Australia’s Full Employment Proposals at Bretton Woods: A Road Only Partly Taken

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At the international financial conference held in Bretton Woods, New Hampshire in 1944, Australia advocated full employment as a goal of international economic cooperation. Australia’s proposals remain worth thinking about today, because the Bretton Woods institutions have become involved with labor market issues under the rubric of structural adjustment and because full employment remains elusive. We discuss the origins and fate of Australia’s proposals.

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Introduction

At the Bretton Woods conference, Australia advocated full employment as a goal of international economic cooperation. Australia’s proposals failed to gain wide support at Bretton Woods. They did receive some support soon after, though, and they remain worth thinking about today, because the Bretton Woods institutions have become involved with labor market issues under the rubric of structural adjustment and because full employment remains elusive.

Australia’s concern with full employment and the economic stability it implied arose from Australia’s history. In the half century preceding Bretton Woods, Australia had experienced four economic and social catastrophes. All arose largely from circumstances originating beyond its shores. There were the two world wars, in which Australia’s decision to participate was made within hours of Britain’s declaration of war, losing in the result a disproportionate share of its military forces. There were also two great depressions, in the 1890s and the 1930s. The first was more severe and had more enduring consequences. Real GDP fell by nearly 20 per cent in the first half of the 1890s, unemployment may have exceeded 25 per cent, and the terms of trade fell by 20 percent. In the 1930s, real GDP fell by 8 per cent and the rate of unemployment may have reached about the same levels as in the 1890s, though the fall in the terms of trade was worse, at 37 per cent. During the four decades preceding the 1890s Australia had experienced massive economic expansion: its population increased by more than seven times, and real output grew at an average annual rate of 4.8 per cent from 1861 to 1889; living standards, measured by average per capita real income, were the highest in the world by 1890.

The collapse of economic activity in the 1890s led to profound change, both politically and economically. The six separate colonies decided to federate, constituting thereby the new nation of Australia. In a misguided attempt to preserve its high standard of living the new nation raised tariff barriers, imposed controls on immigration from low-income countries outside Europe, sought to control wages by state-sponsored minimum wage tribunals and arbitration commissions, and increased government ownership of commercial enterprises including banking. Many of these developments aimed to promote employment by shielding Australians from the instability of market forces, especially those operating in the international economy. Instead of the earlier dedication to expansion and development, economic policy now placed a premium on stability and preservation. The experience of the 1930s reinforced this pessimistic outlook and provided the context in which Australia argued its case at international conferences in the 1940s. At Bretton Woods, Australia proposed that all participating nations—but especially the major economic powers—should declare their commitment to maintaining full employment after the war. Australia also wanted larger quotas and drawing rights for countries dependent on a narrow range of primary exports whose prices fluctuated widely, and argued for greater discretion to be given to countries that needed to adjust their exchange rates in order to maintain external balance.

Development of Australia’s “Positive Approach”

The two leading advocates of Australia’s “positive approach” (full employment approach) to post-World War II economic policy—Leslie G. Melville and H. C. “Nugget” Coombs—were heavily influenced by John Maynard Keynes’s writings in the interwar period. Melville, a prodigy, became the first professor of economics at the University of Adelaide in 1929 at age 27. In 1931 he was appointed chief economist of the Commonwealth Bank of Australia, the country’s quasi central bank. He was an original member of the Financial and Economic (F & E) Committee that the Australian government established to advise it as
World War II loomed. Coombs completed a Ph.D. at the London School of Economics in the early 1930s and joined the Commonwealth Bank as assistant to Melville.  

As early as 1936 Melville formulated a policy framework containing key elements of what later became known as the Bretton Woods system. Fixed but adjustable exchange rates would provide the anchor for monetary policy. In the event of excessive pressure on the exchange rate, deflationary or expansionary policies would be applied. In the case of an intractable disequilibrium, the exchange rate would be adjusted. Thus Melville wrote that

Having regard to the necessity for Australia to trade on friendly terms with other countries, her need for overseas capital, and the convenience of traders and financiers, it seems best in her case to fix the exchange rate and adapt the economy to that fixed rate. In order that the exchange rate may remain fixed, however, it is necessary, first to accumulate a substantial balance of funds in London [Australia’s external reserves were invested principally in the London securities markets], and then to expand credit in Australia when that imbalance increases, and to contract it when the balance falls.

While he argued that “one factor in an economy must be fixed to make the monetary problem sufficiently simple to be capable of human regulation,” Melville made it very clear that fixing of the rate of exchange as an objective of monetary policy does not mean that the rate selected should be maintained at all costs. A sudden and substantial change in the economic affairs of the country may require the selection of a new rate. Thus, with a fixed rate of exchange, a sudden increase or decrease in prices, a cessation of foreign lending, or the production of a substitute for one of the principal exports may require a sudden and substantial change in nominal wages and in fixed charges, such as interest, commissions, fares and freights. If this sudden change is impracticable for economic, political, or social reasons, then there is no alternative to the selection of a new rate of exchange. But the rate of exchange should not be altered arbitrarily or for unsubstantial changes in the economic environment. 

