attempts to force or maintain a wage level at a point higher than the country's marketable productivity allows, there will be an irresistible tendency to ever-increasing unemployment with ever-increasing 'under-consumption' ... If it is too high then a reduction, although causing an unfortunate transfer of spending power away from wage-earners now in employment, would act as a stimulus of general industrial activity, thus giving work to men now unemployed, with consequential benefit to *all* industries. (p. 21)

Other arguments about spending, advanced by witnesses, related to the adequacy of the supply of money. Some witnesses, said the Court, 'advocated a system involving the distribution of "new money" to consumers, somewhat similar to that enunciated during the last ten years by Major Douglas and his followers' (p. 22). The role of the financial system, and the relation between it and the government, were at the time the subject of intense political contest. The Court said:

> Many eminent economists and statesmen to-day support the idea that the control of money should be a state function rather than a field of dividend-making. But banking reform is a matter beyond the province of the Court. It is, however, material for the purposes of this inquiry to examine the contention that our local banking policy has been the main cause of the present depression. ... It was submitted that the banks, notwithstanding the prosperous run they have had since the war, were unnecessarily contracting credit, and were dictating the financial policy of enterprise all in the direction of forcing reductions of wages. ... In order to test this argument

> the Court secured from the Commonwealth Statistician an analysis of banking statistics between the years 1914 and 1930 with a view of determining whether there had been any undue contraction of credits during recent years ... (pp. 23–24)

The judgement contains a table, based on the Statistician's analysis, which shows that the ratio of bank advances to deposits had substantially increased. 'It will thus be seen', the Court said, 'that during recent years, particularly the last two years, there has been no contraction of credits by the banks'. Some witnesses had put forward the theory 'that consumption of goods would be stimulated and industry revived by an increase in the volume of money in circulation, irrespective of the country's productivity'. What these witnesses 'really meant' – though some disputed it – 'was that inflation of the currency would have immediate beneficial effects. On this dangerous controversy it is not the function of the Court to express personal opinions' (p. 25). Here, the Court cited the evidence of Copland who 'pointed out that whatever policy may be ultimately adopted on this issue Australia's problem is not a mere monetary adjustment'. Copland had contended that

> ... there has been a severe and, at present, irreparable loss of income. It is therefore all the more important that in the process of re-adjustment this loss of income should be given first consideration; monetary re-adjustment may be made later. ... The first step is the equitable distribution of the loss of income. Export producers, unemployed wage-earners, and recipients of profits from Australian businesses are bearing the main part of the burden at the moment. But the burden is too great to be borne by a few groups, comprising only a section of total producers. (p. 25)

Irvine, said the Court, differed from Copland 'on one or two material points'. He saw it as 'practically a question of life and death to stop deflation and initiate a movement in the other direction, that is, to re-trace our steps by way of a carefully guarded inflation'. The first step was 'to make available to primary producers, manufacturers, and commercial businesses sufficient credit to enable them to get going again'. Irvine's position in this respect was not far removed from that of other witnesses:

> There was almost unanimity in the opinions of witnesses that in some form banking policy should be changed, and that there should be a limited note issue. Professor Copland, Mr F A A Russell, KC, one time Lecturer in Economics at Sydney University, Mr Portus, of the Sydney University, Mr Dyason, by way of his contributions to economic literature, and many others are in agreement that if the risks of indiscriminate inflation can be avoided the position can be substantially assisted by a change in the banking policy, carrying with it abandonment of the attempt to maintain parity of exchange and a note issue for the sole purpose of facilitating some stabilisation of price levels. (p. 26)

The thrust of this evidence, which seemed to carry the Court's implicit endorsement, was contrary to the orthodox stance recently urged by the Bank of England advisers, Niemeyer and Gregory, and presaged important elements of the forthcoming Premiers' Plan.[17]

Although the judgement developed detailed arguments as to why a wage reduction was necessary, it was surprisingly light on the issues of quantum and method. For the former, the Court seems to have relied very largely on Copland:

> Professor Copland admitted that wage reduction alone would by no means meet the situation, and attached great importance to stabilisation of price levels, reduction of the costs of Government, and a temporary departure from the effort which up to the time of his evidence had been made to establish exchange parity. But he was convinced that whatever else was done, there must be at least 10 per cent reduction in real wages. (p. 27)

