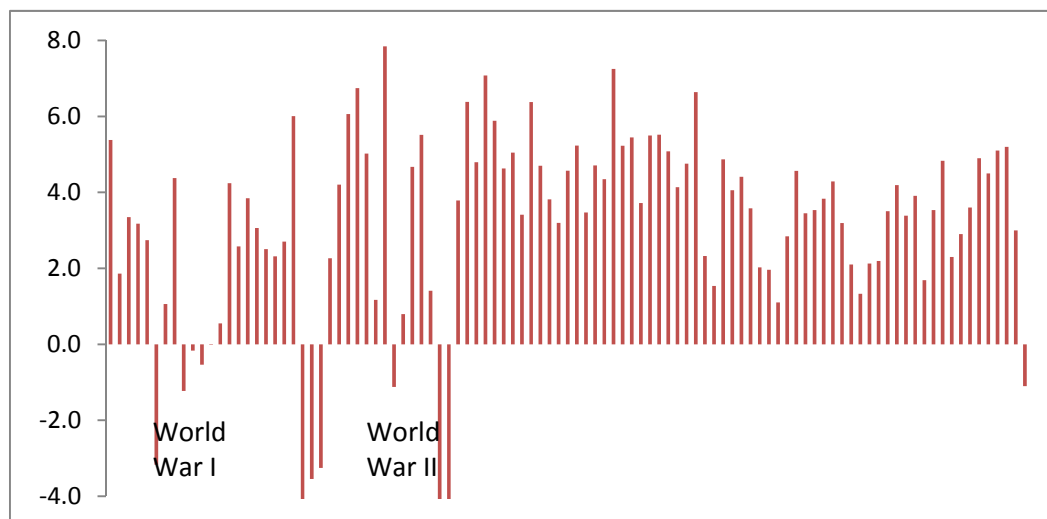


Two Global Crises, Two Senate Committees* | John Hawkins

Other than during the world wars, there have only been two periods in the past century when the global economy has contracted: the Great Depression of the early 1930s and 2009 (chart 1).¹ In both periods the Australian Treasurer sought to adopt active macroeconomic policies to offset the impact on the Australian economy. In both cases these measures (or at least their magnitude) were opposed in certain quarters. In both cases Senate committees were asked to investigate aspects.

Chart 1: World real GDP: annual percentage change 1909–2009



The Great Depression and the Select Committee on the Central Reserve Bank Bill

The Labor Treasurer ‘Red Ted’ Theodore was unwilling to accept the Depression in 1930. Arguably ahead of his time, he advocated a proto-Keynesian policy of stimulating demand by an expansionary macroeconomic policy. As part of this he envisaged the creation of a central reserve bank which could help stabilise the financial system and facilitate an expansion of credit and economic activity. Theodore was influenced by John Maynard Keynes’ writings in the 1920s and

* Thanks to Bill Bannear and Selwyn Cornish for helpful comments. The author was secretary to one of the Senate committees discussed but writes in a personal capacity and views expressed are not necessarily shared by the committee.

¹ The two episodes are compared in D. Gruen and C. Clark, ‘What have we learnt? The Great Depression in Australia from the perspective of today’, *Economic Roundup*, Department of the Treasury, Canberra, issue 4, 2009, pp. 27–50.

assisted by Hugh Armitage at the Commonwealth Bank.² The bill would have separated central banking functions from the Commonwealth Bank into a separate Central Reserve Bank, to be managed by a board appointed by the Governor-General consisting of a governor, two deputy governors, the Treasury secretary and five other directors, retiring in rotation ‘who are or who have been actively engaged in agriculture, commerce, finance, industry or labour’. (The remainder of the Commonwealth Bank would then be able to compete freely with the private banks for ordinary banking business.) The Central Reserve Bank would have control of the note issue, and banks would be required to hold reserves with it and supply it with information on their operations. The bank would be empowered to buy and sell exchange and securities and make advances.

