

Arthur Fadden: Treasurer in a golden age

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Sir Arthur Fadden served as treasurer for nine years and brought down eleven budgets. In his first budget he faced the challenges of funding military expenditure in World War II. Returning to the Treasury in the early 1950s, there were again challenging times as the Korean war boom exacerbated inflationary pressures. In response Fadden brought down the 'horror budget', the first explicitly Keynesian approach to fight inflation. Critics called it 'too much, too late' but inflation was squashed and the economy grew well for the rest of the decade. In many ways, Fadden's period as treasurer coincided with a golden age for the Australian economy.



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Source: National Library of Australia².

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- 1 The author was formerly in the Domestic Economy Division, the Australian Treasury. This article has benefited from comments by Selwyn Cornish. The views in this article are those of the author and not necessarily those of the Australian Treasury.
 - 2 'Portrait of Arthur William Fadden, M.H.R Treasurer in the Australian Cabinet, 1941', Bib ID: 1020543.

Introduction

Sir Arthur Fadden PC GCMG³ was better known as 'Artie'. He brought down eleven budgets.⁴ He was Australia's second-longest serving treasurer, but as prime minister he only 'reigned for forty days and forty nights' (like the Great Flood, as he put it).⁵

Parliamentary contemporaries recalled him as 'energetic, outgoing, shrewd and immensely likeable' and 'sharp-witted with a fund of jokes'.⁶ He had an enormous zest for living.⁷ 'His heavy frame, massive head and jowls, and gift for simile and anecdote suggested a bushman dressed in a double-breasted suit to do battle in the cities'.⁸ While an effective speaker, he had 'no pretensions to oratory'. He was 'a tough and rugged fighter in party, cabinet, parliament and on the hustings'⁹ but he cultivated co-operation and loyalty from those with whom he worked.¹⁰

An economic historian's assessment was that 'Fadden was a shrewd judge of economic interests and a competent administrator but he was not an innovator'.¹¹ On the other hand, the prosperity that Australia enjoyed during his tenure led some leading economists to nominate Fadden as Australia's best treasurer.¹² While 'neither an academic nor an intellectual'¹³, Fadden was 'a hard working treasurer and knew the job'.¹⁴ Fadden 'was interested in economic and financial issues. He read official papers and listened attentively, but his judgements were intuitive'.¹⁵

3 Fadden was knighted KCMG in 1951 and upgraded to GCMG in 1958.

4 The 1941 budget did not pass the House so by some reckonings Fadden had only ten budgets.

5 He was, however, acting prime minister for 692 days; Fadden (1969, p 151) and Davey (2011, p 133). This is longer than the combined tenures of Watson, Reid, Page, Forde and McEwen.

6 Beale (1977, p 50). Daly (1977, pp 25, 29, 32) includes some examples of Fadden's wit. Davey (2011, p 47) describes him as a 'hail fellow, well met' character. Enid Lyons (1972, p 98) recalled 'everyone whole-heartedly liked Artie'. Veteran journalist Alan Reid (1961, p 12 and 1980, p 366) recalls a prankster, mimic and raconteur who was 'so likeable' and 'earthy'.

7 Gough Whitlam, *Hansard*, 1 May 1973, p 1467; E Holt (1969, p 69).

8 Obituary, *Canberra Times*, 24 April 1973, p 2.

9 Ellis (1963, p 305). Crabb (2010, p 297) describes him as 'pugnacious, charming and ribald'.

10 Cribb (1996).

11 Schedvin (1992, p 185). Costar and Vlahos (2000, p 213) give a similar verdict.

12 Professor Ross Garnaut commented 'if the role of the treasurer is primarily one of maintaining economic stability, then the people who have presided over long periods of stable growth have to get high marks' and Professor John Neville agreed; *The Age*, 9 May 2005, p 4.

13 Reid (1961, p 13 and 1980, p 366). A parliamentary colleague described him as having 'made no claims to being highly intellectual'; McEwen and Jackson (1983, p 39).

14 Holt (1969, p 70). He was 'a master of the subject' of taxation; Spaul (1998, p 98). McEwen and Jackson (1983, pp 39, 57) describe Fadden as 'a shrewd man' who was 'very aware of what could and what could not be sold to people and this made him a very able politician'.

