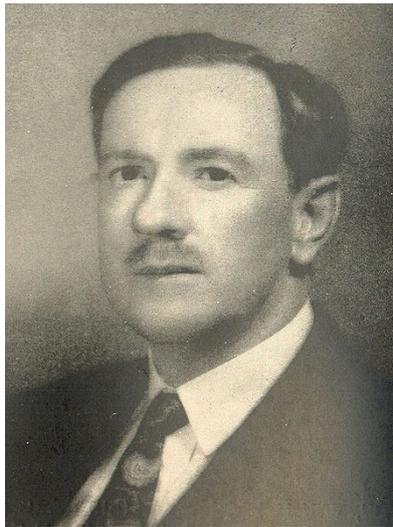


Percy Spender: an early Keynesian

John Hawkins¹

Spender initially assisted Menzies as Treasurer before assuming the formal title himself. He moved the Australian economy onto a war footing. He was the first treasurer to have studied economics at university and was a leader in the adoption of Keynesian economic policy.



Source: Commonwealth Parliamentary Handbook.

1 The author formerly worked in the Domestic Economy Division, the Australian Treasury. This article has benefited from comments and suggestions provided by Selwyn Cornish. The views in this article are those of the author and not necessarily those of the Australian Treasury.

Introduction

Sir Percy Spender KCVO, KBE, KStJ, BA, LLB, QC² has been described as 'all energy and new ideas'³ and admired for his legal skills, but disdained for his ambition and concern with money by some lawyers and others from more privileged backgrounds.⁴ Nugget Coombs recalled him as 'intelligent with the good barrister's gift of grasping quickly the essence of a brief and the capacity to speak coherently about it'.⁵ His brashness, independence, ambition and self-promotion jarred with some of his political peers who may have also suffered from some envy of the talented maverick in their midst.⁶

Spender's life before politics

Spender was born on 5 October 1897 in Sydney. An ancestor was probably a minor official – a 'spender' of funds (appropriate for a treasurer!), his paternal grandparents had emigrated from England and his father was a locksmith. He had a hard childhood, with his mother dying when he was four. He was a sickly child, shy and with a strong stammer, and appeared not to be close to his siblings. While he was a sufficiently good student to attend the selective Fort St High, once there he showed more interest in football and swimming than study and failed to qualify for entry to university. Chastened, he got a job as a clerk at the town hall and studied in the evenings to first matriculate and then took an Arts-Law degree at the University of Sydney, where he was influenced by the philosopher Francis Anderson. He was also taught by the radical economist Professor Irvine.⁷ His distinctions in Economics II and III made him the most academically qualified economist among pre-WWII treasurers and he recalled reading extensively about fiscal policy well before becoming Treasurer.⁸ He won the University Medal in Law in 1922, by when he was an articulated clerk with a firm of solicitors.

In 1925 he married Jean Henderson. She became a successful writer of murder mysteries in whose leading characters some detected a resemblance to Percy.⁹

2 As he styles himself in Spender (1970).

3 Coleman, Cornish and Hagger (2006, p 183).

4 Lowe (2010, p 82).

5 Coombs (1981, p 7).

6 Coombs (1981, p 9) remarked that Spender 'was confident to the point of being cock-sure; his style of speech was assertive rather than persuasive; he had little capacity to attract loyalty or affection'.

7 McFarlane (1966, p 13).

8 Spender (1981, p 67).

9 Various such examples of art imitating life are given in Lowe (2010).

By the 1930s Spender was a successful barrister specialising in commercial law.¹⁰ Unlike many of his peers, he took his holidays in Asia, a region that was to interest him for the rest of his career.

Early days in Canberra

Spender entered parliament in 1937 as an independent, defeating the incumbent Defence Minister, Sir Archdale Parkhill, in Warringah.¹¹ Economic policies mentioned in his campaign included the desirability of more public works to lower unemployment and a national insurance scheme. He initially concentrated on defence issues, called for parliamentary committees to examine expenditure¹² and questioned the constitutional validity of the Government's national insurance proposals.¹³ In 1938 he joined the United Australia Party (UAP).

Treasurer

On becoming Prime Minister in April 1939, Menzies decided to serve as Treasurer himself. But he appointed Spender as Assistant Treasurer. By November 1939 Spender was acting Treasurer and by March 1940 Treasurer in his own right. Spender felt he was 'in full charge of Treasury throughout'.¹⁴

His biographer believes 'economics, generously defined, remained a preoccupation with Spender'.¹⁵

Menzies' September 1939 budget was 'a budget for preparation and not a budget for conflict'.¹⁶ Spender recalls it being rather casually outlined by Treasury Secretary 'Misery Mac' McFarlane on a foolscap piece of paper of 'sums' showing options for bridging the gap between revenue and expenditure.¹⁷ Spender regarded this as a totally inadequate response to the need to move to a war footing.

10 His wife believed he was the youngest Kings Counsel in the Commonwealth; J Spender (1968, p 3).

11 He had earlier been preselected for the state seat of Neutral Bay but withdrew; Lowe (2010, p 5).

12 Canberra Times, 3 December 1937.

13 Sydney Morning Herald, 28 May 1938.

14 Spender (1968; 1972, p 46). His wife concurred: 'it was common knowledge that the Prime Minister, who was then also the Treasurer, had given him a more or less free hand'; J Spender (1968, p 5).