While the Commonwealth Bank had some central banking powers, it was under the control of the intensely conservative Sir Robert Gibson who would not countenance Theodore’s expansionary policies. While controversial in Australia, informed opinion overseas found Theodore’s proposal unobjectionable; the British magazine *The Economist* described it as ‘an attempt to put an end to a long-standing anomalous situation ... there is no obvious weakness in these proposals’.³

The Central Reserve Bank Bill was introduced into the House of Representatives on 2 April 1930 and reached the Senate on 18 June. Even before the bill had reached the Senate, the banks had arranged with the Leader of the Opposition to refer the bills to a select committee ‘in order to have the whole question examined in an endeavour to educate public opinion’⁴ or more cynically just to delay it. It was the first bill ever referred to a select committee by the Senate.⁵

Theodore later suggested the bill could have been a double dissolution trigger if rejected rather than just delayed.⁶ As with more recent legislation, there was

² C.B. Schedvin, *Australia and the Great Depression*. Sydney, Sydney University Press, 1970, pp. 86, 173. Schedvin suggests that a bill drafted for the previous Treasurer, Earle Page, in 1928 may have formed the basis for Theodore’s bill, but there appears to be no documentary evidence.

³ *The Economist*, 5 April 1930, pp. 767–8.

⁴ Bank of New South Wales General Manager Davidson, 12 May 1930, cited in B. Schedvin, ‘Sir Alfred Davidson’ in R. Appleyard and B. Schedvin (eds), *Australian Financiers: Biographical Essays*. South Melbourne, Macmillan, 1988, p. 342.

⁵ See R. Laing (ed.), *Annotated Standing Orders of the Australian Senate*. Canberra, Department of the Senate, 2009, p. 371 for further information.

⁶ P. Cook, ‘The Scullin Government 1929–1932’, PhD thesis, Australian National University, 1971, p. 120. Cook is sceptical that this was the thinking when the bill was introduced.

debate about whether delaying a vote or referring a bill to a committee constitutes a 'failure to pass'.⁷

On 10 July the Deputy Leader of the Opposition, Sir William Glasgow, moved to refer the bill to a select committee comprising himself and Senators Dooley, Dunn, Colebatch, Lawson, Carroll, O'Halloran and Sampson (i.e. a committee with a 5–3 Opposition majority) to report in four weeks.⁸ The motion passed 14–6 on party lines. Glasgow was an outstanding soldier and in his political career concentrated on defence issues, rising to Minister for Defence in the Bruce–Page Government.⁹ While he had briefly worked in a bank, there is no record of him having a particular interest in economics or knowledge of central banking.

The government refused to cooperate with the committee, which they regarded as 'an attempt to shelve the measure'.¹⁰ On 11 July Senator Daly said that government senators would not be taking part and moved unopposed that Senators Dooley, Dunn and O'Halloran be discharged.¹¹ Furthermore, the government refused to pay for the committee's expenses.¹² The Clerk of the Senate, George Monahan, apparently served as secretary to the committee.

On 16 July the Senate appointed Senators Thompson and Cox to the committee to replace the discharged Labor members. Senator Glasgow had been elected chair.

At its first meeting the committee decided to invite a range of bankers and representatives of chambers of commerce to appear as witnesses.¹³ The Treasurer was asked to nominate an officer from his department to attend as a witness but none appeared. The Australian Workers' Union and Australian Labor Party were

⁷ See, for example, Senator Daly, *Senate Debates*, 13 November 1930, p. 224.

⁸ Senator Lawson rejected criticism of the Opposition majority on the committee by arguing, perhaps tongue-in-cheek, that 'those who accept the responsibility of service on it will be bound to dismiss from their minds preconceived notions', *Senate Debates*, 10 July 1930, p. 3944.

⁹ P. Edgar, 'Glasgow, Sir Thomas William (1879–1955)' in A. Millar (ed.), *The Biographical Dictionary of the Australian Senate*, vol. 2. Carlton, Vic., Melbourne University Press, 2004, pp. 344–8 and R. Harry, 'Glasgow, Sir Thomas William (1879–1955)', *Australian Dictionary of Biography*, vol. 9. Carlton, Vic., Melbourne University Press, 1983, pp. 21–3.