While Australian politicians gave priority to full employment as a means of raising living standards, Coombs and Melville gave priority to full employment over trade liberalization on conceptual grounds. A state of full employment, they argued, was more likely to stimulate international trade than one where unemployment existed. In a paper on “The Post-War Economy,” Melville concluded that the benefits of any reallocation of resources brought about as a result of the relaxation of trade barriers would tend to be meagre when compared to the waste of resources created by unemployment resulting from increased exposure to the uncertainties of international trade. He also drew attention to the fact that the assumptions underlying the classical theory of international trade did not square with recent experience—the assumption of full employment, for example, could scarcely be said to have existed in recent years, if at all; factors of production were not perfectly mobile within countries or between countries; perfect competition had never prevailed; and competing nations in world trade were never similar in terms of size or bargaining power; nor were countries at the same stage of economic development. While he admitted that “we must not underestimate the importance of international trade and freedom to export,” Melville concluded that “countries, particularly small or under-developed countries, would be foolhardy to throw up their right to make use of protectionist devices to maintain employment, to give them time to adapt immobile factors of production to sudden developments
abroad, and to safeguard their local industries from the power of external firms entrenched within large domestic markets."4

The position Australia took at all the conferences devoted to post-war planning stemmed from its interpretation of Article VII of the Mutual Aid Agreement, signed by the United States and Britain on 23 February 1942. Article VII contained the so-called “consideration” that countries were expected to honor after the war in return for U.S. wartime assistance. They were to commit themselves to “agreed action...directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange of goods...[and]...to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers.” Article VII also specified that at “an early convenient date conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments.”5

When deciding how to respond to Article VII, Britain had sounded out the self-governing British Dominions (Canada, Australia, New Zealand and South Africa) and India (still a colony) for their comments. Toward the end of 1941 the Australian government established an interdepartmental committee on external relations (ICER) to advise it on how it might respond to the British request. Membership of the ICER included various representatives of government departments, together with the economists Lyndhurst F. Giblin and Douglas B. Copland.6 A preliminary report of February 1942 recommended that the government support Article VII subject to future negotiations over details. Given its generally pessimistic view about the prospects for the postwar world, the ICER recommended that Australia cooperate with international attempts to enhance postwar prosperity, but that cooperation be based on highlighting the “positive” aims of Article VII.7

The government accepted the ICER’s recommendations and invited the Financial and Economic Committee to undertake further work. The committee was chaired by Giblin, and included Roland Wilson (Secretary of the Department of Labor and National Service and holder of two doctorates in economics, one from Oxford, the other from Chicago), Melville, Copland and Coombs. Giblin quickly drafted a paper arguing that the key consideration in Article VII was the reference to maintaining employment and production.8 Melville agreed with Giblin, taking the view that unless Australia obtained guarantees from the larger countries that they would adopt policies aimed at maintaining employment, all the other considerations under Article VII should not be accepted; as he put it, “[we] must put ourselves in the position of leaving our hands entirely free to take any action regarding tariffs, exchange rates, exchange control, etc.”9 Coombs went even further, proposing that all the signatories to postwar agreements should sign an agreement committing themselves to maintaining full employment.10

Coombs soon became the dominant figure in the development of the “positive approach.” His growing prominence from early in 1943 was the result of his appointment as head of the new and powerful federal government Department of Post-War Reconstruction. With Giblin and Melville, Coombs oversaw the preparation of the international employment agreement: countries would be asked to submit a plan for approval by an international agency setting out how they intended to maintain full employment and would be required to report at regular intervals whether they were achieving their employment objectives.11 (See Appendix.)

Australia signed the Mutual Aid Agreement on 3 September 1942. Australia’s response to Article VII assumed that the United States would give priority to removing trade barriers—the second part of the
“consideration” in Article VII. In contrast, Australian authorities argued for giving priority to the first part—expanding “employment” and “production” by “appropriate international and domestic measures.” This interpretation formed the basis of Australia’s “positive approach,” or “full employment approach,” to the post-war talks. Because it gave priority to maintaining employment and production, Australia’s delegates to international conferences believed they were pursuing a “Keynesian crusade”: high levels of employment and production were to be achieved by countries implementing domestic policies aimed at keeping aggregate demand at full employment levels. If all countries were to adopt full employment policies—especially the major countries—demand would remain high for each other’s exports and there would be greater scope to reduce barriers to imports such as the British imperial trade preferences, which had distorted international trade flows and irked American producers.

**Reaction to the “Positive Approach” before Bretton Woods**

The first international conference to discuss postwar issues that Australian officials attended was held in London in October-November 1942. The other countries present were Britain, Canada, Australia, New Zealand, South Africa, and India. Australia was represented by Roland Wilson. Britain presented John Maynard Keynes’s plan to address postwar monetary problems through an international clearing union. When Wilson cabled back to Australia the details of the Keynes plan, the Australian government was concerned that it placed insufficient pressure on creditor countries to adjust their domestic economies, and too much pressure on debtor countries. The government was also critical of an apparent overemphasis on exchange rate stability and an inadequate emphasis on maintaining full employment, augmenting production and promoting development.

On his return to Australia by way of the United States, Wilson learned of the rival American plan for a postwar stabilization fund, devised by Harry Dexter White of the U.S. Treasury. From the outset, Australia preferred the Keynes plan, believing the White plan to be too restrictive and inflexible. In Washington, however, Wilson found the “most serious criticism...was that the British proposals were too ‘unrealistic’—meaning, I gathered, that it was felt that it would be exceedingly difficult to get Congress to accept them. Put in its crudest form, the critics hold that the British plan is simply one which would confer on other countries an unlimited right to purchase United States goods with their own currencies.” Wilson’s view was that while the White plan was “generous,” it was constructed along “very much more orthodox lines than the British proposals.” His advice to the Australian government was to press for the case for the clearing union but to back the U.S. plan for an international bank.

Australia continued to pursue its “positive” approach even though American and British official often told it that the U.S. Congress would never agree to a treaty mandating the application of government-sponsored full employment policies. Writing to a colleague in April 1943, Keynes, for instance, mentioned that the Australians “are taking the line that, before any plan at all is considered, it must be laid down in advance that the primary duty of every country is to raise its own employment and production to the maximum by its own efforts. They will not get far with the Americans on this.” On the other hand, Australia’s representatives were acutely aware that the Australian government would not give its approval to any international agreement that failed to commit the signatories to full employment.