15 Lowe (2010, p 15).

16 Hansard, 12 September 1939, p 401.

17 Spender (1972, pp 42-3). Spender and McFarlane were not temperamentally compatible according to Coombs (1981, p 6).

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Spender as acting Treasurer presented a revised budget on 30 November 1939. It made a clearer statement of principle, 'reflecting the degree to which Spender was receptive to the ideas of some of the more academically trained temporary staff recruited to the department'.¹⁸ In particular the advice of Giblin helped Spender 'break away from orthodoxy' and reject Treasury Secretary McFarlane's advice to raise taxes to fund war expenditure.¹⁹ Lyons had established the Financial & Economic (F&E) committee of economists,²⁰ which from September 1939 was under Treasury, and Spender was willing to discuss issues with it rather than just accept the advice of Treasury officers.²¹ It has been argued that if there ever was a Keynesian 'revolution' in Australia it occurred under Spender in November 1939 when he pushed F&E's recommendations against Treasury advice.²²

Spender's approach, inspired by F&E, was to inject funds into defence-related projects that would soak up unemployment, initially funded by central bank credit, then from borrowing and then from taxation.²³

Spender's revised budget introduced controls on private investment to ensure savings were directed into the war effort, emphasised the need for low interest rates and introduced a programme of issuing savings certificates so that persons of limited means could also contribute.

An Economic Cabinet was created in December 1939, chaired by Menzies as Prime Minister and including Spender and five other ministers.²⁴ Economic decisions, however, remained with the full cabinet and the Economic Cabinet was wound up in May 1940. Businessman and engineer Ernest Fisk was appointed secretary of the Economic Cabinet, Economic Co-ordinator, and a member of F&E but does not appear to have had any great influence.²⁵

As the economy moved towards full employment, Spender realised that private consumption would have to be dampened to contain inflationary pressures. These

18 Butlin (1955, p 199).

19 Spender (1972, p 44); Cornish (2000). Spender (1981, p 67) recalled 'quite a lot of the helpful advice that I got as treasurer came from Professor Giblin who was very wise.'

20 The Financial and Economic Committee, to give it its full name, is described in Maddock and Penny (1983) and Butlin (1955). Giblin was its only full-time member.

21 Butlin (1955, pp 215, 356-7); Lowe (2010, p 58).

22 Coleman, Cornish and Hagger (2006, p 185); Millmow (2010, p 263); Cornish (1993, p 47).

23 Hansard, 30 November 1939, pp 1851-2.

24 The Economic Committee is described in Butlin (1955, pp 357-62) and Hasluck (1952, pp 424-435). The latter argues it was not a success as it was hard to isolate purely economic matters from other cabinet business.

25 Hasluck (1952, pp 427-8); Maddock and Penny (1983, p 30). F&E had suggested former treasurer Ted Theodore for the post. Fadden discontinued the role of Economic Coordinator in October 1941.

ideas were reflected in a cabinet submission and then a financial statement to parliament in May 1940. It included measures to curb spending on public works by state and local governments. But it was still a battle to convince cabinet to raise direct taxes, and the statement relied more on regressive indirect taxes than the F&E had proposed.

Spender wanted to learn some lessons from World War I, in particular avoiding excessively generous treatment of wealthy investors in war bonds.²⁶ He also contemplated an unemployment insurance scheme to make the increased taxation on workers more palatable.²⁷ Spender introduced requirements that the private banks place a set proportion of deposits with the Commonwealth Bank. He worked to introduce capital controls and raise taxes but was opposed by state premiers.

Despite generally being regarded as performing well, in October 1940 Spender was moved from Treasury to accommodate Fadden's desire for the post.

His subsequent career

Spender was Minister for the Army until the government fell in October 1941. When Menzies quit as UAP leader Spender contested the leadership but was beaten by Hughes. After the 1943 election defeat he was beaten by Menzies for the UAP leadership and again by Hughes for the deputy leadership.²⁸ Spender was expelled from the United Australia Party for remaining on the bipartisan Advisory War Council when the party withdrew and he crossed the floor to support Labor's referendum to increase the powers of the federal government. He returned to the fold when the UAP was succeeded by the Liberal Party.

Spender returned to cabinet when Labor lost office in 1949. As foreign minister from 1949 to 1951, Spender is remembered for his work establishing the Colombo Plan, and drafting the ANZUS Treaty.²⁹ Renouf (1985, p 56) places Spender with Hughes, Evatt and Whitlam as one of the 'four great innovators in the portfolio'. The Anglocentric Menzies had little time for Spender's views of the importance of Asia. Menzies may also have seen Spender as a potential rival.³⁰ This was seen as a possible motive for Menzies offering Spender a position where he could pose no threat, as Ambassador to

26 J Spender (1968, p 5).

27 De Maria (1991, p 278) and Watts (1980, p 190).

28 Almost thirty years later he bitterly recalled 'Hughes, despite his poor performance as leader from 1941 onwards, was elected deputy leader. The idea was to present a picture of harmony and unity within the party. It failed to convince.'; Spender (1970, p 5).

29 Lowe (2005, p 391).

30 Martin (1999, p 182). This was exacerbated by Sydney-Melbourne rivalries, with Fitchett (1977, p 26) suggesting that there was a plot by NSW MPs to replace Menzies with Spender.

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the United States.³¹ But Spender (1968) says Menzies only made the offer after Spender told him he was leaving politics.

Spender went on to serve on the International Court of Justice at The Hague from 1958 to 1966, as its president for his final three years. The Spenders retired to Australia and after Jean's death in 1970, Sir Percy busied himself with board appointments and remarried twice.

Sir Percy Spencer passed away on 3 May 1985. His son John Spender QC also served in the House of Representatives, from 1980 to 1990, and was an opposition frontbencher.

31 Perkins (1968, pp 201-2). Downer (1982, p 30) suggests he took the post on his doctor's advice.

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