¹⁰ Senator Daly, *Senate Debates*, 10 July 1930, p. 3945. He pointed out that the matter had already been before the Parliament for three months and that the establishment of the Commonwealth Bank and the note issue were not referred to committees.

¹¹ *Senate Debates*, 11 July 1930, p. 4064.

¹² The government agreed to pay only for the cost of the secretary and a reporter. See also Cook, *op. cit.*, p. 118.

¹³ The committee's minutes are printed in Parliamentary Paper no. S4/1930, *Journals of the Senate*, vol. 1, 1929–31, pp. 473–6.

also asked to send witnesses. At subsequent meetings it was agreed to call further businessmen and financiers, the Deputy Governor of the Commonwealth Bank,¹⁴ Professor Copland and ‘the Professor of Commerce, Adelaide University’.¹⁵ In practice, almost half the witnesses were private sector financiers. The only labour representative to appear was Maurice Duffy, the secretary of the Melbourne Trades Hall Council, a moderate unionist who served on the Commonwealth Bank Board from 1930 to 1945.¹⁶ There is no record of any written submissions being sought or received from domestic sources although a general invitation was extended through the press for persons desirous of giving evidence.¹⁷

The opening witness was Commonwealth Bank Governor Ernest Riddle. He gave a clear but conservative overview of central banking principles, and argued that the Commonwealth Bank already was discharging most of the functions of a central bank.¹⁸ The private bankers generally were supportive of a central bank in principle, but this seems to be partly motivated by the idea of converting the Commonwealth Bank from an active competitor to a neutral umpire—they conspicuously refer to the Commonwealth Bank becoming a central bank and dropping its trading operations rather than a new central bank being established in addition. The Commonwealth Bank’s Deputy Governor suggests the private banks may fear that the Commonwealth would become a more aggressive competitor if shorn of its central banking roles. These fears may have been amplified when the Commonwealth Bank Bill of May 1930 seemed to set it up for more vigorous competition.¹⁹ While he was the man then calling the shots at the bank, its chairman, Sir Robert Gibson, declined an invitation to appear.

Two academic economists appeared—Professors Shann and Copland, both of whom were soon to work on what became known as the Premiers’ Plan: the orthodox policy alternative to Theodore’s ideas that was adopted as Australia’s

¹⁴ The Deputy Governor was Hugh Armitage. The governor had already been called at the previous meeting.

¹⁵ The professor was Leslie Melville. Unlike Professor Copland he was not specifically named, and in the event did not appear.

¹⁶ L. Louis, ‘Duffy, Maurice Boyce (Morrie) (1886–1957)’, *Australian Dictionary of Biography*, vol. 8. Carlton, Vic., Melbourne University Press, 1981, pp. 353–4.

¹⁷ Some witnesses tabled (opening) statements and Alfred Davidson from the Bank of New South Wales and Professor Copland tabled a number of papers.

¹⁸ The transcripts give only the answers to senators’ questions (and the senator to whom they are directed) but not the questions or comments of the senators themselves.

¹⁹ R. Holder, *Bank of New South Wales: A History*, vol. 2. Sydney, Angus and Robertson, 1970, p. 653.

response to the Depression.²⁰ Professor Copland referred to a central bank as a 'banks' pawn-shop' but thought it could be a useful for discipline as Australia had 'erred and strayed from the fold of international parity'. However both academics opposed the bill. There is no record of whether any academic economist who would probably have supported the bill, such as Robert Irvine, the first professor of economics from the University of Sydney, sought to appear.

Senator Glasgow was a diligent chair attending every public hearing and private meeting. The other members also attended most meetings. The transcripts suggest that the questioning was led by the chair and Senators Colebatch and Thompson.