Australia’s concerns were conveyed to the U.S. Treasury Secretary (Henry Morgenthau) and to Treasury officials (White and Edward Bernstein) by Australia’s Minister for External Affairs, Herbert V. Evatt, and by Coombs, at meetings in Washington in 1943. Australia’s delegation also raised those concerns at the United Nations Conference on Food and Agriculture at Hot Springs, Virginia in May-June 1943. The
conference was the first gathering of all the nations allied against the Axis powers, and its subject matter was broader than its title implies. Coombs succeeded in having a resolution carried that recognized “the close interdependence between the level of employment in all countries, the character and extent of industrial development, the management of currencies, the direction of national and international investment, and the policy adopted by the nations toward foreign trade.” The conference also affirmed that economic development was a prerequisite for securing “freedom of want of food,” and recommended that governments “take action individually, and in concert, in order to secure this objective.”

After the conference, Coombs highlighted the “positive approach” in talks with U.S. Treasury officials in Washington. He was critical of White’s plan for a stabilization fund. Coombs argued that the fund was contributory in nature rather than credit creating; arrangements for adjusting exchange rates were too rigid; the quotas proposed were too small; the drawing rights were more restrictive than those proposed in the Keynes plan; and it should be possible for Australia and other smaller countries to be represented on the board of directors. For Coombs, however, the major problem of both the White and Keynes plans was that they placed inadequate weight on maintaining full employment. In response, White was adamant that the U.S. Congress would never accept Australia’s position on any of these matters, insisting that a monetary scheme acceptable to Congress would have to be contributory in nature; the allocation of directors would have to be in proportion to the size of a country’s contribution to the fund; exchange rates would have to be fixed before the fund was established and variations possible only with substantial agreement from countries other than the one wanting to alter its exchange rate; and there would have to be a definite limit on the financial obligations of the United States to other members of the organization.

At the conclusion of these talks, Coombs discussed Australia’s plan for an international agreement on full employment with Keynes at meetings in London. After the meetings, Coombs wrote to Keynes proposing that Australia take the initiative in calling for an international conference to discuss employment, the ultimate objective being a formal recognition that maintaining full employment was a necessary prerequisite for achieving other postwar plans, including trade liberalization. Keynes, however, thought a conference on employment in the near future would be premature, but he sought to reassure Coombs that maintaining full employment would be placed “to the forefront” of Article VII negotiations with the U.S. and that a conference along the lines of what Coombs was proposing might be possible at some time in the future. Such a conference, Keynes added, “might be of help both in educating public opinion in the various countries and in facilitating the international acceptance of whatever plans may ultimately be agreed upon in the monetary, commodity, commercial and investment fields.”

At a series of meetings beginning in September 1943, American and British officials, led by White and Keynes, worked toward producing a joint document on international monetary policy after the war. By then it was clear to Keynes that the United States would not accept his plan for a Clearing Union and that he should concentrate on modifying the White plan. These discussions led to the publication on 21 April 1944 of the “Joint Statement by Experts on the Establishment of an International Monetary Fund,” presented as a compromise between the White and Keynes plans, though in reality it was the White plan with amendments requested by Britain.

A draft of the Joint Statement formed the basis of the British Commonwealth talks in London in February-March 1944. Melville was appointed leader of the Australian delegation for the London talks. Before he left for the talks, Australia’s response to the Anglo-American draft plan for an International
Monetary Fund and International Bank for Reconstruction and Development had been worked out in considerable detail. There were four issues of major contention. First, Australia wanted members of the proposed institutions to commit themselves to the positive approach. Second, it wanted the size of the Fund to be enlarged and Australia’s quota and drawing rights raised. Third, it wanted greater flexibility of exchange rates. Fourth, countries should not have to commit themselves to membership of the Fund and Bank until the details of the negotiations that were shortly to commence on trade liberalization were known.18

In his opening statement at the talks on 23 February, Melville warned that “unless there was assurance that the larger countries would maintain a high level of employment by domestic measures, it was unlikely that smaller countries like Australia could significantly reduce barriers to international trade, many of which had been set up in desperate efforts to deal with the employment problem.”19 Keynes in his reply to Melville on 29 February admitted that reference to employment policy at the most recent talks in Washington between the U.S. and British governments on the monetary, commodity and investment plans “was limited and unambitious, largely because of American antagonism to the creation of an international institution which would advise governments on domestic policy matters.”20 Melville responded by saying that he intended to produce a document proposing that governments commit themselves to maintaining full employment after the war. Lionel Robbins of the British Cabinet Office, in his reply to Melville, said he did not believe that such a document was necessary since the compromises that had been worked out by White and Keynes in Washington late in 1943 would ensure that full employment would be maintained.21

The following day, Melville produced a copy of the full employment agreement. It asserted that “the lack of effective demand [was] the most serious enduring world economic problem.” Each of the signatories to the agreement were “to undertake certain specified things, including taking necessary internal measures to maintain full employment.”22 They would be liable to censure if unemployment exceeded a particular rate of unemployment, or “quota,” which was to be set by each country according to local conditions and the country’s exposure to the international economy and to seasonal and other influences. Should a country exceed its quota, it would be required “to consider” measures including the stimulation of private investment; an increase in public investment; increased consumption expenditure; and expansion, under appropriate circumstances, of overseas investment. Melville thought the “appropriate organization” overseeing all of this would need to be little more than a “small secretariat,” which could rely on other organizations, such as the International Labor Organization, for research and the collection of data.