15 Coombs (1981, p 154).

Fadden's early life

Fadden was born in Ingham, Queensland, on 13 April 1895. He was the eldest of ten children. Both his father and maternal grandparents had been Irish immigrants. His father was a policeman in a small rural village and young Artie's bedroom was next door to a cell. He grew up in the cane fields and 'gambolled with the Tom Sawyers and Huckleberry Finns on the banks of the Pioneer River'.¹⁶ As a young man, he excelled at cricket, rugby, running and boxing. He also performed in amateur theatre. Being treasurer of a vaudeville troupe was his first experience of balancing the books.

After attending the local state school, Fadden worked as an office boy at a mill and then a clerk for Mackay Town Council. When he discovered defalcations in the books kept by the town clerk (missed by five auditors), the clerk was dismissed and Fadden appointed in his place. After studying accountancy by correspondence he became a public accountant in Townsville in 1918.¹⁷ When a cyclone hit Mackay in January 1918 Fadden narrowly escaped drowning. He worked tirelessly with the relief effort.

In December 1916 Fadden married Ilma Thornber, a milliner. Her father, grandfather and brother-in-law had all been mayors of Mackay, so the marriage brought him closer to political circles. He spoke at a public meeting in support of a friend running as a Nationalist against Theodore in 1925, but declined an offer from the Country and Progressive National Party to run himself at the 1929 state elections.

His first serious foray into politics was his election to the Townsville City Council in 1930.¹⁸ He then narrowly won the Queensland Legislative Assembly seat of Kennedy for the Country and Progressive National Party in 1932 and in 1934 was appointed to lead for the opposition in financial debates. After a redistribution, he unsuccessfully contested the sugar belt seat of Mirani in 1935.

Into federal parliament

A by-election in late 1936 for the federal seat of Darling Downs gave Fadden the chance to return to politics. He won the seat for the Queensland Country Party off the United Australia Party. He held it until 1949 when he moved to the neighbouring seat of McPherson which he kept until his retirement. Fadden's first parliamentary speech ended by outlining his vision of a 'varied and balanced economy'.¹⁹

16 Ellis (1963, p 306).

17 As Senator Barnaby Joyce, himself the only accountant in the parliament, notes 'the trouble with politics is that it has a great potential to attract lawyers and no ability to attract accountants'; Crabb (2010, p 298).

18 He led a non-party team known as the 'servicable six'.

19 *Hansard*, 17 June 1936, p 40.

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In 1939 Fadden tried to dissuade the Country Party leader Earle Page from attacking Menzies in the House. Failing in this, Fadden and three colleagues withdrew from the Country Party until after Page stood down. Fadden was critical of what he termed the Government's 'half-baked scheme known as national insurance'.²⁰

When Menzies needed to appoint Country Party ministers in April 1940, Fadden became minister assisting the treasurer. In this role he claimed (without giving any details) that the Government was funding the war 'by the most scientific means at its disposal, to find one-half from indirect tax and one-half from direct tax'.

He had been booked on the plane which crashed in August 1940 killing three ministers, but fortunately had taken the train instead. He was appointed minister for air and civil aviation in addition to assistant treasurer.

First (and short) term as treasurer

Following the 1940 election there was a challenge to the leadership of the Country Party and the vote was tied between former leader Earle Page and future leader John McEwen. To break the deadlock Fadden was appointed acting leader, and therefore unofficial deputy prime minister, and was confirmed as party leader in April 1941.

Fadden was promoted to treasurer²¹, and in November 1940 brought down his first budget, increasing a range of taxes (including a 'greatly increased yield from the middle incomes'²²) and borrowing heavily to pay for vastly increased military spending. Concerned about rising inflationary pressures, Fadden rejected reliance on further expansion of credit. He regarded inflation as the least equitable means of raising revenue from the public.²³ Fadden failed in an attempt to convince the states that they should yield income taxes to the federal government. Price controls had been introduced 'preventing profiteering and safeguarding the interests of the Australian consumers'.²⁴ A payroll tax was introduced to help fund child endowment.

Former Commonwealth Bank governor 'Nugget' Coombs recalled 'Fadden's first budget was phrased in more traditional financial terms and its Keynesian structure was less apparent'.²⁵

20 *Hansard*, 23 November 1938, p 1931.

21 Spender (1972, pp 73-74) believed Fadden demanded it as his right as deputy prime minister, although Menzies tried to present it as his own decision to make the best use of Fadden's accounting background.

22 *Hansard*, 21 November 1940, p 87.

23 *Hansard*, 21 November 1940, p 85; Hasluck (1952, p 282).

24 *Hansard*, 21 November 1940, p 80.