In his history of central banking, Professor Giblin gave the following assessment:

In reviewing the evidence given by this imposing array of witnesses the outstanding impression is of the very scanty harvest obtained from a promising field. The Governor and Deputy Governor of the Bank were almost alone in addressing themselves to the Bill under consideration as a practical measure ... Nearly all the other witnesses gave the impression of exercising their ingenuity in finding reasons for condemning proposals which they disliked for other undisclosed reasons ... A critical member of the Senate Committee, if there had been one, would have had a glorious field for his activities. But the Committee appeared too anxious to swallow any absurdity that would fortify its instinctive prejudices.²¹

The committee's progress report on 6 August 1930 reported that witnesses saw a central bank as a 'desirable adjunct to the financial system', so long as 'it performed the true functions of Central Reserve Banking, and that it was assured, by its constitution, of freedom from political control'. However, the committee assessed the volume of evidence as saying that this was not the time. The committee suggested seeking the advice of Sir Otto Neimeyer and Professor Gregory. Finally, the committee requested an extension of reporting time, to which the Senate agreed on 8 August. On 13 November there was a further extension granted until 27 November.

The chair's draft of the final report was adopted by the committee with the only amendment being the deletion of a final paragraph. There were no minority reports.

²⁰ Notwithstanding Shann's radical youth, both were conservative economists. Copland later aspired to join the Menzies Cabinet; A. Martin, *Robert Menzies: A Life*, vol. 2. Carlton, Vic., Melbourne University Press, 1999, pp. 101–2.

²¹ L. Giblin, *The Growth of a Central Bank*. Melbourne, Melbourne University Press, 1951, pp. 113–14.

The committee spent a good portion of its final report, tabled on 3 December, chastising the government for not acting on the recommendation in the progress report to seek the opinions of Messrs Neimeyer and Gregory and blamed this for their needing to seek a further extension. The committee itself sought written reports from these two gentlemen which are attached as appendices to the report.

The final report reaffirms the conclusion of the interim report buttressing the argument by a quotation from Sir Otto Neimeyer that the midst of a crisis was not an opportune time for changing the structure of the Commonwealth Bank. Nonetheless it concedes that there may be no impetus to establish a central bank at other times:

During the Australian crises of 1843 and 1866 and in 1893 there were strong expressions of expert opinion in favour of the establishment of a truly national bank for purposes closely allied with those for which Central Reserve Banks have since come into being in many countries. In each case political opinion seems to have determined that the time was inopportune. The crisis passed, and with it the recommendations of the experts were forgotten.²²

This leads the committee to consider there may be a case to establish a central bank during a time of crisis, but it would have to be a different central bank to that proposed in the bill. The provisions of the bill were criticised, with an article by the Bank of England's Sir Ernest Harvey being cited at length as a guide to the 'vital principles' which should guide the establishment of a central bank.²³ Also quoted was a passage by C. Kisch and W. Elkin supporting central banks being independent of government.²⁴ Both these had been cited extensively by witnesses.

There is a discourse on the nature of money ('to the individual money is freedom') and dire warnings that 'a government is tempted to a subtle form of robbery if it have power to create new money'. Notably absent in the discussion in the report are explicit references to arguments put by witnesses at the hearings.

An appendix to the report compares the constitutions of central banks in thirty countries and it is noted that only five are purely owned by the state.²⁵ This gives

²² Parliamentary Paper no. S4/1930, p. xiii.

²³ E. Harvey, 'Central banking', *Economic Record*, vol. 3, no. 1, 1927, pp. 1–14. Harvey had visited Australia in 1927 at the invitation of the Bruce–Page Government.

²⁴ C. Kisch and W. Elkin, *Central Banking: A Study of the Constitutions of Banks of Issue, With an Analysis of Representative Charters*. London, Macmillan, 1930. Sir Cecil Kisch was financial adviser to the UK Government's India Office. The book was described as 'that bible of the time' and cited by people on all sides of the debate; Holder, *op. cit.*, p. 652.