Keynes responded to the Australian plan on 6 March with the announcement that the British government was preparing a white paper on employment policy after the war; it would commit the government to maintaining a “high and stable” level of employment.23 Canada argued that an international employment agreement was unnecessary, but New Zealand and South Africa supported Australia’s plan. In the event, the conference endorsed a weaker version of the Australian document. In his report to Australian Prime Minister John Curtin after the conference, Melville considered the United Kingdom’s acceptance of the amended employment agreement to be a “big step forward” and the amendments to be “quite satisfactory.” All the same, he believed Australia still had a steep hill to climb. For one thing, the British government’s approach to full employment relied overwhelmingly on monetary policy and gave inadequate attention to public works and taxation measures. As for the United States, he agreed with Keynes that maintaining full employment there would require “unconventional measures,” for which American public opinion was not yet ready.
The other issue of great concern to Australia at the London talks was exchange rate flexibility. Melville argued that what was being proposed by the U.S. and British governments was too limiting for countries like Australia that were regularly subjected to violent swings in their terms of trade. In fact, Australia, he said, would oppose any limits that were placed on its ability to adjust the exchange rate. As Keynes was ill on the day that exchange rate policy was discussed, he wrote a long letter to Melville seeking to clarify the latest Anglo-American thinking on the subject. If a country wanted to alter its exchange rate by less than 10 per cent, approval by the Fund would not be necessary. He regarded approval by the Fund for a further adjustment of 10 per cent would be readily forthcoming: “one can assume,” Keynes wrote, that “if there is a good and reasonable case, approval will be easily given.” The point of contention was “not primarily on the question whether changes should be refused or allowed,” but “on the question whether they should be made unilaterally or with the approval of the Fund.” He thought it was “important not to confuse the amount of unilateral discretion with the question of changes generally. One wants to arrive at a state of affairs in which reasonable changes always take place with the Fund’s approval.” In short, Keynes’s advice was that Australia should not “act on the assumption that the Fund is an intrinsically unreasonable body, which always refuses everything. Much better that we should expect them to be kind and complacent and reasonable when any respectable ground of change is produced.”

Keynes then questioned Melville’s claim that Australia needed the discretion to change its exchange rate in order to deal with swings in its terms of trade. He found “it extraordinarily difficult to see how an alteration in the exchanges could possibly be the right remedy for a catastrophic fall in some export commodity, such as wool.” He took the view that, to “maintain incomes of the wool producers by greatly increasing the incomes of all other exporters and diminishing the purchasing power of the public generally, is something like burning down the house for roast pork.” Moreover, if the fall in prices was the result of oversupply, he considered an exchange rate depreciation to be an altogether inappropriate remedy; if it were appropriate; a very large depreciation might be required. Rather than manipulating exchange rates, Keynes’s preferred solution to a slump in the terms of trade was the buffer stocks scheme presently under consideration as part of the international planning for the postwar era. About this, Keynes told Melville that he was disappointed by the lack of enthusiasm for the plan by primary export-producing countries.

On his return to Australia through Ottawa and Washington, Melville met with White, who told him that it was possible that some countries—particularly the United States and Britain—might be prepared to give up some of their quotas to assist Australia and other small countries. Melville doubted, however, that this would eventuate. He did not raise the issue of drawing rights with White, but other sources in Washington let Melville know that White would not entertain any proposed amendments. White was adamant also that agreement on an international monetary fund should be pressed to a conclusion without waiting for progress on other proposals, including an employment agreement. He was also strongly opposed to making provision in the Fund for greater exchange rate flexibility. From Washington, Melville advised the Australian government that the “monetary fund as now drafted is quite unsatisfactory for Australia.” He thought there would be great difficulty in attempting to secure fundamental changes at the proposed monetary conference. Australia, he insisted, should not accept any commitments until it was known what obligations would be attached to membership of other organizations being proposed for the postwar world and unless it was clear that membership of the monetary fund would not be a condition for membership of other international organizations.

In this period, Australia also took the opportunity of the annual meeting of the International Labor Organization in Philadelphia to try to win support for the international employment agreement. Melville
and Coombs, among others, did not regard the Philadelphia meeting to be an appropriate time or forum to raise the matter. But the politicians, led by Evatt, forced the issue. Australia’s delegation was led by a left-wing minister, J. A. “Jack” Beasley, an entirely inappropriate choice. At the conference, fundamental differences between Australia and the United States over the meaning of Article VII rose to the surface. Beasley attacked a U.S. resolution on employment, proposed by Secretary of Labor Frances Perkins, that highlighted the importance of removing “unreasonable restrictions” on trade for the creation of employment in the postwar world. In the end a rather meaningless compromise was agreed. Still, the Australian delegation managed to come away from Philadelphia with a resolution calling for a further conference to consider “an international agreement on domestic policies of employment and unemployment.” Evatt was extremely happy with Beasley’s performance, telling him that he was “pleased beyond measure at the great fight you are putting up.” According to Evatt, “Australian diplomacy must be equal in courage and vigor to the Australian fighting men. That is our reputation in the world and it is worth preserving.”

At Bretton Woods

On 25 May 1944, President Franklin Roosevelt issued invitations to Allied governments inviting them to attend an international monetary and financial conference at Bretton Woods, New Hampshire, starting on 1 July. Despite some internal disagreement, the Australian government sent a delegation. In his submission to the cabinet supporting attendance at the conference, the Treasurer (J. B. “Ben” Chifley) said there was “one important consideration that should not be overlooked—viz. the postwar position if there is no International Monetary Fund or co-operation.” There were many people, he declared, “who view such a position with grave foreboding and prophesy competitive exchange depreciation and restriction by countries in order to reap some temporary benefit.” But such action, he asserted, “would cut right across the aims of expanded trade and employment and might lead quickly to an era of economic nationalism rather than international co-operation.” Australia, he asserted, “would need to have very strong grounds in principle if she decided to stand out or adopt an unfriendly attitude.”