25 Coombs (1981, p 10).

Fadden and Treasury Secretary Stuart ('Misery Mac') McFarlane were not temperamentally compatible.²⁶ An Economic and Industrial Committee of Cabinet was established in June 1941, chaired by Fadden and with Professor Copland as Economic Consultant, but it only operated for a few months.²⁷ More influential was the 'F&E Committee' of leading economists.²⁸ Acting on advice from F&E Fadden tried unsuccessfully in February and June 1941 to persuade the states to transfer income tax powers to the federal government.²⁹

Prime minister and treasurer

Menzies resigned as prime minister in August 1941 and a joint party room meeting chose Fadden as his replacement despite his being from the smaller party in the coalition. But his government was only to last forty two days.

Fadden remained treasurer as well as being prime minister. He regarded the 1941-42 budget as one of the two best he presented.³⁰ He viewed war with Japan as inevitable, so was concerned with new measures to raise revenue. He planned 'compulsory loans'³¹ from singles earning over £100 a year, reaching 90 per cent on very high incomes, to accrue interest at 2 per cent and be repaid after the war.³² A 'high profits' tax was proposed for companies earning over 8 per cent on capital. The budget included forecasts of national income, and said about 15 per cent of this would be needed for war purposes.³³ He persuaded the private banks to place deposits with the Commonwealth Bank and follow its policy on advances.³⁴

The parliament, however, voted against the budget as two independents withdrew their support from the coalition government. Curtin became prime minister and a new budget was brought down on 29 October 1941 by Ben Chifley, dropping the 'compulsory loans' and focusing the income tax increases on high income earners.

26 In addition to his dourness, 'McFarlane's style of presentation sometimes showed a carelessness of detail which offended Fadden's accountancy standards' leading Fadden to complain of some tables 'bloody thing doesn't add up!'; Coombs (1981, pp 6, 11).

27 The Committee is described in Hasluck (1952, pp 429-430) and Weller (2007, pp 74-75).

28 Maddock and Penny (1983) describe this committee.

29 Maddock and Penny (1983, p 38).

30 Fadden (1969, p 66 and 1973, p 8). The other was the 1951-52 'horror budget'.

31 This was an idea of Keynes, also known as 'deferred pay', 'post-war credits' or 'national contribution', suggested by the F&E Committee; Coleman, Cornish and Hagger (2006, p 192), Davey (2011, p 63), Maddock and Penny (1983, p 39) and Markwell (1985, p 50). It had been strongly advocated by one of the independents on whom Fadden relied to hold government but Fadden was particularly proud of the idea; Fadden (1973, pp 8-9).

32 *Hansard*, 25 September 1941, p 574. Similarly there would be compulsory loans out of company income.

33 *Hansard*, 25 September 1941, p 570.

34 *Hansard*, 25 September 1941, p 576.

Opposition

Fadden was unanimously chosen as leader of the opposition, with Billy Hughes taking over the leadership of the United Australia Party from Menzies. Surprisingly given his past record, Hughes was a loyal supporter for Fadden. But Menzies was not.³⁵ Fadden led the divided opposition to a landslide defeat in the 1943 election.

Menzies became leader of the opposition and set about forming a new Liberal Party. Fadden remained leader of the Country Party, which declined overtures to merge with the new party. Fadden campaigned against Labor's economic (particularly banking) policies and its referenda proposals to increase Commonwealth powers. He helped persuade Menzies to promise to abolish petrol rationing, a popular move which helped the coalition to victory in 1949.

As opposition leader, Fadden was very critical of Chifley's wartime banking regulations: 'we are fighting dictatorships today and we should not constitute the Commonwealth Treasurer a dictator of the financial policy of this country'.³⁶ A common theme was the danger of 'insidious inflation, which is the worst possible form of taxation' and 'the worst enemy of the worker and the poor man'.³⁷ He cited Keynes in critiquing rationing.³⁸ Despite their policy differences, however, Fadden and Chifley got on well with 'a shared knowledge and understanding of finance and their temperamental compatibility'.³⁹

At this time, Fadden was no fan of economists; warning that 'economic advisers...with even larger staffs ... from their armchairs in Canberra will dictate to the nation'.⁴⁰

35 When Menzies criticised a Fadden policy, Fadden publicly referred to 'this stab in the back, another betrayal in the series for which Mr Menzies has become notorious'; Joske (1978, p 131). Privately he referred to Menzies as 'that big bag of ----'; Perkins (1968, p 143). Fadden had earlier resented Menzies' lack of appreciation of his work as acting prime minister; Fadden (1969, pp 60-62) and Davey (2011, p 51). He also resented Menzies' failure to support him in the budget debate; Fadden (1969, p 71). Fricke (1990, p 127) refers to 'a bitter hostility' between the two. They went on to work together in government in the 1950s but Enid Lyons (1972, p 99) recalled 'neither particularly admired the special gifts of the other, and each was slightly out of his depth in the other's intellectual sphere'.