²⁵ The appendix is compiled from information in Kisch and Elkin, *op. cit.*

an inference that some measure of private ownership may be desirable but this argument is not put explicitly in the body of the report. By the conclusions, the committee opines ‘the arguments against exclusive state ownership have already been reviewed and seem to be unanswerable’. These arguments are to this author not reviewed at all in the report. Indeed Harvey, the authority apparently most respected by the committee, did not oppose government ownership. Some degree of private ownership could be justified as one way of giving the central bank some independence from government control but it is far from the only way and likely to generate conflicts of interest which are not addressed in the report.

The committee draws out from the international survey that none of the central banks were permitted to make unlimited unsecured advances, even to the government. In his evidence, however, the Commonwealth Bank’s deputy governor suggests ‘advancing to a government without security and advancing to a government on the security of its own bonds are practically identical’.

The committee is committed to the gold standard, quoting approvingly a memorandum by Professor Gregory citing it as one of the two primary functions of a central bank.

The press coverage centred on the committee’s opposition to ‘political control’. The views of Sir Otto Neimeyer, opposing the bill, were widely reported but not any comments from its supporters.²⁶

When the Senate resumed debate on the bill in December following the tabling of the report, consideration of the bill was again deferred and did not resume until April 1931, more than a year after its initial introduction in the Parliament, when it was finally voted down. The main argument put by the opponents of the bill remained that while not opposed to a central bank, they could not accept a central bank under the control of the government.²⁷

The Commonwealth Bank accrued some more powers during World War II but a true central reserve bank was not created until the late 1950s. Ironically it was then the creation of the conservative parties and opposed by Labor.²⁸ There was no further Senate committee inquiry and the views of the 1930 committee were

²⁶ *The Age*, 4 December 1930, p. 10; *The Argus*, 4 December 1930, p. 8; *Canberra Times*, 4 December 1930, p. 2. Among domestic stories, the committee’s report was competing with the appointment of the first Australian-born Governor-General.

²⁷ The conservative parties, when in government in 1924, had themselves introduced a board for the Commonwealth Bank which was appointed by the government.

²⁸ S. Cornish, *The Evolution of Central Banking in Australia*. Sydney, Reserve Bank of Australia, 2010.

completely disregarded with the central bank being wholly government-owned and capable of being directed by the government.

The 2008–2009 global economic crisis

The onset of the Great Depression had been marked by the crash on Wall Street and share prices there fell sharply too in 2008. Most notable was the carnage among some of the largest American financial institutions such as Bear Stearns, Merrill Lynch, Lehman Brothers, American Insurance Group, Fannie Mae and Freddie Mac, Wachovia and Washington Mutual. Inter-bank lending markets seized up around the world. There is still debate among the relative importance of differing factors behind the crash, but they included a speculative boom, global imbalances and poorly understood securitisation instruments and associated derivatives which disguised growing risks.²⁹

The Reserve Bank of Australia acted quickly and decisively to slash interest rates and this monetary policy response was largely uncontroversial, although some commentators felt they should have gone further and taken rates down to near zero.

There was more debate about the appropriate use of fiscal policy. The operation of ‘automatic stabilisers’ meant that the Budget was inevitably going to swing into deficit; tax revenues would drop and expenditure on unemployment benefits would rise. Unlike in the Great Depression, there were few calls to cut government spending or raise taxes to try to preserve the surplus. It was generally acknowledged that this would exacerbate the crisis.

The controversy was about whether, and to what extent, there should be additional, discretionary, fiscal measures to support demand and how any such stimulus should be allocated between increases in government infrastructure spending, cash payments to households and tax cuts.

The government implemented a large fiscal stimulus package. In this it was in line with governments around the world of various political stripes. As Lord Skidelsky notes:

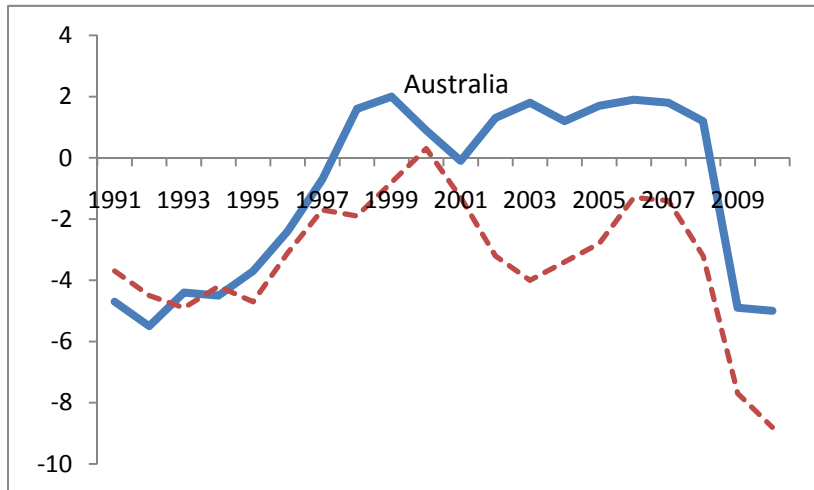
By January, even Germany, whose chancellor, Angela Merkel, had derided the autumn round of fiscal stimuli as ‘a senseless race to spend billions’, had unveiled a package worth €50 billion. Stimulus packages around the world

²⁹ R. Garnaut, *The Great Crash of 2008*. Carlton, Vic., Melbourne University Press, 2009.

have included subsidies to motor-car manufacturers, cash payments to households, and public investment in schools, housing road and railways.³⁰

A record of prudent fiscal policy going back more than a decade meant that Australia was better placed than many of its peers to introduce a large fiscal stimulus (chart 2).

Chart 2: General government financial balances: Australia vs. OECD (1991–2010; per cent to GDP)



Source: Senate Economics References Committee, government's economic stimulus initiatives, October 2009, p. 23. Based on data in *OECD Economic Outlook*, June 2009.

A set of bills implementing a significant portion of the stimulus package were referred to the Senate Finance and Public Administration Committee for review in February 2009 but this committee was only allowed less than a week to report. The committee had a government majority and concluded that the Senate should pass the bills as a matter of urgency.³¹ A dissenting report by Opposition senators argued that the package was too large, was introduced too early, created too much debt and was poorly targeted.³²

The Senate passed the bills after some amendments. Including measures in October 2008, November 2008, December 2008, February 2009 and the May 2009 budget, the total stimulus measures amounted to around \$90 billion over four to five years.

³⁰ R. Skidelsky, *Keynes: The Return of the Master*. London, Allen Lane, 2009, pp. 19–20.

³¹ Senate Standing Committee on Finance and Public Administration, *Nation Building and Jobs Plan Inquiry into the Provisions of the Appropriation (Nation Building and Jobs) Bill (No. 1) 2008–2009 and 5 Related Bills*, February 2009, p. 54.

³² *ibid.* p. 56.

The economic outlook improved during 2009 which led to calls to wind back the stimulus package more quickly than the government planned. The Senate referred the government's fiscal stimulus strategy to the Senate Economics References Committee to report by October 2009. The inquiry was supported by the Opposition, although the initiative for it came from the leader of the Greens, Senator Bob Brown.

As in 1930 the committee had an Opposition majority, but unlike in 1930 government senators took an active role in proceedings. As the 2009 inquiry was by a standing rather than select committee, a specific chair was not appointed and the inquiry was chaired by Senator Alan Eggleston, the regular chair of the Economics References Committee.

Developments in economic theory between the 1930s and 2009

The impact of the Keynesian revolution meant that an active fiscal policy is now a much more 'orthodox' view, rather than the radical proposition it was in 1930.³³ One of the witnesses in 1930, and an author of the Premiers' Plan of the 1930s, Douglas Copland, had repented by 1951, commenting:

... the mistake was made of not recognising clearly enough that government activities need to expand tremendously to offset the fall in private spending ... The second important error some of us made in the early days was to oppose credit expansion.³⁴

Looking back in his retirement, even Sir Robert Menzies commented:

...there was a strong case for deficit-budgeting in a period of depression; we have all come to accept this.³⁵

It should be noted that the Keynesian revolution was advocating temporary stimulus during recessions, not an ongoing insouciance about government deficits. As Lord Skidelsky recently points out:

³³ In 1930, while Keynes had published articles advocating expansion of public works in certain circumstances, his *General Theory* was still six years away. While his pamphlet *Can Lloyd George Do It?* (1929) and his book *A Treatise on Money* (1930) contained some of the ideas that would later form Keynesian orthodoxy, they were not well known in Australia at the time. See N. Cain, 'Australian economic advice in 1930: liberal and radical alternatives', *ANU Working Papers in Economic History*, no. 78, April 1987 and J. Hawkins, 'Theodore: the proto-Keynesian', *Economic Roundup*, issue 1, 2010, pp. 91–110 and references cited therein, for a further discussion.

³⁴ D. Copland, *Inflation and Expansion*. Melbourne, FW Cheshire, 1951, pp. 21–2.

³⁵ R. Menzies, *Afternoon Light*. Melbourne, Cassell, 1967, p. 120.

‘Deficits don’t matter.’ This was not Keynes: it was Glen Hubbard, chairman of George W. Bush’s Council of Economic Advisers in 2003. It may surprise readers to learn that Keynes thought that government budgets should normally be in surplus.³⁶

While the Keynesian approach is now the orthodoxy, it is still not unanimously supported. Some of the most ardent pro-market economists still oppose any government activism. In the US context this has been termed the ‘freshwater’ view.³⁷ A survey of Australian economics professors by M. Anderson and R. Blandy found that fewer than ten per cent of them disagreed with the statement that ‘fiscal policy has a significant stimulative impact on a less than fully employed economy’.³⁸

There is more disagreement about the size of the stimulus from fiscal expansion. This is summarised in the value of the ‘fiscal multiplier’; the ratio of the resultant increase in GDP to the increase in government spending. W. Coleman shows that the earliest estimates of this multiplier ranged from one to three.³⁹ Today’s economics textbooks use values of 2½ to five to illustrate the concept, but when citing empirical estimates refer to lower numbers, but typically still above one.⁴⁰ At the committee’s hearings, there was reference to a study by E. Ilzetki, E. Mendoza and C. Vegh which concluded that multipliers were higher in economies with higher incomes and lower trade shares, such as Australia.⁴¹

Views of the witnesses

Accordingly some fiscal stimulus was supported by most of the witnesses.

³⁶ Skidelsky, op. cit., p. xvi. He is the author a well-respected three volume biography of Keynes.

³⁷ It is termed ‘freshwater’ because it has most adherents at the University of Chicago, Milton Friedman’s base, while the Keynesian orthodoxy prevails at the ‘saltwater’ universities of New England and California; Skidelsky, op. cit., p. 30.

³⁸ M. Anderson and R. Blandy, ‘What Australian economic professors think’, *Australian Economic Review*, 4th quarter, 1992, pp. 17–40.

³⁹ W. Coleman, ‘Cambridge, England or Cambridge, Tasmania? Some recent excavations of the Giblin multiplier’, *History of Economics Review*, vol. 39, Winter 2004, p. 3.

⁴⁰ Textbooks examined were: P. Krugman, R. Wells and K. Graddy 2007, *Economics*, European edn. Basingstoke, Palgrave Macmillan, 2007; P. Samuelson and W. Nordhaus, *Economics*, 18th edn. Boston, McGraw-Hill, 2005; J. Gans, S. King, R. Stonecash and G. Makiw, *Principles of Economics*, 3rd edn. Melbourne, Thomson, 2005; R. Dornbusch, S. Fisher and R. Startz, *Macroeconomics*, 7th edn. Boston, Irwin McGraw-Hill, 1998; and O. Blanchard, *Macroeconomics*, 5th edn. New Jersey, Pearson, 2009, some of the most popular and respected texts with a number of Nobel prizewinners among their authors.

⁴¹ E. Ilzetki, E. Mendoza and C. Vegh, ‘How big are fiscal multipliers?’, *CPER Policy Insights*, no. 39, October 2009.