Australia’s small but distinguished delegation included Melville, who was appointed leader; James Brigden, a former professor of economics and departmental secretary, now economic consultant to the Australian Legation in Washington; Frederick Wheeler, the head of the Australian Treasury’s Financial and Economic Policy Division, and later Secretary to the Treasury; and Arthur Tange, senior economist at the Department of External Affairs, later Secretary of the Department of External Affairs, and later still the Secretary of the Department of Defense. The government instructed the delegation to press “strongly” for an increased quota and annual drawing rights; to have included in the articles of agreement a firm undertaking that the IMF would not reject a request to change the exchange rate to meet a “serious and persistent deficit in the balance of payments on current account accompanied by a substantially adverse change in the terms of trade; to seek an alteration of the “purposes and policies of the Fund” to give more emphasis to employment and less emphasis to exchange stability; to strengthen the safeguards against the IMF interfering with the domestic policies of a country; to ask that it should be made clear that the right of withdrawal from the Fund should not be prejudiced by making membership of the IMF a condition of membership of any other international body; to urge that an employment agreement be concluded before a final decision had to be made by countries to join the IMF; and to report any proposals made concerning the time of commencement of benefits and obligations before a decision regarding the attitude to membership was made. The government gave the delegation no formal instructions about the proposed Bank for Reconstruction and Development, for which there was as yet no clear proposal.
These instructions formed the basis of Australia’s concerns expressed at the Atlantic City conference immediately preceding Bretton Woods and then at Bretton Woods itself. With a relatively small delegation, Melville and his team found it difficult to attend all the relevant meetings, many of them occurring simultaneously. Communication between the delegation and Australia was difficult, given that the technology of the time did not permit quick responses between Bretton Woods and Canberra, which were at opposite ends of the Earth.29

In the conference’s Commission I, Australia, with New Zealand and India, pressed for language in the IMF Articles of Agreement more explicitly specifying economic development as one of the IMF’s purposes. Melville raised concerns that without such language, the IMF would overemphasize exchange rate considerations in cases where they might conflict with considerations of economic growth. Australia’s proposed employment agreement was assigned to Commission III, a catch-all for proposals not related to the IMF or the Bank for Reconstruction and Development.30

In a covering note attached to his postmortem to the Prime Minister on the conference, Melville highlighted the numerous “misunderstandings” that he had encountered at Bretton Woods “about Australia’s attitude to international agreements.”31 The delegation was constantly being confronted by the belief that we were unwilling to cooperate with other countries on economic matters.” He lamented that there had been little opportunity at the main meetings of the conference to dispel this misunderstanding, although Commission III had provided some scope to clarify the Australian point of view. The atmosphere became particularly difficult, Melville explained, when Australia hesitated to sign the Final Act. (In the end, the government instructed Melville to sign “for purposes of certification”—in other words, not indicating agreement with the result.)

As a result of the difficulties experienced at Bretton Woods, Melville’s advice to the government was that Australia “should state her general attitude toward international arrangements as soon as possible, on the highest plane.” Not only should Australia explain its attitude, but it should become “a spokesman for a positive and constructive policy of international cooperation, which would make the various international proposals now under discussion subsidiary to the general requirement that all nations should commit themselves to maintain high and stable levels of employment.” He thought that “such a policy for international cooperation of this kind based on a commitment to maintain high levels of employment would…receive a sympathetic hearing in many countries and even from an important section of the United States public. What has been interpreted as a negative approach by Australia to international questions would then appear in its positive aspect, as a constructive attempt to direct international activities towards objectives which the people of all countries wish to attain.” 32

Melville gave special prominence in his report to the failure to have the employment agreement adopted. In Commission III Melville had moved that governments accepting membership of the Fund should also agree concurrently to an “international agreement in which signatories will pledge themselves to their own people and to one another to maintain high levels of employment in their respective countries, and to exchange information on measures necessary to prevent the growth of unemployment and its spread to other countries.” The United States opposed the resolution on the grounds that more time was needed to consider whether matters of domestic policy could legitimately be included in an international agreement and proposed that the subject would be better left to subsequent Article VII conversations. No reference at the conference, Melville informed the Prime Minister, was made to “the United States political difficulties, but I believe these to be dominant in their opposition to our resolution at the conference.”33
He added that, in the debate on the employment issue, and at the final vote in Commission III, Australia had “the full support” of Britain, New Zealand, France, Poland and “a few of the smaller countries”; several of the South American countries had lent their support at an early stage but, as the discussion progressed, they “were more interested in the special bargains they were making with the United States and in gaining some acknowledgement of the need to reduce tariffs.” This was particularly important, since 19 of the 44 countries represented at Bretton Woods were from Latin America. There was fairly general opposition to the specific proposal that countries represented at the conference should sign the employment agreement concurrently with the monetary agreement. The United States and Canada, in particular, argued that while they recognized the relationship between employment and monetary policy, any resolution implying that acceptance of the Fund should be contingent on signing the employment agreement was deemed to be outside the terms of reference of the conference. Russia, China and India also gave little support to Australia, since they appeared to be more interested in promoting the development of their economies than in policies designed to maintain full employment. Even so, after the educational work that Australian representatives had undertaken at Hot Springs, London, Philadelphia and Bretton Woods, Melville now believed there “were good prospects of securing widespread support for an employment agreement as part of a program of international economic cooperation.” Because of political difficulties, he agreed the United States might continue to oppose it. In order to try to secure the support of the United States and other countries, it was “urgently necessary,” he said, for Australia to restate its case, calling on governments to organize an international conference at which they would be asked to accept an employment agreement along the lines proposed by Australia.34

The government would now have to consider what IMF membership would mean for the commitment it had given to the Australian people to maintain full employment after the war. The problem was that membership of the Fund might limit Australia’s ability to respond to external instability while attempting to retain full employment. As he explained the problem to the Prime Minister,

Were Australia maintaining a high level of employment by the expenditure of public money at a time when employment abroad had fallen, prices and wages in Australia might be steady or rising at a time when they were falling elsewhere. This together with a fall in our export income, which we must expect to accompany any fall in employment in our principal markets, would place a strain on our balance of payments. We could not correct this by exchange control, but the Fund would not prevent us from curtailing imports by means of import restrictions. Nevertheless, import restrictions might not be the best way of defending our balance of payments, and some depreciation of the Australian pound might be needed. Provided this would not reduce the value of our currency by more than 10 per cent below the initial par value, we could make the adjustment without hindrance from the Fund. If a greater depreciation were needed, we should need to secure the approval of the Fund and could argue that a fundamental disequilibrium had developed which needed correction. If the Fund did not agree, we could still depreciate our currency by the amount required, though we would then be denied use of the Fund’s resources and, after a reasonable period, could be expelled from the Fund.35