36 *Hansard*, 5 November 1941, p 82.

37 *Hansard*, 8 October 1943, p 287 and 22 June 1943, p 19.

38 *Hansard*, 10 September 1942, pp 166-7.

39 E Lyons (1972, p 98).

40 *Hansard*, 20 July 1944, p 327.

Second (and long) term as treasurer

In December 1949, the Liberal and Country parties returned to office, with Fadden treasurer and unofficial deputy prime minister.⁴¹

Inflationary pressures were building. The incoming Menzies government removed controls and long pent-up demand was finding expression in a consumption and construction boom. The inflow of immigrants and a post-War 'baby boom' added to the demand pressures. Large capital works projects such as the Snowy Mountains Scheme were underway. Wages were accelerating. In September 1949, the Chifley Government had devalued the Australian pound by 30 per cent against the US dollar, following the British lead, adding further inflationary pressure and the 1949 budget was stimulatory. A number of economists were arguing that deflationary policies were needed.⁴² The public was also becoming more concerned.⁴³ One of the main promises of Menzies and Fadden at the 1949 election was to 'put value back in the pound'. The subsequent Korean War boom was described as 'like a bee stinging a runaway horse'.⁴⁴

The Korean war boom and the 'horror budget'

Australia was still 'riding on the sheep's back' in 1950. A blow had just been struck against the sheep's traditional rival, the rabbit, with CSIRO scientists successfully introducing the lethal disease myxomatosis. A new rival in the form of synthetic fibres was only just emerging. While the relative size of the rural sector had been in gradual decline for decades, it still accounted for around a fifth of GDP. Wool alone accounted for almost half of Australia's exports in 1949.⁴⁵

It therefore had a marked impact on the economy when the outbreak of the Korean War saw a surge in the global demand for wool.⁴⁶ The greasy wool price rose from

41 Fadden as Country Party leader could choose his own portfolio and his preference was treasurer; McEwen and Jackson (1983, p 41).

42 Whitwell (1986, pp 97-100) gives examples of minutes from the Commonwealth Bank and Treasury to this effect.

43 In an opinion poll in December 1949 about the major issue the Government needed to address in the coming year, 'living costs' was only nominated by 10 per cent of those polled. By December 1951 it was nominated by 48 per cent; Hazlehurst (1979, p 328).

44 Badger (1955, p 78).

45 Wool production had represented around 5 per cent of GDP from 1930 to 1946 but the boom took it to a peak of over 18 per cent in 1950-51; Badger (1955, p 65).

46 The wool stockpiles that accumulated during the second world war had been run down by 1951, and the United States government announced plans to rebuild its stockpile to meet military needs for uniforms. While the US had once been self-sufficient in wool, its sheep numbers were now at their lowest in almost a century and it was importing two thirds of its wool. Commercial users of wool, and even the public, started to fear that wool and woollen clothing would become unavailable or prohibitively expensive and there was a rush to purchase them; Goldbloom, Hawkins and Kennedy (2008).

49 pence per pound in 1949 to almost a pound per pound at its March 1951 peak.⁴⁷ At the same time the price of wheat, Australia's second most important export, also rose strongly. Notwithstanding some large increases in import prices, these developments meant the terms of trade had increased by 64 per cent from 1945-46 to 1949-50 and they rose a further 46 per cent in the following year, adding a massive 7 per cent to real gross domestic income in 1950-51. Unsurprisingly, this fuelled already strong demand; real private consumption almost doubled between 1943-44 and 1953-54. The unemployment rate fell to very low levels, probably the lowest since the 'gold rush' a century earlier and never matched since. The consumer price index increased by 13 per cent in 1950-51, an increase also not experienced since the gold rush, and went over 20 per cent the following year.