Consistent with the thinking that emerged towards the end of the hearing, the Court decided not to confront the issues before it in terms of the basic wage:

> The Court refuses to make any variations in the basic wage or in the present method of calculation thereof without further inquiry, but after much anxious thought it is forced to the conclusion that for a period of twelve months and thereafter until further order a general reduction of wages is necessary. ... Orders are now made for variation of the awards covered by the applications by the reduction of all wage rates therein prescribed by 10 per cent, for a period of twelve months and thereafter until further order ... (p. 31)

The effect of these orders was that both the basic wage and margins were reduced by 10%. This did not, however, constitute parity of treatment, because the nominal basic wage had been and continued to be subject to additional reductions in line with the decline of retail prices.

The emergency clauses were inserted in most awards, albeit with delay in some instances. They were cancelled in 1934. The method of fixing the basic wage was altered in 1933, and in 1934, a ‘new start’ was made, with initial basic wage rates determined by the Court. At the end of 1934, the real basic wage was 8.3% below the level in the third quarter of 1929. Margins, on the other hand, were returned to their earlier nominal levels, which meant that in real terms, they were substantially increased.

The aftermath

The Labor Government tried to persuade the Court to defer the wage cut for 3 months,

> on the ground that the Government, in consultation with banking authorities, is engaged in the formulation of a scheme to ensure that the burden of the loss arising from the decline in national income and spending power shall be equitably distributed over all sections of the community, and that the immediate enforcement of the Court’s order would embarrass the Government in completing its proposals for economic rehabilitation.

This was heard as an ex parte application 12 days after the main decision and decided on the next day (30 CAR 74). Having said that the application required ‘grave consideration’, the Court rejected it, stating that

> any scheme dealing with present conditions must, in order to provide a remedy, comprise a reduction of wages such as has been ordered by the Court, and nothing has been adduced in this proceeding which leads the Court to the conclusion that delay in making that reduction will conduce to the success of such a scheme. (p. 75)

Less than 3 weeks later, the Government repeated the application with the same outcome (30 CAR 169). Once again, the Court asserted its independence of the Executive Government.

Conclusion

The Court was persuaded that the Depression called for a real wage reduction of 10%. On the available evidence, this did not happen.[18] A major reason was the failure of State wage-fixing tribunals in New South Wales, Queensland, South Australia and Western Australia to follow the lead of the Commonwealth Court. The fall in prices entailed a substantial upward pressure on real wages, which was only partially countered by nominal wage reductions. The Commonwealth basic wage, which was automatically adjusted for price movements, *did* fall in real terms, but this was virtually the only ingredient of the wage index to be so affected. In later basic wage decisions – those of 1932 and 1933 – the Court was inclined to attribute the seemingly limited success of the 1931 decision to the divergent policies of State tribunals.

Had the Court not imposed the wage cut, the overall level of real wages would in all probability have been higher. To that extent, the Court's decision was effective, though much less so than the Court had anticipated. Was its policy the right one for the times?

To answer this question conclusively would require much fuller and more complex analysis than can be attempted here. Moreover, it would require assumptions about the fiscal and monetary policies simultaneously implemented. The economists and the Court were right to see a spreading of the sacrifice as an alternative to simply hoping for and awaiting an improvement in the fortunes of the export industries. Against this, it can be argued that reliance on cutting money wages to achieve a reduction in real wages intensified the process of deflation, which was already a dominant economic reality. It is well understood that deflation depresses demand as expenditures are deferred in anticipation of buying at lower prices in the future. In principle, the conflict of policies could have been avoided by measures that tended to raise prices without commensurate increases in money wages. Most of the contemporary economists, including Copland, supported devaluation of the exchange rate as a measure tending in this direction. They did not support total reliance on it in the belief that devaluation of the order required would risk external loss of confidence in the Australian currency and economy. That fear may have been justified. Expansionary monetary and fiscal policies might also have aided recovery. Even if these 'inflationary' policies had been adopted, the loss of real national income had to be accommodated. In that context, reduction of real wages was an appropriate policy. Without it, the structural consequences of reduced rural income were not alleviated.