As in 1930 the committee regarded the head of Treasury as a desirable witness, but unlike in 1930, this time he did appear. The Governor of the Reserve Bank, the successor to the Commonwealth Bank, was another key witness. Both were supportive of the fiscal stimulus package.

A wider range of economists appeared in 2009 than in 1930. As well as the heads of Treasury and the Reserve Bank, who unlike in 1930 are now themselves well-qualified economists, the committee heard from one of Australia's leading academic economists, Professor Andrew Leigh from the ANU, Dr Richard Denniss from the Australia Institute and Rory Robertson from Macquarie Bank. As in 1930 the committee heard from business representatives, in this case from the Australian Industry Group and the Australian Chamber of Commerce and Industry. All were broadly supportive of the stimulus package.

Academia provided the only witnesses to challenge the current economic orthodoxy and argue that fiscal policy is ineffective and undesirable. A few academic economists known to hold these minority pre-Keynesian views were invited to present their perspectives.

The report

The majority report did not accept the minority academic view that there should have been no fiscal stimulus, noting:

There was a consensus view that a range of factors have contributed to Australia's exemplary economic performance. These include the continuing strong growth of China and demand for Australia's exports; the legacy of rapid growth, strong budget position and sound prudential regulation of the financial system that was left by the previous Coalition government; the rapid move to strongly accommodative monetary policy; the fall in the A\$ in the second half of 2008; and the fiscal stimulus.⁴²

However, it stated 'fiscal policy alone was not the only significant factor'.⁴³

The majority report concluded that 'the economy has strengthened and that the rationale for maintaining the proposed spending levels by the Rudd Government are no longer valid and is of the firm opinion that the levels of spending need to be reduced, postponed or offset to prevent the economy from overheating' and

⁴² Senate Economics References Committee, *Government's Economic Stimulus Initiatives*, October 2009, p. 46.

⁴³ *ibid.*

recommended a cost–benefit study be undertaken of the remaining stimulus projects.⁴⁴

A minority report by government senators highlighted that Australia was the only advanced economy to grow in the year to the June quarter of 2009, which it interpreted as indicating the fiscal stimulus package had been timely and effective. They concluded ‘without fiscal stimulus of the scale and structure of that implemented in the past year, there is no doubt that Australia would have experienced a quite severe recession’ and that the existing provisions for the gradual withdrawal of the stimulus were appropriate.⁴⁵ Similarly, the Greens, in their additional comments, said they ‘are satisfied with the evidence presented to the Committee by the Treasury Secretary Ken Henry that the Australian economy would have been in recession without the stimulus package’.⁴⁶

Media reports, while headlined by the majority report’s call to cut the stimulus spending, generally reflected the diversity of views between the majority and minority reports of the committee.⁴⁷

The government has not modified its fiscal package in response to the committee’s report.

Concluding comments

Both the 1930 and 2009 Senate inquiries provided a valuable forum for discussion of the merits of macroeconomic policy in response to the challenges faced by Australia in the face of a global downturn.

A difference between the two inquiries, both the initiative of non-government parties and chaired by an Opposition senator, was the degree to which the government cooperated. In 1930, as well as withdrawing its senators from the inquiry, the government ignored a request for Treasury officers to appear and would not facilitate the appearance of other expert witnesses. As Giblin comments in his history of central banking:

These pinpricking tactics, for which Mr Fenton and Mr Lyons (as acting PM and acting treasurer) must have been responsible, are hard to understand as

⁴⁴ *ibid.*

⁴⁵ *ibid.* p. 68.

⁴⁶ *ibid.* p. 69.

⁴⁷ *The Age*, 27 October 2009; *Australian Financial Review*, 28 October 2009, p. 3.

they played into the Opposition's hands, both in weakening the Government case and giving justification for prolonging the inquiry.⁴⁸

By contrast the cooperative stance by government senators in 2009 meant that the report, and media commentary based on it, included support for as well as criticisms of their policy.

⁴⁸ Giblin, *op. cit.*, p. 113. As noted above, Giblin believed an incisive government senator would have been able to highlight inconsistencies and weak arguments.