Despite its rhetorical concern with inflation, the Menzies Government shared its predecessor's enthusiasm for national development and the provision of infrastructure which made it hard to cut back government spending significantly and its political criticisms of Chifley made it hard to increase taxes.⁴⁸ It was not until after the April 1951 election that a more restrictive fiscal policy was adopted.⁴⁹

While Fadden decried the 'dangerous rate' of inflation⁵⁰, economic policy was slow to respond. In a confidential memo to the cabinet in February 1951 Fadden referred to the 'certain prospect of further and very substantial rises in the domestic price level'.⁵¹ He gave as possible responses reducing credit, increasing interest rates, voluntary or compulsory increases in savings, budgeting for a surplus, price controls, increasing imports, currency appreciation and price subsidies.⁵²

47 In October 1950 Fadden referred to the 'sensational rise in wool prices'; *Hansard*, 12 October 1950, p 765.

48 Schedvin (1992, pp 173 and 297) argues that Treasury shared this preference for development. See also Cornish (1992, pp 43-44). In his 1950 budget speech Fadden referred to inflation as 'the familiar growing pains of a vigorous economy' and said that 'the Government has been determined that migration and essential development should go on, and, as far as possible, be accelerated'; *Hansard*, 12 October 1950, pp 763-4.

49 Fitchett (1977).

50 *Hansard*, 21 June 1950, p 4667. His speech put more emphasis on the need to 'destroy the menace of communism as the first and fundamental prerequisite to putting value back in the pound'.

51 19 February 1951, *Menzies papers*, NLA MS 4936, box 438, folder 5.

52 Coombs had suggested many of these measures to Fadden in May 1950; Rowse (2002, pp 206-7).

Menzies wanted to appreciate the pound but Fadden refused.⁵³ One of his arguments was that the high wool price might prove temporary and there would be opposition to any subsequent devaluation.⁵⁴ As an alternative, a wool sales deduction scheme was introduced in 1950, under which 20 per cent of the value of wool sold or exported was paid to the Treasury and credited against woolgrowers' income tax obligations.⁵⁵ It was very unpopular with farmers and repealed the following year.

In the September 1951 budget the Government demonstrated the first use of Keynesian anti-inflationary fiscal policy.⁵⁶ There were increases in income tax, company tax, sales tax and excise duty and special depreciation allowances were removed. One estimate put its impact on personal income at almost 6 per cent.⁵⁷ The government budgeted for a significant surplus, which Fadden argued 'is one of the most effective weapons currently available to the government – and also one which interferes as little as possible with the freedom of the economy to shape its own course'.⁵⁸

An explicitly Keynesian tone was adopted in the budget speech; 'the financial operations of governments can, if appropriately directed, do a great deal to redress unstable conditions developing within the economy ... modern thought on the relation of public finance to economic stability is quite clear ... that, in times of excessive demand and scarcity of labour, governments should draw away from the public in taxation and loans more than they spend for current purposes'.⁵⁹ He concluded, in a somewhat mixed metaphor, that 'the whirlwind of rising prices may be exhilarating for the few who can ride it out, but for many inflation can become a whirlpool which ever more rapidly engulfs their savings and ultimately their jobs'.⁶⁰

53 A measure of the strength of his opposition was that reflecting in retirement on his 22 years in federal parliament, he named preventing an appreciation as his most notable achievement. Fadden, Page and his other Country Party colleagues argued strongly against appreciation. As Ellis (1963, p 288) points out, there was an implicit threat: the Labor Party had said they opposed appreciation too and the combined Labor and Country Party vote in the House exceeded that of the Liberals. Davey (2010, p 87) and Fadden (1969, p 116) report that during this tense period, some Country Party ministers carried signed letters of resignation in their pockets.

54 Fadden (1969, p 115).

55 Davey (2010, p 87) describes how Fadden initially wrote up the plan on lavatory paper, all that he had available on the night he had the idea.

56 See Hawkins, Goldbloom and Kennedy (2007) and Whitwell (1994).

57 Artis and Wallace (1967, p 423). Auld's (1967, p 344) study concludes the 1951-52 budget was deflationary but much less so than the 1960-61 budget, and similar to the 1955-56 and 1956-57 budgets.

58 A memo in January 1951 cited in Whitwell (1986, p 105).

59 *Hansard*, 26 September 1951, pp 53-54.

60 *Hansard*, 26 September 1951, p 66.