Whatever view we may form on these issues, it is fair to say that the proceedings of the Court – both in the hearing and in the decision – evince an impressive endeavour to recognise the role of the Court in understanding and responding to an extraordinarily difficult economic reality. Its insistence on dealing with the real issue – whether the situation called for lower real wages – rather than the more trivial issues raised by the employers' applications, its comprehension of the need to spread the sacrifice, its ready perception of the flaw in Irvine's diagnosis and its account in its decision (barely touched on here) of the impact of the depression on Australia represented a significant elevation of the status of wage policy in economic management. The 1930–1931 case inaugurated a macroeconomic orientation of wage policy which was to survive for 60 years.

Notes

1. It draws upon the work of Hancock (2013).
2. A fourth Judge of the Court, Lionel Lukin, became inactive in May 1930 when he was appointed to the Commonwealth Bankruptcy Court.
3. Even in the absence of these two effects, the Wall Street collapse would have had real effects in Australia due to the fall in the local equities market and the associated loss of confidence. This aspect of the Depression was little discussed at the time and has been neglected in most of the subsequent literature.
4. There was, in fact, a general lack of professional expertise in the Federal public service attributable in part to recruitment policies that entrenched the engagement of youths and militated against the employment of graduates. W.K. Hancock (1930: p. 142) commented on this. See also Coleman et al. (2006: p. 160).
5. Coleman et al. (2006: pp. 85–90) offer suggestions as to how the idea of the multiplier entered Giblin's thinking.
6. In the face of opposition from the Commonwealth Bank, the nascent central bank.
7. Brigden's *Escape to Prosperity*, published in May 1930, articles by Copland in *The Argus*, published in June, and Giblin's 'Letters to John Smith', published in the *Melbourne Herald* in July, attempted to promote public acceptance of the necessity for wage reductions (Coleman et al., 2006: pp. 111–112, 133–138).
8. Later invalidated by the High Court.
9. The Court repeatedly rejected union applications for adjournment or granted brief adjournments when the unions sought much longer periods to prepare their presentations.
10. Copland's statement was based on an article which he had recently sent to *The Economic Journal* and was published in December 1930 (Copland, 1930). The statement of evidence is printed in Shann and Copland (1931).
11. Despite the assistance of Grant Belchamber of the Australian Council of Trade Unions (ACTU) and Trevor Dobbyn, Victorian State Secretary of the Rail, Tram and Bus Union, I have found little biographical information about Massey. In 1930, he published a pamphlet entitled *The Last Shilling: Australia's Destiny and Australian Money*. The thrust of it was that the imported economic problems were being needlessly worsened by the behaviour of the monetary system. Copland wrote an Introduction (dated 27 October), but indicated, both in the Introduction and in his evidence, that he disagreed with some of the contents.
12. Irvine (1861–1941) was born in Scotland and educated in New Zealand. He became a school principal in New South Wales and later joined the State Public Service.
13. Ostensibly, Irvine's removal from the University was due to his adultery, but Bruce McFarlane (Irvine's biographer in the *Australian Dictionary of Biography*) suggests that it may have reflected the unpopularity of his political utterings.
14. The '£15 millions' is probably a transcript error. It is likely that Beeby said '£50 millions'.
15. In a later remark to Crofts, Dethridge appears to resile somewhat from his criticism of monetary solutions:

    > I may say that it is quite a relevant and legitimate argument for you to say that the unemployed here at the present time are not in that position through wages being too high but because of insufficient credit facilities. That is a legitimate argument which the Court will have to consider. (transcript, p. 2331)

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16. An incorrect assumption: The *Harvester* transcript discloses no consideration of productivity nor is there any in the published decision.
17. In one of his Marshall Lectures of 1933, Copland said,

> We have to turn to a semi-official body, viz. the Arbitration Court, to get the first authoritative statement of the case for a reduction in costs. It is well to remember, however, that the Court itself hinted that its acceptance of the policy of reducing money costs was to be regarded as part of a general policy embracing both deflationary and inflationary action. (Copland, 1934: p. 118)

18. If the nominal wage index published by the *Commonwealth Statistician* is deflated by the C series index, the resultant estimates of real wages show a modest increase over the depression years. The wage index was computed mainly from institutionally prescribed rates. There are no data of actual wages.

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