But it was not inevitable, he emphasized, that Australia’s commitment to full employment at home would be comprised were it to join the Fund on the terms agreed to at Bretton Woods. “Provided we built up international reserves outside the Fund, for use in the event of the Fund denying us the use of our drawing rights,” he was confident that “our freedom to follow a policy of maintaining a high level of employment in Australia should, therefore, not be hampered by membership of the Fund.”36
While Melville and his colleagues were disappointed that they were unable to secure the adoption of the employment agreement, they managed to achieve some success on other fronts. Australia’s quota, for instance, was increased from A£47 million to A£62.5 million. The 25 per cent limit on drawing rights was not changed, but a waiver provision was inserted in the Final Act to meet the needs of countries like Australia that were subject “to conditions of a periodic and exceptional nature.” There was also some modification of the rules governing the adjustment of exchange rates. In the original statement of principles, an alteration of more than 10 per cent required the IMF’s approval. Now a member’s exchange rate could be changed by more than 10 per cent without the IMF’s consent, though in that case its drawing rights would cease. Melville thought this amendment would suit Australia’s needs reasonably well and, in any event, he did not think that any further changes would be accepted. With regard to the “purposes and policies of the Fund,” he agreed that some softening had occurred in the original emphasis on exchange rate stability, though he continued to think that too much weight was assigned to exchange rate stability and not enough to the maintenance of employment. There was also some uncertainty as to whether a country withdrawing from the IMF would be compelled to forfeit its membership of other international bodies. But as the IMF was now more satisfactory from Australia’s viewpoint, Melville thought it “unlikely that we should ever need to withdraw.”

Weighing up the benefits and costs to Australia of membership of the IMF, Melville concluded that, on balance, it would be to Australia’s advantage to accept membership of the Fund. As to the International Bank for Reconstruction and Development (the “International” had been added to the name at the conference), he foresaw no difficulties arising from membership, especially since Australia was unlikely to be a borrower or large lender. It seemed clear to him that, from Australia’s point of view, the “successful reconstruction of the devastated countries means the very necessary restoration of our old export markets. The development loans mean the expansion of new markets and the prospects of exports of capital equipment to the Far East and Netherlands East Indies.” Since the Bank seemed to fit in with Australia’s “positive approach” to Article VII, Melville again proposed that the government should accept membership.

After Bretton Woods

When the IMF and IBRD held their inaugural meetings at Savannah, Georgia in early 1946, Australia had yet to decide whether it would join. Even so, Melville attended the meetings as an official observer. He had been unhappy with developments since Bretton Woods and left Savannah with renewed doubts about Australia’s membership of the institutions. In his report to the government on his return from Savannah he wrote that if “there were reason to expect that the economic collaboration resulting from current discussions were likely to restore world trade and maintain economic stability, it would, I believe, be in Australia’s interests to join the Fund and the Bank.” But he thought the recently concluded Anglo-American loan agreement and the proposals for an International Trade Organization, as presently drafted, “do not seem to me to hold out that promise.” The loan agreement, which had reduced the transition period for the convertibility of sterling from five years to one year, would “make the restoration of her [Britain’s] economy, and consequently our own, much more difficult.” The proposed International Trade Organization was likely to “impose restraints on other action that the U.K. might have taken to restore her export income and upon measures which Australia has, in the past, found necessary to protect her domestic economy from adverse international conditions and to provide a balanced development of her resources”; here he was referring to the Imperial Preferences, import tariffs and export subsidies. Furthermore, there was “little guarantee that, in return, the United States will follow domestic policies likely to maintain internal economic stability, or international investment, commercial and tariff policies that will secure satisfactory world conditions.”
As a consequence of these uncertainties, Melville recommended that Australia should wait until the obligations attaching to ITO membership were determined and there was a clearer indication of future U.S. policy. Australia finally decided to join the Fund and Bank in 1947, after the deadline for acceptance as an original member of the institutions had passed. In the end, there were two predominant reasons why Australia decided to join. The first involved domestic politics. The Prime Minister, now J. B. Chifley, had always supported Australia’s membership in principle; when he became Prime Minister in 1945 on the death of John Curtin, his authority within the governing Labor Party was enhanced. The second reason was the success Australia achieved after Bretton Woods in gaining recognition for its positive approach. At the United Nations conference at San Francisco in 1945, Roland Wilson succeeded in having the promotion of full employment included in the UN charter. Thus Article 55 of the charter states that the UN “shall promote:

(a) Higher standards of living, full employment, and conditions of economic and social progress and development;
(b) Solutions of international economic, social, health, and other related problems, international cultural and educational cooperation…”

Article 56 states that: “All members pledge themselves to take joint and separate action in cooperation with the Organization for the achievement of the purposes set forth in Article 55.” Upon its creation, the UN established an Economic and Employment Commission under the Economic and Social Council (ECOSOC); among the tasks the Commission was assigned was the monitoring of employment levels in member countries. Wilson himself was appointed to the Commission and spent several years in the late 1940s in New York and Washington.40

After the Bretton Woods conference, the Australian, New Zealand and British governments made several representations to the U.S. government concerning the need for an international conference to discuss employment. In March 1945, Edward Stettinius, Cordell Hull’s successor as U.S. Secretary of State, wrote to the three governments advising them that the U.S. “fully recognizes the urgency of the development by all nations of effective domestic programs for the attainment of high and stable levels of productive employment if the objective of freedom from want is to be realized.” He went further to say that the U.S. government “recognizes the desirability of international collaboration for the attainment of full employment in agreement with the view of the Australian government that the employment policy should be considered at an international conference.” But he added that the U.S. government “feels, however, that the employment problem is inextricably linked with the problems of exchange and trade which have been under consideration by several governments for some time.” While the U.S. government agreed that “the maintenance of a sound and stable commercial and financial system may not be possible if serious unemployment exists in any major country,” it also believed that “there can be no sound basis for stability of productive employment at a high level in the various nations if there is not a general agreement to remove excessive barriers and prevent discriminatory practices in the past.” That said, Stettinius then informed the three governments that the U.S. government “would be pleased to participate at the earliest practicable date in an international conference on trade and employment.”41