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The reaction was sharp. A tabloid headline screamed 'Huge sales tax rise in horror budget', a sobriquet coined by Arthur Calwell that was forever attached to it.⁶¹ Fadden later judged the budget as one of the two best of the eleven he presented.⁶² But at the time he felt 'I could have had a meeting of all my friends and supporters in a one-man telephone booth'.⁶³ In rather an understatement, Fadden said 'it was not intended to make anyone giggle'.⁶⁴

Menzies rejected backbench suggestions of blocking wage increases, suggesting any interference by the Government in the deliberations of the Arbitration Court would be highly improper.⁶⁵

The timing of the government's counter-cyclical moves proved very unfortunate as rather than standing against an ongoing boom, it reinforced a weakening resulting from a collapse in wool prices from April 1951. The greasy wool price almost halved from an average price of 175 pence per pound during 1951 to an average of 89 pence in 1952. The economy went into recession from around mid-1951 to end 1952. The turnaround was both reflected in and amplified by a stock cycle. With hindsight, economists regard this recession as relatively mild.⁶⁶ But it had a marked impact on sentiment: the majority of respondents in an October 1953 opinion poll said their living standard had dropped over the past year; less than a tenth reported any progress.⁶⁷

As Schedvin remarks, 'it is difficult to explain why so little note was taken of the collapse in the price of wool around April 1951'.⁶⁸ He suggests that 'as the government had been so difficult to persuade, senior officials were unwilling to encourage backsliding by softening their recommendations in the light of altered circumstances'.⁶⁹

61 *The News* (Adelaide), 26 September 1951, p 1. Apparently Menzies himself had earlier referred to the need for a 'horror' budget and Calwell reminded the house of this; *Hansard* 3 October 1951, p 286.

62 Fadden (1969, p 66). The other was the 1941-42 war budget.

63 Cribb (1996).

64 *Advertiser*, 29 September 1951.

65 Martin (1999, p 211).

66 Whitwell (1986) comments 'the recession of 1952-53 was neither particularly deep ... nor protracted'. Schedvin (1992, p 174) agrees 'the downturn was moderate'. It was also partly attributable to a minor drought. It is hard to be sure of its size as while the income-based estimates of real GDP show a fall of around 1 per cent in 1952-53, the expenditure-based estimates show an increase.

67 Murphy (2000, p 107).

68 Schedvin (1992). In his speech presenting the 'horror budget' Fadden himself remarked 'wool prices have already fallen a long way from the peak reached early in 1951'; *Hansard*, 26 September 1951, p 52.

69 Schedvin (1992, pp 186 and 189).

It was not until the second half of 1952 that policy responded to the changed circumstances. In August 1952 the fiscal measures of the horror budget were largely reversed. The 1952-53 budget was brought forward several weeks and included cuts to company and sales tax. Fadden opened by remarking that 'it has now become traditional ... that the budget speech should deal also with the impact of the budget, and of the measures associated with it, on the progress and prosperity of the country'.⁷⁰ He stressed the 'dramatic changes in basic economic conditions' since the previous budget; the fall in wool prices, the surge in imports and the subsequent fall in international reserves. Business, he noted, had 'passed into a phase of slackness and uncertainty' while 'demand for some types of goods is inadequate to absorb the supplies available and, in consequence, some unemployment has emerged'.

Fadden lamented the 'great change of attitude on the part of businessmen...there is in some quarters a good deal of fear about the economic future. I believe it to be basically unfounded, but the fact that it exists is something we cannot ignore. Psychology is enormously important in economic affairs and can never be safely disregarded'.

Fadden was aware of the danger of allowing inflationary expectations to become entrenched and the large output costs that would then be necessary to tame them. 'Plans and commitments are built upon the belief that prices will continue to rise and scarcities to persist. When these conditions are brought or come to an end, as they must some time, expectations are falsified, plans go wrong and losses are incurred. Left to run its own course, inflation will inevitably bring its own drastic solution in bankruptcies and mass unemployment.'

Given the change in economic circumstances, Fadden explained the government intended to 'reduce taxation as far as the Commonwealth budgetary position makes possible, but we are not going to go into deficit'. Views differ about how effective this fiscal response was. Whitwell opines the budget was 'mildly expansionary'.⁷¹ Auld's study concludes that the automatic stabilisers were helpful and were augmented by discretionary tax reductions but substantially offset by cuts in government spending, leading to the conclusion that 'in terms of discretionary anti-recession policy, the government's decisions were destabilising'.⁷²

By the time of the 1953-54 budget in September 1953, inflation had been checked, international reserves had been rebuilt and the Korean War was over. It was back to business as usual with a balanced budget. Fadden opened his budget speech by announcing cuts to a range of taxes and was able to congratulate himself on how his

70 The budget speech extracts in this section are from *Hansard*, 6 August 1952, pp 65-78.

71 Whitwell (1986, p 108).

72 Auld (1967, p 339).

Keynesian tools had handled the collapse of the boom; 'equilibrium has now been restored ... the action taken proved both timely and adequate ... we have now practically attained that stability we set out to achieve in the strenuous days of 1950 and 1951 ... the recent boom, one of the sharpest in our history, was brought under control without incurring anything, that, by any stretch of imagination, could be called a slump. That, I venture to claim, was a quite unprecedented achievement'.⁷³

Banking and monetary policy

Fadden introduced banking bills in 1950 making the Commonwealth Bank governor answerable to a board rather than to the government. When these were rejected by the Senate, they formed the trigger for the 1951 double dissolution election which gave the Liberal-Country coalition a Senate majority.

Monetary policy had a smaller role than fiscal policy in fighting inflation. Interest rates were increased for the first time since the start of world war two, but there was a reluctance to push interest rates up much, in part due to concerns about inflicting capital losses on those patriotic citizens who had bought war bonds. Furthermore, both the Prime Minister and the Treasury apparently did not regard monetary policy as very potent.⁷⁴ There was an increase in special accounts and a lending directive to rein in credit, which were reversed after the economy moved into recession.

In 1952 Fadden attended a Commonwealth finance ministers' conference to discuss a balance of payments crisis in the Sterling area. Fadden refused to accept British suggestions for limits on Australian imports to bolster sterling against the dollar.

When re-establishing the Commonwealth Bank board, Fadden said he had no intention of separating its central banking function. But the private banks complained it had an unfair advantage in its commercial operations and particularly resented the special accounts. In 1953 the Commonwealth Trading Bank was made a separate entity, but still under the overall control of the Governor. The private banks maintained their pressure and in 1957 Fadden introduced legislation for a split.⁷⁵ The

73 *Hansard*, 9 September 1953, pp 41-2. Similarly, when presenting the 1954 budget Fadden was able to refer to 'real and substantial material progress [with]...retail and wholesale prices generally steady throughout the year ... we have tasted the fruits of stable progress'; *Hansard*, 18 August 1954, pp 384-5.

74 Treasury argued in February 1951 that 'a government decision deliberately to raise interest rates unless carried to very high levels could not be regarded as an important contribution to anti-inflationary policy'; cited by Whitwell (1986, p 104). Menzies wrote to Fadden in June 1950, 'I have very little faith in the virtue of a rise in interest rates as such a means of restraining excessive investment demands'; cited in Schedvin (1992, p 169).

75 Cornish (2010b, pp 13-17). The bills were much like Theodore's proposals almost three decades before, which were then frustrated by the non-Labor parties in the Senate. Labor and the non-Labor parties had now swapped sides on the argument.

central banking functions were retained in a renamed Reserve Bank of Australia. The commercial banking activities were transferred to a new Commonwealth Banking Corporation comprising the Savings Bank, Trading Bank and a new Commonwealth Development Bank which Fadden regarded as his 'own brainchild ... designed to overcome the lack of adequate long-term borrowing finance for farm development and small industries'.⁷⁶ The legislation was initially blocked by the Senate but passed when the Government gained control of the Senate after the 1958 election.

Fadden and his colleagues

While 'Menzies did not admit it publicly, he paid great heed to Fadden's opinions on the economy'.⁷⁷ Fadden had control of the macroeconomic levers, but McEwen had a strong influence on overall economic policy 'with his controversial all-round protectionism for both the rural and manufacturing industries'.⁷⁸ Despite his experience as treasurer, there is little evidence of Page trying to be a 'back seat driver' on economic policy to his Country Party colleague.

Fadden and the economists

Fadden 'fitted in well at Treasury'.⁷⁹ He appointed as secretary, and then relied heavily on the counsel of, Roland Wilson – 'the epitome of the "good Treasury man"; confident, authoritative, resolute, academically gifted, coldly logical, acerbic and quick-witted'⁸⁰ – but was a 'shrewd assessor' of his advice.⁸¹ Fadden also had a warm relationship with Wilson's deputy Richard Randall, and with Nugget Coombs at the Commonwealth Bank.⁸² Treasury was more pro-growth and longer-term than the Bank

76 Fadden (1969, p 147); Ellis (1963, pp 297-8); and Davey (2010, p 102).

77 Fitchett (1977, p 26).

78 Brown (2002, p 62). Treasury had opposed the powerful new Department of Trade created in 1956; McEwen and Jackson (1983, p 49).