Preparatory meetings for such a conference were held in London in 1946 and at Geneva in 1947, leading up to the Trade and Employment Conference at Havana in late 1947-early 1948. Coombs led the Australian delegation to the London conference and attended both the Geneva and Havana conferences, which were led by the Minister for Post-War Reconstruction (now John Dedman). At
Havana, Australia was again successful in having full employment recognized as a key objective of economic and social policy. Chapter 1, Article 1, of the charter of the proposed ITO declared that member countries “pledge themselves to promote national and international action to increase the production, consumption and exchange of goods; to foster the economic development of underdeveloped countries; and to promote the reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international commerce. They establish the International Trade Organization through which to achieve these objectives.” Chapter 11, Articles 2-7 stated that the “avoidance of unemployment or underemployment is necessary to the achievement of the aims set out in Chapter 1. Internal measures by individual countries to avoid unemployment should be supplemented by concerted action under the sponsorship of the Economic and Social Organization of the United Nations in collaboration with the appropriate intergovernmental organizations.” Ultimately, however, the decisions made at Havana came to nothing as a result of the U.S. Senate’s failure to ratify the creation of the ITO.42

When he announced in parliament on 13 March 1944 that Australia would join the Bretton Woods institutions, Prime Minister Chifley noted that Australia had “consistently maintained the view that the successful working of international economic organizations, and the expansion of international investment and trade, depends to a very great degree on the achievement and preservation of full employment in the major industrial countries.” After “a long series of formal and informal discussions,” he declared that the positive approach had “finally succeeded,” pointing specifically to the UN Charter and the fact that Britain had “sought and obtained from the Fund a ruling that steps necessary to protect a member country from chronic or persistent unemployment arising from pressure upon its balance of payments are among the measures necessary to correct a fundamental disequilibrium.”43

What had particularly commended membership of the Fund and Bank to the Australian government, Chifley remarked, was that, “taken with related bodies in the United Nations scheme, they constitute an attempt made for the first time in history to grapple with world economic problems by concerted action on a world scale for the common good. They recognize the vital fact that the complex and ever changing problems of international trade, finance and economic relations generally can no longer be allowed to drift as they did formerly when individual nations followed separate and often discordant policies. They represent a bid to pull the world situation together, get it under control and set it upon a steady and coherent course.” He admitted that the Fund was “experimental and capable of improvement and its success must depend upon intelligent adaptations in the light of experience.” But that, he suggested, “is a strong reason why we should take part in its activities and contribute to its development...Just as political isolation in the world would be an impracticable policy for Australia, so do I think that economic isolation would be disastrous.”

He went on to explain that Australia would review its membership when the final outcome of the present trade negotiations was known. But such a review never occurred, in part because the ITO was not established, and in part because the government was defeated at the general election in December 1949; its successor warmly welcomed Australia’s membership. But there was another important reason. Chifley had made it clear to the Parliament that Australia’s application for membership was “on the basis of admission on the same conditions as those applying to an original member.” Australia could not be admitted as an original member since the deadline had long passed. But he said that “the condition of the proposal is that we will be admitted on the same basis as original members”; the government, he added, “would not be prepared to accept any new condition as a prerequisite to admittance to the Fund and Bank.” As it was, Australia finally became a member on 5 August 1947 on the same basis as original members. When the number of Executive Directors of the Fund was increased from thirteen to fourteen
in February 1948, Stuart McFarlane, the Secretary to the Australian Treasury, was elected to fill the new position; Roland Wilson became the Alternative Director.

Full Employment in Later Years

The fears of Australian economists and politicians about economic conditions after the war did not come to pass: full employment and high levels of production were maintained. Prices for Australia’s export commodities were relatively high throughout the immediate postwar years, though balance of payments problems were experienced until the mid-1960s, when vast new mineral deposits were developed for export to Japan. After devaluing along with the United Kingdom and other sterling area countries in 1949 with the IMF’s approval, Australia continued to adhere strictly to what became known as the “Bretton Woods system.” This involved the application of mildly deflationary policies when balance of payments instability threatened rather than adjusting the exchange rate. These years constituted a new golden age for Australia, resembling in some ways the decades before the 1890s: the economy expanded rapidly and unemployment and inflation remained low. Whether Australia’s prosperity would have occurred without the Bretton Woods institutions is impossible to say, but Australia never regretted its membership of the Fund and the Bank. Melville himself was appointed Australia’s Executive Director at the IMF and World Bank from 1950 to 1953; Coombs, as Governor of the central bank, was responsible in part for managing Australia’s economic affairs in accordance with the principles established at Bretton Woods.

For most other member countries of the Bretton Woods institutions, the 1950s and 1960s were likewise an era of low unemployment rates. Among the rich countries, Australia, Japan, and much of Western Europe enjoyed multiyear stretches of what now seem incredibly low rates, 2 percent or less.

Although Australia was unsuccessful at Bretton Woods in making full employment a central concern of the IMF or of a parallel international agreement, over time employment has moved from offstage as far as the Bretton Woods institutions were concerned to near center stage. The oil price shock of 1979, the Third World debt crisis of the early 1980s, and the collapse of Soviet bloc communism from 1989 to 1991 involved the Bretton Woods institutions in ambitious attempts to reshape economies. The term “structural adjustment” entered the lexicon of international aid and finance. Many structural adjustment programs reduced formal employment substantially in the short run by requiring governments to privatize or close unprofitable state enterprises and other government activities that were inefficient but employed many people. Repeated painful experiences made it evident that the local private sector was not as quick to generate new jobs as local economic reformers and the Bretton Woods institutions had hoped. Matters came to a head during and after the East Asian financial crisis of 1997-98, when the IMF received vociferous criticism for requiring borrowing countries to enact measures that were harmful to output and employment. The IMF responded with an acknowledgment that some of the criticisms had been right.