79 McEwen and Jackson (1983, p 57).

80 Whitwell (1986, p 23). Wilson was a strong personality; the formidable 'Black Jack' McEwen, an opponent of Treasury as trade minister, once remarked to Wilson 'you don't terrorise easily'; Golding (1996, p 12). A leading financial journalist called Wilson 'the outstanding public servant of his generation' while even Keynes respected Wilson's wisdom and pertinacity; cited by Cornish (2010a, p 1).

81 Cribb (1996). Coombs (1981, p 132) judged that Fadden 'greatly admired Roland Wilson's capacity, and depended heavily on his judgement, but he found Roland too cold and unyielding for a wholly satisfactory partner. Indeed it could almost be said that he was a little afraid of Wilson's razor-sharp intellect, his intolerance of human frailty, and his acid tongue'. Fadden was not however so overawed by Wilson as to be above a practical joke, once planning to leave a fish in his hotel bed; Fadden (1969, p 141). But his preference was to be accompanied by deputy secretary Randall on his overseas trips.

82 Coombs (1981, p 131).

which was generally concerned about fine-tuning the economy to avoid the short-term risk of inflation.⁸³

On gaining office, Menzies proceeded with Chifley's plans of transferring the Economic Policy Division from the Department of Post-War Reconstruction to his own department, giving him an alternative source of economic advice to Treasury.⁸⁴ In 1950 Menzies established a National Security Resources Board, based on a similar body in the US, to prepare plans for controls required in any future war, which many ministers thought could be soon. The Board included public servants, business leaders and a trade unionist and was chaired by the prime minister.

Macroeconomic policy in the latter 1950s

Privately Menzies wished Fadden had retired in 1954 after a serious road accident but felt obliged to keep him on as treasurer.⁸⁵ By 1957 Fadden was himself tiring of the job, describing himself as 'about as tired and overworked and often as lonely as a drover's dog'.⁸⁶ Nonetheless Fadden continued to achieve results. He merged the income tax and social services contribution, making the tax system simpler. He also introduced many changes favourable to farmers such as increasing depreciation rates and abolishing land taxes.

By the mid-1950s inflationary pressures were again building.⁸⁷ Once more electoral considerations inhibited action. It was only after the Menzies Government was re-elected in December 1955 that a package of deflationary measures was announced in a mini-budget in March 1956. Spending was cut, company and sales tax were raised, additional taxes levied on alcohol and tobacco and interest rates were increased. With the economy judged to have slowed to 'a state of substantial balance',⁸⁸ the 1957-58 budget increased government spending and cut taxes.

While critics described these responses as 'stop/go', overall the Fadden era appeared economically a golden age; with unemployment averaging under 2 per cent and

83 Cornish (2007, p 231).

84 Lee (1995, p 127).

85 Davey (2010, p 95); Martin (1999, p 269). The accident prevented Fadden from voting at the 1954 election.

86 Fadden, letter to Harrison, cited in Martin (1999, p 367). In his memoirs, Fadden gave as his reason for retiring only that he was physically tired and wanted a long holiday, although he noted that many in politics stay too long. Reid (1961, p 12) also refers to the loss of a deeply-loved son.

87 Menzies wrote in July 1955, 'inflation is once more on the way and some faintly heroic measures will be needed'; Henderson (2011, p 6). Fadden only referred to 'a mild and incipient form of inflation' in his 1955 budget speech; *Hansard*, 24 August 1955, p 29.

88 *Hansard*, 3 September 1957, p 215.

economic growth around 4½ per cent in the 1950s. After the Korean War boom, inflation averaged around 2½ per cent.

The record looks less impressive when compared internationally. The 1950s were a golden age across most of the western world with Australia slipping behind; its average annual growth in real per capita GDP of 1.7 per cent was below the Western European average of 4.2 per cent and slightly slower than that of Canada.⁸⁹

After politics

With his health suffering from the strains of office,⁹⁰ Fadden stood down as Country Party leader in March 1958, did not contest the elections that year and handed over the treasurership to Harold Holt in December.⁹¹ (Unusually, he held the treasurer's job for a little while after he ceased to be a member of parliament.)

He was hurt not to be given the chair of the Commonwealth Banking Corporation. He accepted a number of directorships and published his memoirs.

He died on 21 April 1973, survived by his wife, two daughters and a son.

⁸⁹ The global average was 2.8 per cent; based on estimates in Maddison (2001).

⁹⁰ McEwen and Jackson (1983, p 57).

⁹¹ As he notes in his memoirs (1969, p 148), Fadden was one of the few treasurers to step down voluntarily and know when they are presenting their last budget, and was able to refer to his then record term in his final budget speech; *Hansard*, 15 August 1958, p 20.

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