For the rich countries, though, criticisms about the IMF’s neglect of employment had no bite until the global financial crisis of 2008-09. The crisis visited problems on them that they thought they had left behind. They were accustomed to moderate financial crises and to region-wide recessions and unemployment. But in 2008-09, for the first time since the 1930s, almost all the rich countries simultaneously suffered severe financial crises, sharp recessions, and high unemployment, against a background of deflation. Seven years after the crisis began, the unemployment rate remains above 10 percent in France, Greece, Italy, Portugal, and Spain. In the United States, the unemployment rate is now fairly low, but the speed of the recovery in jobs has been the slowest in the post-World War II era.
In response to the crisis, the newly formed Group of 20 economies focused on the financial system, because that was where the crisis had originated, but they acknowledged its effects on employment and pledged to address them. The crisis and the years since have also seen a revival of the Keynesian ideas that had inspired Melville, Coombs, and other Australian figures in the 1930s and 1940s. The crisis damaged the consensus that had developed among economists and policy makers in the 1990s and early 2000s that inflation targeting would resolve the conflict between monetary policy and growth objectives. The crisis revealed that inflation targeting was not as easy as it looked (that is why so many countries are currently well below their targets); that it could lead to previously unexpected financial imbalances; and that, as Melville had considered in a passage quoted above, there would be times when monetary policy should be subordinate to growth objectives lest it kill the economy. Although the international agreement on full employment that Australia wanted in the 1940s has not proved politically feasible, after decades of being subordinate to issues relating to monetary policy and the financial system, full employment now has a high place on the agenda of international policy makers, including the Bretton Woods institutions.

The global financial crisis was mainly a phenomenon of the rich countries. Middle-income and poor countries outside Central and Eastern Europe continued to grow as their own emerging middle class, especially in China, created strong demand for many commodities. The largest economy among the rich countries that avoided financial crisis and recession was Australia, thanks to its status as an important commodity exporter and a monetary policy that largely avoided the contraction that central banks elsewhere fell into without realizing it. Unemployment peaked just below 6 percent. Australia has not had a recession since 1991. The country most concerned with full employment at Bretton Woods has turned out to be one of those that have needed to worry about it least.

Appendix: The Employment Agreement

(This is the amended version of the Employment Agreement endorsed at the British Commonwealth conference held in London in February-March 1944 and later sent by the British government to the U.S. government together with other proposed amendments to the Joint Statement by Experts.)

(i) Each of the signatory Governments, being determined to do its part to ensure that the victory of the United Nations shall be followed by freedom from want, recognizes that this objective cannot be achieved unless its people are given the fullest opportunities to work and enjoy the rewards of their labour;

(ii) Moreover, each signatory Government recognizes that a high level of employment among its people is not only fundamental to their material well-being, but will also contribute through the channels of trade to the creation of employment for the peoples of other countries and to an increase in their well-being.

(iii) Therefore each signatory Government recognizes and hereby undertakes a national obligation to its own people and an international obligation to the other signatory Governments henceforth to take such measures as may be necessary and practicable to fulfill this purpose.

(iv) Each signatory Government declares to its own people and to other signatory Governments that it will take all measures within its powers to carry out this obligation and, in particular:-

(a) To secure the provision of opportunities for work of a kind which will maintain and improve the standard of living of the community.
(b) To mitigate the unemployment due to fluctuations in activity to which certain trades, industries and services are liable.

(v) In addition, each signatory Government undertakes: —

(a) To consult with other Governments and with appropriate international authorities as to methods of collecting on an agreed plan detailed statistics of national employment and unemployment.

(b) To take such internal measures as may be practicable and within its powers to collect the statistics relating to its own country required by the agreed plan.

(c) To submit such statistics to other Governments, through an appropriate international organization at intervals not exceeding three months.

(d) To make a report, for the purpose of an annual conference of the member countries, on the state of employment of its people and on the economic policies which have been used or are contemplated to combat unemployment.

(e) To send representatives concerned with the economic and social policy of the Government to meet with representatives of other Governments and international authorities at a special conference called by the appropriate organization, if, in the opinion of that organization, a serious decline in employment is developing in any of the signatory countries (for causes whether avoidable or unavoidable by the Governments of the countries concerned), for the purpose of examining and reporting upon possible national and international measures to restore the level of employment and to prevent the spread of unemployment to other countries.

(vi) In the event of a serious decline in the level of its employment, a member Government undertakes to consider measures to restore the level of employment such as:-

(a) Stimulation of private investment.

(b) Increase in public investment.

(c) Increased consumption expenditure.

(d) Expansion of oversea investment where possible.
Notes


6 William Coleman, Selwyn Cornish, and Alf Hagger, Giblin’s Platoon: The Trials and Triumphs of the Economist in Australian Public Life (Canberra: ANU Press, 2006), 199.

7 Interdepartmental Committee on External Relations (ICER), “Australia’s Position in Relation to Article VII of the Anglo-American Mutual Aid Agreement,” 20 August 1942, National Archives of Australia, Commonwealth Persons (NAA CP) index 43/1/1, Bundle 5/1943/444/Pt.1.


9 L. G. Melville, “Notes on F&E Meeting 21/1/43,” NAA CP184/4/1, Bundle 1.

10 H. C. Coombs, “Notes on Article Seven,” F & E 36am, 5 October 1942.


14 Ibid.


17 Keynes to Coombs, 3 September 1943, NAA CP43/1, 43/1324.

18 Evatt to Melville, 27 January 1944, NAA CP43/1/1, Bundle 6/1943/484/Pt.1.


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